

ADVANCED FINANCIAL ACCOUNTING

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Advanced Financial Accounting



Advanced Financial Accounting

Twelfth Edition

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ADVANCED FINANCIAL ACCOUNTING, TWELFTH EDITION

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About the Authors



Courtesy Brigham Young University/Photo by Alison Fidel

Theodore E. Christensen

Ted Christensen has been a faculty member at the University of Georgia since 2015. Prior to coming to UGA, he was on the faculty at Brigham Young University for 15 years and Case Western Reserve University for five years. He received a BS degree in accounting at San Jose State University, a MAcc degree in tax at Brigham Young University, and a PhD in accounting from the University of Georgia (so he is now teaching at a second alma mater). Professor Christensen has authored and coauthored articles published in many journals including *The Accounting Review*, *Journal of Accounting Research*, *Journal of Accounting and Economics*, *Review of Accounting Studies*, *Contemporary Accounting Research*, *Accounting Organizations and Society*, *Journal of Business Finance & Accounting*, *Accounting Horizons*, and *Issues in Accounting Education*. Professor Christensen has taught financial accounting at all levels, financial statement analysis, both introductory and intermediate managerial accounting, and corporate taxation. He is the recipient of numerous awards for both teaching and research. He has been active in serving on various committees of the American Accounting Association and is a CPA.



Courtesy Brigham Young University/Photo by Kristen Gudmund

David M. Cottrell

Professor Cottrell joined the faculty at Brigham Young University in 1991. Prior to coming to BYU, he spent five years at The Ohio State University where he earned his PhD. Before pursuing a career in academics, he worked as an auditor and consultant for the firm of Ernst & Young in its San Francisco office. At BYU, Professor Cottrell has developed and taught courses in the School of Accountancy, the MBA program, and the Finance program. He has won numerous awards from the alumni and faculty for his teaching and curriculum development. He received the Outstanding Professor Award in the college of business as

selected by the students in the Finance Society; he received the Outstanding Teaching Award as selected by the Marriott School of Management; and he is a four-time winner of the collegewide Teaching Excellence Award for Management Skills, which is selected by the Alumni Board of the Marriott School of Management at BYU. Professor Cottrell also has authored many articles about accounting and auditing issues. His articles have been published in *Issues in Accounting Education*, *Journal of Accounting Case Research*, *Quarterly Review of Distance Education*, *Journal of Accountancy*, *The CPA Journal*, *Internal Auditor*, *The Tax Executive*, and *Journal of International Taxation*, among others.



Courtesy Brigham Young University/Photo by Tabitha Sumsion

Cassy JH Budd

Professor Budd has been a faculty member at Brigham Young University since 2005. Prior to coming to BYU, she was on the faculty at Utah State University for three years. She received a BS degree in accounting at Brigham Young University and a MAcc degree in tax at Utah State University. Before pursuing a career in academics, she worked as an auditor for the firm of PricewaterhouseCoopers LLP in its Salt Lake, San Jose, and Phoenix offices and continues to maintain her CPA license. Professor Budd has taught financial accounting at all levels, as well as introductory managerial accounting, undergraduate and graduate auditing, and partnership taxation. She is the recipient of numerous awards for teaching and student advisement, including the Dean Fairbanks Teaching and Learning Faculty Fellowship, Brigham Young University; School of Accountancy Advisor of the Year, Utah State University; State of Utah Campus Compact Service-Learning Engaged Scholar Award, page vi and the Joe Whitesides Scholar–Athlete Recognition Award from Utah State University. She has been active in serving on various committees of the American Accounting Association, including chairing the annual Conference on Teaching and Learning in Accounting. Professor Budd is currently serving as the President of the Teaching, Learning and Curriculum Section of the American Accounting Association.

Preface

The Twelfth Edition of *Advanced Financial Accounting* is an up-to-date, comprehensive, and highly illustrated presentation of the accounting and reporting principles and procedures used in a variety of business entities. Every day, the business press carries stories about merger and acquisition mania, the complexities of modern business entities, new organizational structures for conducting business, accounting scandals related to complex business transactions, the foreign activities of multinational firms, the operations of governmental and not-for-profit entities, and bankruptcies of major firms. Accountants must understand and know how to deal with the accounting and reporting ramifications of these issues.

OVERVIEW

As in prior editions, this edition provides detailed coverage of advanced accounting topics with clarity and integrated coverage based on continuous case examples. The text is complete with illustrations of worksheets, schedules, and financial statements allowing students to see the development of each topic. Inclusion of recent FASB and GASB pronouncements and the continuing deliberations of the authoritative bodies provide a current and contemporary text for students preparing for the CPA examination and current practice. This emphasis has become especially important given the recent rapid pace of the authoritative bodies in dealing with major issues having far-reaching implications. The Twelfth Edition covers the following topics:

Multicorporate Entities

Business Combinations

1. Intercorporate Acquisitions and Investments in Other Entities

Consolidation Concepts and Procedures

2. Reporting Intercorporate Investments and Consolidation of Wholly Owned Subsidiaries with No Differential
3. The Reporting Entity and the Consolidation of Less-than-Wholly-Owned Subsidiaries with No Differential
4. Consolidation of Wholly Owned Subsidiaries Acquired at More than Book Value
5. Consolidation of Less-than-Wholly-Owned Subsidiaries Acquired at More than Book Value

Intercompany Transfers

6. Intercompany Inventory Transactions
7. Intercompany Transfers of Services and Noncurrent Assets
8. Intercompany Indebtedness

Additional Consolidation Issues

9. Consolidation Ownership Issues
10. Additional Consolidation Reporting Issues

Multinational Entities

Foreign Currency Transactions

11. Multinational Accounting: Foreign Currency Transactions and Financial Instruments

Translation of Foreign Statements

12. Multinational Accounting: Issues in Financial Reporting and Translation of Foreign Entity Statements

Reporting Requirements

Segment and Interim Reporting

13. Segment and Interim Reporting

SEC Reporting

14. SEC Reporting

Partnerships

Formation, Operation, Changes

15. Partnerships: Formation, Operation, and Changes in Membership

Liquidation

16. Partnerships: Liquidation

Governmental and Not-for-Profit Entities

Governmental Entities

17. Governmental Entities: Introduction and General Fund Accounting

Special Funds

18. Governmental Entities: Special Funds and Governmentwide Financial Statements

Not-for-Profit

19. Not-for-Profit Entities

Corporations in Financial Difficulty

20. Corporations in Financial Difficulty

NEW FEATURES ADDED IN THE TWELFTH EDITION

New shading of consolidation worksheet entries. In the Twelfth Edition we have added full-color coordination of all consolidation items including (1) calculations, (2) consolidation journal entries, (3) T-accounts, and (4) worksheets. The full-color coordination allows teachers and students to see the development of each item and trace these items visually through the consolidation process. For example, each number in the Book Value Calculations can be traced to the Basic Consolidation Entry.

Book Value Calculations:

	NCI 20%	+ Peerless 80%	=	Common Stock	+ Retained Earnings
Original Book Value	60,000	240,000		200,000	100,000
+ Net Income	10,000	40,000			50,000
- Dividends	(6,000)	(24,000)			(30,000)
Ending Book Value	64,000	256,000		200,000	120,000

The boxed numbers in the chart above comprise the basic consolidation entry:

Basic Consolidation Entry:

Common Stock	200,000	← Common stock balance
Retained Earnings	100,000	← Beginning balance in RE
Income from Special Foods	40,000	← Peerless's share of Special Foods' NI
NCI in NI of Special Foods	10,000	← NCI's share of Special Foods' NI
Dividends Declared	30,000	← 100% of Special Foods' dividends
Investment in Special Foods	256,000	← Peerless's share of Special Foods' BV
NCI in NA of Special Foods	64,000	← NCI's share of net amount of BV

Likewise, the calculations in the Excess Value (Differential) Calculations can be traced to either the Amortized Excess Value Reclassification Entry or the Excess Value (Differential) Reclassification Entry. In the Computation table, color page ix application helps text users to quickly and clearly distinguish between Amortization amounts related to the current year and the current year Ending Balance for each item. The same colors help users to quickly connect these calculations to the consolidation entries.

Users can continue using colors to quickly connect the impact of the consolidation entries as they visualize how each of these entries impact the equity accounts. With these connections, users can follow items through calculations, consolidation entries, and T-accounts. This approach helps users to see the interaction of the equity entries and the consolidation entries in fully eliminating the “Investment in Sub” and the “Income from Sub Accounts.” These color connections are illustrated in the calculations, consolidation entries, and T-accounts that follow.

Excess Value (Differential) Calculations:

	NCI 20%	Peerless 80%	=	Inventory	+	Land	+	Building	+	Acc. Depr.	+	Goodwill
Beginning Balance	17,500	70,000		5,000		10,000		60,000		0		12,500
Amortization	(2,825)	(11,300)		(5,000)						(6,000)		(3,125)
Ending Balance	14,675	58,700		0		10,000		60,000		(6,000)		9,375

Amortized Excess Value Reclassification Entry:

Cost of Goods Sold	5,000	← Extra cost of goods sold
Depreciation Expense	6,000	← Depreciation of excess building value
Goodwill Impairment Loss	3,125	← Goodwill impairment
Income from Special Foods	11,300	← Peerless's share of amortization
NCI in NI of Special Foods	2,825	← NCI's share of amortization

Excess Value (Differential) Reclassification Entry:

Land	10,000	← Remaining excess value
Buildings & Equipment	60,000	← Remaining excess value
Goodwill	9,375	← Calculated value from acquisition
Accumulated Depreciation	6,000	← Excess building value ÷ 10 years
Investment in Special Foods	58,700	← Peerless's share of differential
NCI in NA of Special Foods	14,675	← NCI's share of differential

Investment in Special Foods			Income from Special Foods	
Acquisition Price	310,000			
80% of NI	40,000		40,000	80% of NI
	24,000	80% Div		
	11,300	80% of Excess Amortization	11,300	
Ending Balance	314,700		28,700	Ending Balance
	256,000	Basic	40,000	
	58,700	Excess Value Reclassification	11,300	Amort. Reclassification
	0		0	

Users can continue the visual connections from the entries and the T-accounts all the way through the consolidation worksheet as shown in the following example. We have extended this shading not only to the worksheets but also to supporting schedules and calculation boxes so that numbers appearing in consolidation worksheet entries are uniformly shaded in all locations.

	Peerless Products	Special Foods	Consolidation Entries		Consolidated
			DR	CR	
Income Statement					
Sales	400,000	200,000			600,000
Less: COGS	(170,000)	(115,000)	5,000		(290,000)
Less: Depreciation Expense	(50,000)	(20,000)	6,000		(76,000)
Less: Other Expenses	(40,000)	(15,000)			(55,000)
Less: Impairment Loss			3,125		(3,125)
Income from Special Foods	28,700		40,000	11,300	0
Consolidated Net Income	168,700	50,000	54,125	11,300	175,875
NCI in Net Income			10,000	2,825	(7,175)
Controlling Interest in Net Income	168,700	50,000	64,125	14,125	168,700
Statement of Retained Earnings					
Beginning Balance	300,000	100,000	100,000		300,000
Net Income	168,700	50,000	64,125	14,125	168,700
Less: Dividends Declared	(60,000)	(30,000)		30,000	(60,000)
Ending Balance	408,700	120,000	164,125	44,125	408,700
Balance Sheet					
Cash	194,000	75,000			269,000
Accounts Receivable	75,000	50,000			125,000
Inventory	100,000	75,000			175,000
Investment in Special Foods	314,700			256,000	0
				58,700	
Land	175,000	40,000	10,000		225,000
Buildings & Equipment	800,000	600,000	60,000	300,000	1,160,000
Less: Accumulated Depreciation	(450,000)	(320,000)	300,000	6,000	(476,000)
Goodwill			9,375		9,375
Total Assets	1,208,700	520,000	379,375	620,700	1,487,375
Accounts Payable	100,000	100,000			200,000
Bonds Payable	200,000	100,000			300,000
Common Stock	500,000	200,000	200,000		500,000
Retained Earnings	408,700	120,000	164,125	44,125	408,700
NCI in NA of Special Foods				64,000	78,675
				14,675	
Total Liabilities & Equity	1,208,700	520,000	364,125	122,800	1,487,375

FIGURE 5-4 December 31, 20X1, Equity-Method Worksheet for Consolidated Financial Statements, Initial Year of Ownership; 80 Percent Acquisition at More than Book Value

KEY FEATURES MAINTAINED IN THE TWELFTH EDITION

The key strengths of this text are the clear and readable discussions of concepts and their detailed demonstrations through illustrations and explanations. The many favorable responses to prior editions from both students and instructors confirm our belief that clear presentation and comprehensive illustrations are essential to learning the sophisticated topics in an advanced accounting course. Key features maintained in the Twelfth Edition include:

Callout boxes. We have updated the “callout boxes” that appear in the margins to draw attention to important points throughout the chapters. The most common callout boxes are the “FYI” boxes, which often illustrate how real-world companies or entities apply the principles discussed in the various chapters. The “Caution” boxes draw students’ attention to common mistakes and explain how to avoid them. The “Stop & Think” boxes help students take a step back and think through the logic of difficult concepts.

FASB codification. Authoritative citations to U.S. GAAP are cited based on the FASB codification.

Introductory vignettes. Each chapter begins with a brief story of a well-known company to illustrate why topics covered in that chapter are relevant in current practice. Short descriptions of the vignettes and the featured companies are included in the Chapter-by-Chapter Changes section at the end of the Preface. page xi

A building-block approach to consolidation. Virtually all advanced financial accounting classes cover consolidation topics. Although this topic is perhaps the most important to instructors, students frequently struggle to gain a firm grasp of consolidation principles. The Twelfth Edition provides students a learning-friendly framework to consolidations by introducing consolidation concepts and procedures more gradually. This is accomplished by a building-block approach that introduces consolidations in Chapters 2 and 3 and continues through Chapter 5.

IFRS comparisons. While the FASB and IASB had worked toward convergence to a single set of global accounting standards in the past, differences between the two framework persist. The Twelfth Edition summarizes existing key differences between current U.S. GAAP and IFRS where applicable.

AdvancedStudyGuide.com. See the section High Tech: The Twelfth Edition Adds Key Technology Resources to Benefit Both Students and Instructors for details.

The use of a continuous case for each major subject-matter area. This textbook presents the complete story of a company, Peerless Products Corporation, from its beginning through its growth to a multinational consolidated entity and finally to its end. At each stage of the entity's development, including the acquisition of a subsidiary, Special Foods Inc., the text presents comprehensive examples and discussions of the accounting and financial reporting issues that accountants face. The discussions tied to the Peerless Products continuous case are easily identified by the company logos in the margin:



We use the comprehensive case of Peerless Products Corporation and its subsidiary, Special Foods Inc., throughout the for-profit chapters. For the governmental chapters, the Sol City case facilitates the development of governmental accounting and reporting concepts and procedures. Using a continuous case provides several benefits. First, students need to become familiar with only one set of data and can then move more quickly through the subsequent discussion and illustrations without having to absorb a new set of data. Second, the case adds realism to the study of advanced accounting and permits students to see the effects of each successive step on an entity's financial reports. Finally, comparing and contrasting alternative methods using a continuous case allows students to evaluate different methods and outcomes more readily.

Extensive illustrations of key concepts. The book is heavily illustrated with complete, not partial, workpapers, financial statements, and other computations and comparisons useful for demonstrating each topic. The illustrations are cross-referenced to the relevant text discussion. In the consolidations portion of the text, the focus is on the fully adjusted equity method of accounting for an investment in a subsidiary, but two other methods—the cost method and the modified equity method—are also discussed and illustrated in chapter appendixes.

Comprehensive coverage with significant flexibility. The subject matter of advanced accounting is expanding at an unprecedented rate. New topics are being added, and traditional topics require more extensive coverage. Flexibility is therefore essential in an advanced accounting text. Most one-term courses are unable to cover all topics included in this text. In recognition of time constraints, this text is structured to provide the most efficient use of the time available. The self-contained units of subject matter allow for substantial flexibility in sequencing the course materials. In addition, individual chapters are organized to allow for more depth in some topics through the use of the "Additional Considerations" sections. Several chapters include appendixes containing discussions of alternative accounting procedures or illustrations of procedures or concepts that are of a supplemental nature.

Extensive end-of-chapter materials. A large number of questions, cases, exercises, and problems at page xii the end of each chapter provide the opportunity to solidify understanding of the chapter material and assess mastery of the subject matter. The end-of-chapter materials progress from simple focused exercises to more complex integrated problems. Cases provide opportunities for extending thought, gaining exposure to different sources of accounting-related information, and applying the course material to real-world situations. These cases include research cases that refer students to authoritative pronouncements and Roger CPA Review simulations. The American Institute of CPAs has identified five skills to be examined as part of the CPA exam: (a) analysis, (b) judgment, (c) communication, (d) research, and (e) understanding. The end-of-chapter materials provide abundant opportunities for students to enhance those skills with realistic and real-world applications of advanced financial accounting topics. Cases and exercises identified with a world globe icon provide special opportunities for students to access real-world data by using electronic databases, the Internet, or other inquiry processes to answer the questions presented on the topics in the chapters.

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Each test bank question for *Advanced Financial Accounting* maps to a specific chapter learning outcome/objective listed in the text. You can use our test bank software, TestGen, or McGraw-Hill's *Connect Accounting* to easily query for learning outcomes/objectives that directly relate to the learning objectives for your course. You can then use the reporting page xiii features of TestGen to aggregate student results in a similar fashion, making the collection and presentation of assurance of learning data simple and easy.

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The statements contained in *Advanced Financial Accounting* Twelfth Edition are provided only as a guide for the users of this textbook. The AACSB leaves content coverage and assessment within the purview of individual schools, the mission of the school, and the faculty. Although *Advanced Financial Accounting* Twelfth Edition and the teaching package make no claim of any specific AACSB qualification or evaluation, we have within *Advanced Financial Accounting* Twelfth Edition labeled selected questions according to the six general knowledge and skills areas.

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wait until they have completed their academic studies to begin preparing for the CPA Exam, research shows that those who become familiar with exam content earlier in the process have a stronger chance of successfully passing the CPA Exam. Accordingly, students using these McGraw-Hill materials will have access to sample CPA Exam Task-based Simulations from Roger CPA Review, with expert-written explanations and solutions. All questions are either directly from the AICPA or are modeled on AICPA questions that appear in the exam. Task-based Simulations are delivered via the Roger CPA Review platform, which mirrors the look, feel, and functionality of the actual exam. McGraw-Hill Education and Roger CPA Review are dedicated to supporting every accounting student along their journey, ultimately helping them achieve career success in the accounting profession. For more information about the full Roger CPA Review program, exam requirements and exam content, visit www.rogercpareview.com.

HIGH TECH: THE TWELFTH EDITION ADDS KEY TECHNOLOGY RESOURCES TO BENEFIT BOTH STUDENTS AND INSTRUCTORS



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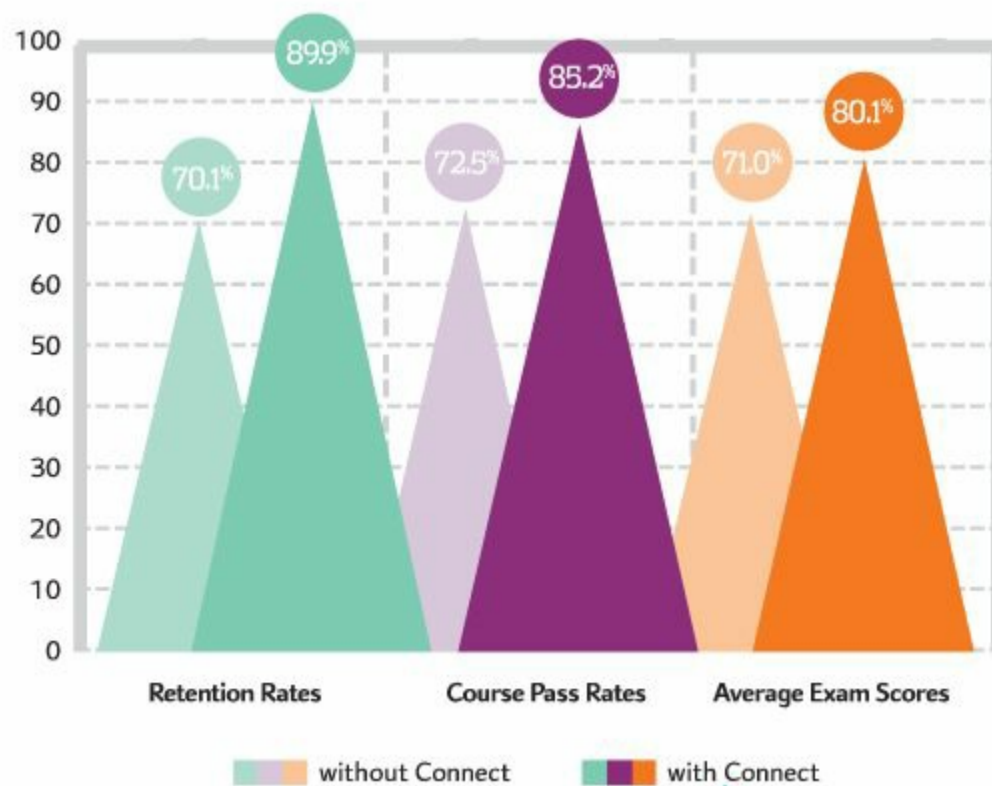
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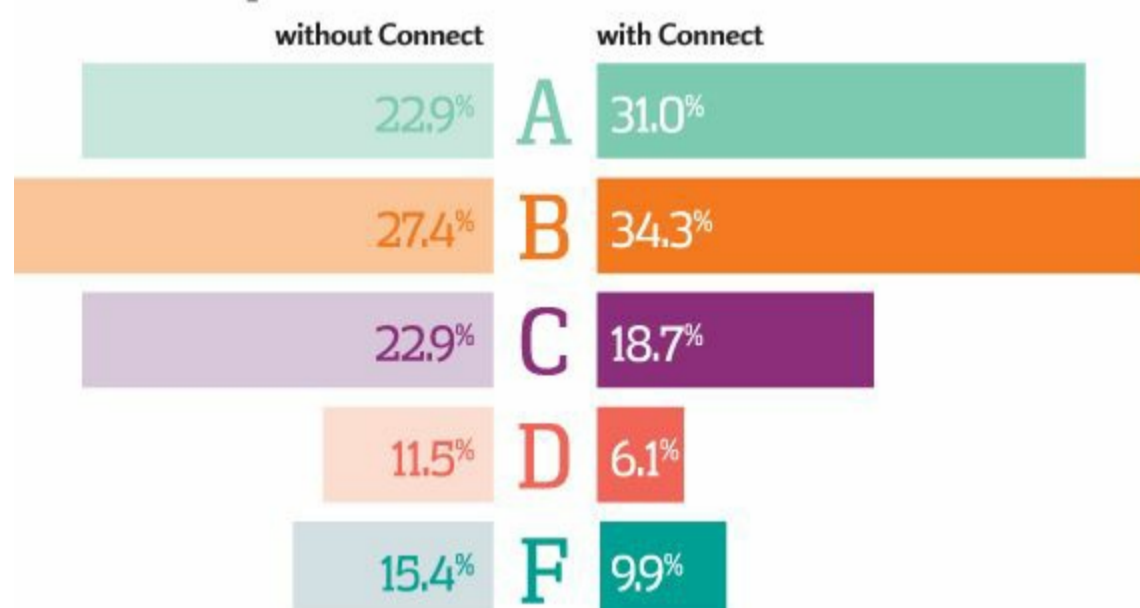
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At its core, AdvancedStudyGuide.com (ASG) offers materials that go beyond what a printed text can possibly deliver. The ASG contains dozens of narrated, animated discussions and explanations of materials aligned to key points in the chapter. Not only that, the ASG also contains animated problems just like key problems in the exercises and problems at the end of each chapter. For the student who would like a little help with *Advanced Financial Accounting*, the ASG is like having private tutoring sessions from the authors who wrote the book (not a class TA) **any time, day or night**. This also can provide tremendous benefits for instructors, as outlined below.

For Students

The Questions

Have you ever had to miss a class and were then confused about what the book was trying to say about a topic?

Even when you were in class, do things sometimes not make as much sense when you are reviewing on your own?

Do you ever feel stuck when it comes to doing homework problems even though you read the chapter?

When the exam is a few weeks after you covered the material in class, do you ever wish someone could walk you through a few examples as you review for the exam?

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Have you ever had a student miss class and then come to your office and ask you to go over the topics that were discussed in class the day the student was absent?

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CHAPTER-BY-CHAPTER CHANGES

Chapter 1 emphasizes the importance of business acquisitions and combinations. The chapter has been significantly reorganized and updated based on feedback from textbook adopters to provide a clearer and more concise discussion of the accounting treatment of mergers, acquisitions, and other intercorporate investments. We have added new illustrations and updated the beginning-of-chapter vignette and callout boxes to provide real-world examples of the topics discussed in the chapter, most of which provide additional information about the **Microsoft** example in the introductory vignette.

Chapter 2 summarizes the different types of intercorporate investments. The coverage in this chapter, which is specific to accounting for equity securities, has been updated with guidance from ASU 2016-01, which is codified into ASC 321. This chapter also introduces consolidation in the most straightforward scenario—where the parent company acquires full ownership of the subsidiary for an amount equal to the subsidiary’s book value (i.e., no differential). Based on the new full-color shading introduced in the Twelfth Edition, this chapter page xviii introduces a new method of shading our consolidation worksheet entries to make them easily distinguishable by the reader. We have updated this chapter to provide a more streamlined and understandable coverage of topics traditionally included in this chapter. Finally, we have updated the “callout boxes” that provide real-world examples of the topics discussed in the chapter, some of which provide additional information about **Berkshire Hathaway’s** investments discussed in the introductory vignette.

Chapter 3 explores how the basic consolidation process differs when a subsidiary is only partially owned. Moreover, it introduces the notion of special-purpose entities and accounting standards related to variable interest

entities (VIE) by discussing the **Coca-Cola Company**. This chapter includes updated FASB guidance in ASC 810 related to the characteristics of a VIE and the primary beneficiary or reporting entity. We have streamlined and shortened this chapter based on feedback from adopters to provide a better flow for the material. In addition, we have updated the callout boxes to help students understand the intricacies associated with the consolidation of a partially owned subsidiary and dealing with variable interest entities.

Chapter 4 gives a behind-the-scenes look at the work that goes into the consolidation process based on **Disney Corporation** including its new investment in BAMTech, which holds Major League Baseball's streaming technology and content delivery business. This chapter introduces consolidation of wholly owned subsidiaries with a differential, which results in situations in which the acquiring company pays more than the book value of the acquired company's net assets. This chapter adds a detailed explanation of the new shading of the consolidation worksheet entries introduced in Chapter 2.

Chapter 5 introduces majority ownership of subsidiaries based on the 51 percent acquisition of **Massmart** by **Walmart**. We further the discussion of acquisitions with a differential that has the added complexity of noncontrolling interest shareholders when they purchase less than 100 percent of the outstanding common stock. We have simplified the coverage of some of the topics in this chapter and removed tangential topics to provide more concise coverage of the important material.

Chapter 6 introduces intercompany inventory transfers based on **Samsung Electronics** and its subsidiaries, which accounted for 58 percent of Samsung's total revenues in 2016. The elimination of intercompany profits can become complicated. In fact, intercompany inventory transactions and the consolidated procedures associated with them represent one of the topics textbook adopters have found most difficult to teach to students. As a result, we have rewritten this with added illustrations to better simplify adjustments to the basic consolidation entry in both the year when an intercompany sale of inventory leads to a deferral of gross profit (Year 1), and the next year when this deferral is reversed (Year 2). In addition, we have added a series of new callout boxes to draw students' attention to the subtle complexities that our students have frequently struggled to understand.

Chapter 7 presents a real fixed asset transfer between two of **Micron's** subsidiaries. This chapter explores the accounting for both depreciable and nondepreciable asset transfers among affiliated companies. Continuing the coverage of intercompany transfers from Chapter 6, Chapter 7 is one of the most difficult to teach for many adopters. Therefore, we have spent considerable time revising this chapter including a new three-year comprehensive example of an intercompany sale of land. We have also reorganized some of the material and have added illustrations to better simplify adjustments to the basic consolidation entry and new graphics to simplify difficult topics.

Chapter 8 begins with a new example of how intercompany indebtedness played a significant role in the resolution of the bankruptcy of **Caesars Entertainment Corporation's** (CEC) largest casino operating subsidiary, **Caesars Entertainment Operating Company, Inc.** (CEOC). This edition continues the use of the effective interest method in the body of the chapter with coverage of the straight-line method page xix illustrated in the appendix to the chapter.

Chapter 9 returns to the discussion of **Berkshire Hathaway** to demonstrate that, in practice, ownership situations can be complex. The discussion here provides a basic understanding of some of the consolidation problems arising from complex situations commonly encountered in practice, including but not limited to changes in the parent's ownership interest and multiple ownership levels. We have revised the chapter to clarify some of these complex transactions.

Chapter 10 uses the example of the rapid growth of **Alphabet** (formerly **Google Inc.**) to explore four additional issues related to consolidated financial statements: the consolidated statement of cash flows, consolidation following an interim acquisition, consolidated tax considerations, and consolidated earnings per share. We have revised the chapter to clarify and expand some of the illustrative examples.

Chapter 11 focuses on foreign currency transactions, financial instruments, and the effects that changes in exchange rates can have on reported results. We provide real-world examples of the topics discussed in the chapter, including the introductory vignette about **Microsoft**. We have revised this chapter to clarify the illustrations related to the use of forward contracts as hedging instruments and to update examples for recent changes in accounting standards.

Chapter 12 resumes the discussion of international accounting by exploring **McDonald's** global empire and how differences in accounting standards across countries and jurisdictions can cause significant difficulties for multinational firms. We have revised the chapter to clarify the narrative based on feedback from adopters and students and to update some of the discussion for recent changes in accounting standards.

Chapter 13 examines segment reporting. We have made minor revisions to more clearly discuss the accounting standards for reporting an entity's operating components, foreign operations, and major customers and have updated the callout boxes illustrating how real companies, including **Walmart** from the introductory vignette, deal with segment reporting issues.

Chapter 14 reviews the complex role of the **Securities and Exchange Commission** to regulate trades of securities and to determine the type of financial disclosures that a publicly held company must make. We have made light revisions to update the coverage for recent laws and regulations.

Chapter 15 uses the example of **PricewaterhouseCoopers** to summarize the evolution of the original Big 8 accounting firms to today's Big 4 with an emphasis on partnerships. This chapter focuses on the formation and operation of partnerships, including accounting for the addition of new partners and the retirement of a present partner. We have made light revisions to the chapter to better explain partnership accounting.

Chapter 16 illustrates the dissolution of partnerships with the example of **Laventhol & Horwath**, the seventh-largest accounting firm in 1990. We have made light revisions to clarify some of the more difficult concepts related to partnership liquidation.

Chapter 17 introduces the topic of accounting for governmental entities. The chapter has two parts: the accounting and reporting requirements for state and local governmental units and a comprehensive illustration of accounting for a city's general fund. We have made light revisions to better explain some topics that students have found to be most difficult. Moreover, we have updated the callout boxes (most of which highlight specific examples related to the introductory vignette about **San Diego, California**) to clarify various topics.

Chapter 18 resumes the discussion of accounting for governmental entities by specifically examining special funds and governmentwide financial statements. We have lightly revised the chapter topics that are page xx often misunderstood by students and have updated the callout boxes (which highlight specific examples related to the introductory vignette about the state of **Maryland**). Moreover, we have added some additional details related to more recent GASB pronouncements that were not included in the last edition.

Chapter 19 introduces accounting for not-for-profit entities using the example of **United Way Worldwide**, the largest charitable organization in the United States. We present the accounting and financial reporting principles used by both governmental and nongovernmental colleges and universities, health care providers, voluntary health and welfare organizations, and other not-for-profit organizations such as professional and fraternal associations. We have updated the chapter extensively based on new standards related to the presentation of net assets for not-for-profit entities (ASU 2016-14, ASC 958-210).

Chapter 20 introduces our final topic of corporations in financial difficulty by illustrating **General Motors Company (GM)** and its Chapter 11 bankruptcy protection granted in 2009. GM's experience illustrates that dealing with financial difficulty can be a long and complicated process, especially for large corporations. We present the range of major actions typically used by such a company. We have made minor revisions to the chapter content and have updated the callout boxes to highlight recent well-publicized bankruptcies.

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Theodore E. Christensen

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