THIRD EDITION ADVANCED ACCOUNTING

DANIEL L. JENSEN

The Ohio State University

EDWARD N. COFFMAN

Virginia Commonwealth University

RAY G. STEPHENS

Kent State University

THOMAS J. BURNS

The Ohio State University

A Call of The Asia Foundation Ann Francisco, California, U.S. HOT THE SALE

McGRAW-HILL, INC.

New York St. Louis San Francisco Auckland Bogotá Caracas Lisbon London Madrid Mexico City Milan Montreal New Delhi San Juan Singapore Sydney Tokyo Toronto

THIRD EDITION

ADVANCED ACCOUNTING

DANIEL L. JENSEN

The Ohio State University

EDWARD N. COFFMAN

Virginia Commonwealth University

RAY G. STEPHENS

Kent State University

THOMAS J. BURNS

The Ohio State University

> A Gift of The Asia Foundation San Francisco, California, U.S.A. NOT FOR SALE

McGRAW-HILL, INC.

New York St. Louis San Francisco Auckland Bogotá Caracas Lisbon London Madrid Mexico City Milan Montreal New Delhi San Juan Singapore Sydney Tokyo Toronto

ADVANCED ACCOUNTING

Copyright © 1994, 1988, 1980 by McGraw-Hill, Inc. All rights reserved, Printed in the United States of America. Except as permitted under the United States Copyright Act of 1976, no part of this publication may be reproduced or distributed in any form or by any means, or stored in a data base or retrieval system, without the prior written permission of the publisher.

This book is printed on acid-free paper.

67890 DOC/DOC 99

ISBN 0-07-032667-3

This book was set in Times Roman by York Graphic Services, Inc.
The editors were Alan Sachs and Bernadette Boylan;
the designer was Leon Bolognese;
the production supervisor was Paula Keller.
R. R. Donnelley & Sons Company was printer and binder.

Material from the Uniform CPA Examination Questions and Unofficial Answers, copyright © 1948, 1950, 1951, 1953, 1955, 1957, 1960, 1961, 1962, 1963, 1964, 1965, 1966, 1967, 1969, 1970, 1971, 1972, 1973, 1974, 1975, 1976, 1977, 1978, 1979, 1980, 1981, 1982, 1983, 1984, 1985, 1986, 1989, 1990, 1991, 1992 by the American Institute of Certified Public Accountants, Inc., is reprinted (or adapted) with permission.

Material from the Certified Management Accountant Examinations, copyright © 1975, 1977, 1991 by the Institute of Certified Management Accountants is reprinted (or adapted) with permission.

Material from the Certificate in Internal Auditing Examinations, copyright © 1983 by The Institute of Internal Auditors, Inc., is reprinted (or adapted) with permission.

Library of Congress Cataloging-in-Publication Data is available: LC Card #93-21688

INTERNATIONAL EDITION

Copyright 1994. Exclusive rights by McGraw-Hill, Inc., for manufacture and export. This book cannot be re-exported from the country to which it is consigned by McGraw-Hill. The International Edition is not available in North America.

When ordering this title, use ISBN 0-07-113400-X.

ABOUT THE AUTHORS

DANIEL L. JENSEN is Professor of Accounting at The Ohio State University. He is coauthor of Financial Accounting (1992, in its fourth edition) and Accounting for Changing Prices (1984). In addition to service on many editorial boards, Professor Jensen served as editor of Issues in Accounting Education and was recently elected director of publications for the American Accounting Association. His research has been published in various journals, including The Accounting Review, the Journal of Accounting Research, the Quarterly Review of Economics and Business, the Journal of Business Finance and Accounting, and Financial Management. In addition, he has edited monographs on educational issues including Information Systems in Accounting Education (1985) and The Impact of Rule-Making on Intermediate Accounting Textbooks (1982). His national committee work includes service on the AICPA's Education Executive Committee and the Executive Committee, Council, Nominating Committee, and Education Advisory Committee of the American Accounting Association. In 1991, Professor Jensen received the Outstanding Ohio Accounting Educator Award. Professor Jensen served on the faculties at the University of Illinois at Urbana-Champaign and Purdue University and was a visiting professor at Indiana University. A certified public accountant, he received a Ph.D. from The Ohio State University and master's and bachelor's degrees from the University of Minnesota.

EDWARD N. COFFMAN is Professor of Accounting at Virginia Commonwealth University. He is coeditor of Historical Perspectives of Selected Financial Accounting Topics (1992) and coauthor of Accounting for Changing Prices (1984). His research has been published in the Journal of Accounting Research, Abacus, the International Journal of Accounting, Issues in Accounting Education, and the Journal of Accountancy. Professor Coffman has served as president of the Academy of Accounting Historians, chairman of its Board of Trustees, and editor of The Accounting Historians Journal. He has also served on various committees of professional organizations including the Education Advisory Committee and the Model Library Committee of the American Accounting Association. Professor Coffman has been a visiting professor at The Ohio State University, Southern Methodist University, and Swinburne University of Technology (Australia). His honors and awards include Beta Alpha Psi's Accountant of the Year in Education Award (1990) and designation as the 1991 Virginia Outstanding Accounting Educator by the Institute of Management Accountants (IMA) Student Chapter of James Madison University. He received his bachelor's and master's degrees from Virginia Commonwealth University and his doctorate from George Washington University.

RAY G. STEPHENS is KPMG Peat Marwick Professor and accounting department chair at Kent State University. He is coauthor of Financial Reporting by Privately Held Business Enterprises: Diagnosis and Analysis (1983) and author of Uses of Financial Information in Bank Lending Decision (1980). His research has been published in The Accounting Review, Auditing: A Journal of Practice and Theory, the Quarterly Review of Economics and Business, Instructional Science, and The Ohio CPA, among other journals. In addition to serving on many editorial boards, Professor Stephens was editor of the Case Research Journal and associate editor for Issues in Accounting Education. He has served as president of the North American Case Research Association, chair of the American Accounting Association Section on Accounting, Behavior and Organizations, and vice-president and Executive Committee member for the Ohio Society of CPAs. Professor Stephens earned a doctorate at Harvard University and holds M.B.A. and bachelor's degrees from East Carolina University and the University of Georgia, respectively. He was a member of the faculty at The Ohio State University and served as Academic Accounting Fellow at the Securities and Exchange Commission.

THOMAS J. BURNS is Deloitte & Touche Professor of Accounting at The Ohio State University. He is coeditor of The Accounting Sampler (1986, in its fourth edition) and coauthor of The Accounting Primer: An Introduction to Accounting (1972). He has edited many monographs including Doctoral Programs in Accounting Education (1984) and the annual Accounting Trends: Innovative Accounting and Information Systems Course Outlines, now in its twenty-fourth year. He has served as national president of Beta Alpha Psi, director of education for the American Accounting Association, and president of the Academy of Accounting Historians. His papers have been published in various journals including The Accounting Review, the Journal of Accounting Research, and the Journal of Accountancy. His many honors and awards include the Outstanding Accounting Educator Award from both the American Accounting Association (1992) and the American Institute of CPAs (1989); he was also the first recipient of the Ohio Outstanding Educator Award. Professor Burns has been a member of the accounting faculty at The Ohio State University since 1963 and has held visiting professorships at the University of California at Berkeley, Harvard University, and Stanford University. A certified public accountant, he earned a Ph.D. from the University of Minnesota and bachelor's and master's degrees from the University of Wisconsin and the University of Michigan, respectively.

PREFACE xix

PART ONE

MULTIPLE-CORPORATION ENTITIES

CHAPTER 1 BUSINESS COMBINATIONS PAGE 2

BUSINESS COMBINATIONS FROM VARIOUS VIEWPOINTS

The Acquiring Company 4 / ISSUES: Evaluation of Proposed Expansion by Combination 4 / The Acquired Company 5 / ISSUES: A Tender Offer 6 / Regulatory Agencies 7 / Accounting Rule-Making Agencies 7

COMBINATION TRANSACTIONS 8

Four Basic Forms of Business Combination 8 / Acquisitions of Assets Subject to Liabilities 10 / Corporate Structure of Business Combinations 11

AN OVERVIEW OF ACCOUNTING FOR BUSINESS COMBINATIONS

Criteria That Distinguish Purchases and Poolings 11 / Valuation of Acquired Net Assets 12 / Taxes and Business Combinations 12

ACCOUNTING FOR PURCHASE COMBINATIONS 13

Measuring Acquisition Cost 13 / Allocating the Acquisition Cost 15 / Recording Purchase Combinations 17

ACCOUNTING FOR POOLING-OF-INTERESTS COMBINATIONS 21

ISSUES: A Critique of Pooling-of-Interests Accounting 21 / Recording Pooling of Interests 22 / Par Value Issued and the Reclassification of Stockholders' Equity 24

COMBINED NET INCOME IN YEAR OF COMBINATION 26

SUMMARY 28

APPENDIX A: CRITERIA FOR POOLINGS OF INTERESTS 28

APPENDIX B: CONTINGENT CONSIDERATION AND PREACQUISITION

CONTINGENCIES 33

SELECTED READINGS 36

QUESTIONS 37

EXERCISES 38

PROBLEMS 49

ISSUES IN ACCOUNTING JUDGMENT 59

CHAPTER 2

ACQUISITIONS OF STOCK AND DATE-OF ACQUISITION CONSOLIDATION

PAGE 64

BUSINESS COMBINATIONS AND CONSOLIDATIONS 65

MINORITY INTEREST AND CONSOLIDATION CRITERIA 68

Controlling Interest 68 / ISSUES: Judgment on Control of Investee 69 / Unconsolidated Subsidiaries 72 / Disclosure of Consolidation Policy 73

PURPOSES AND LIMITATIONS OF CONSOLIDATED FINANCIAL STATEMENTS

ISSUES: Consolidated versus Separate Financial Statements 75

DATE-OF-ACQUISITION CONSOLIDATION PROCEDURES FOR PURCHASE COMBINATIONS WITH MINORITY INTEREST

Analysis of the Valuation Differential 77 / Consolidation Worksheet Procedures 79 / Consolidated Financial Statements 82 / Comprehensive Illustration 88

CONCEPTUAL BASIS FOR CONSOLIDATION

SUMMARY 94 APPENDIX A: THE CONSOLIDATED BALANCE SHEET UNDER ALTERNATIVE CONCEPTS OF CONSOLIDATION 94 APPENDIX B: DATE-OF-ACQUISITION CONSOLIDATION PROCEDURES FOR POOLINGS OF INTERESTS WITH MINORITY INTEREST 102 SELECTED READINGS 104 QUESTIONS 105 EXERCISES 107

PROBLEMS 119 ISSUES IN ACCOUNTING JUDGMENT 131

CHAPTER 3

THE EQUITY METHOD AND POSTACQUISITION CONSOLIDATION

PAGE 134

ACCOUNTING FOR LONG-TERM INVESTMENTS IN COMMON STOCK 135

The Cost Method 136 / The Equity Method 138 / ISSUES: Cost Method versus Equity Method 138

POSTACQUISITION CONSOLIDATION FINANCIAL STATEMENTS 146

Consolidation of Balance Sheets at Date of Acquisition 147 / Consolidated Financial Statements One Year after Acquisition 148 / Consolidation of Financial Statements Two Years after Acquisition 161 / Interim Acquisition 164

SUMMARY 170

APPENDIX A: POSTACQUISITION CONSOLIDATION FOR POOLINGS OF

INTERESTS 171

APPENDIX B: CONSOLIDATION PROCEDURES FOR THE COST

METHOD 173

APPENDIX C: THE TRIAL BALANCE FORMAT FOR CONSOLIDATION

WORKSHEETS 176

SELECTED READINGS 178

QUESTIONS 179

EXERCISES 180 PROBLEMS 191 ISSUES IN ACCOUNTING JUDGMENT 212

CHAPTER 4 INTERCOMPANY MERCHANDISE TRANSFERS

PAGE 214

REVENUE RECOGNITION AND MERCHANDISE TRANSFERS 215

ISSUES: Non-Arm's Length Transactions and Revenue Recognition 215 / Gross Margin on Intercompany Merchandise Transfers 217

THE EQUITY METHOD FOR MERCHANDISE TRANSFERS 218

Merchandise Transfers (Upstream) from Subsidiary to Parent 218 / Merchandise Transfers (Downstream) from Parent to Subsidiary 220 / Comprehensive Illustration of Equity Method for Merchandise Transfers 222

223 CONSOLIDATION AND MERCHANDISE TRANSFERS

Total versus Fractional Deferral for Upstream Transfers 223 / ISSUES: Consequences of Deferral Methods 224 / Consolidation Adjustments for Upstream Merchandise Transfers 224 / Comprehensive Illustration of Consolidation Procedures for Merchandise Transfers 228

SUMMARY 235

APPENDIX: FRACTIONAL DEFERRAL METHOD OF CONSOLIDATION 236

SELECTED READINGS 237

QUESTIONS 237

EXERCISES 238

PROBLEMS 243

ISSUES IN ACCOUNTING JUDGMENT 255

CHAPTER 5

INTERCOMPANY PLANT ASSET TRANSFERS

PAGE 256

TRANSFERS OF LAND 257

Upstream Land Transfers 257 / Downstream Land Transfers 261 / ISSUES: Income Effects of Omitted Deferrals 263

TRANSFERS OF DEPRECIABLE ASSETS 263

Upstream Transfers of Depreciable Assets 264 / Downstream Transfers of Depreciable Assets 268 / ISSUES: Variations in Intercompany Asset Transfers 269

COMPREHENSIVE ILLUSTRATION 269

SUMMARY 275

QUESTIONS 275

EXERCISES 276

PROBLEMS 282

ISSUES IN ACCOUNTING JUDGMENT 298

CHAPTER 6 INTERCOMPANY DEBT TRANSACTIONS

PAGE 300

CREATION OF NEW INTERCOMPANY DEBT

ISSUES: Motivation for Creation of New Intercompany Debt 301 / A Parent Lends to Its Subsidiary 301 / Equity Method for New Intercompany Debt 302 / Consolidation Procedures for New Intercompany Debt 304

ACQUISITION OF OUTSTANDING DEBT

Gains and Losses 307 / ISSUES: Motivation for Acquisition of Affiliate Debts 307 / Attribution of Gain or Loss 308 / Acquisition of Parent's Debt by Subsidiary 309 / Acquisition of Subsidiary's Debt by Parent 314

SUMMARY 321

APPENDIX A: THE FACE-VALUE METHOD FOR GAINS AND LOSSES ON

INTERCOMPANY DEBT 323

APPENDIX B: DISCOUNTING AND INTERCOMPANY NOTES 328

SELECTED READINGS 329

OUESTIONS 329

EXERCISES 330

PROBLEMS 335

ISSUES IN ACCOUNTING JUDGMENT 354

CHAPTER 7 TRANSACTIONS IN

SUBSIDIARY COMMON STOCK

PAGE 356

PARENT'S TRANSACTIONS IN SUBSIDIARY COMMON STOCK

Multiple-Step Stock Acquisitions of Subsidiaries 357 / Sale of Subsidiary Shares by Parent 361

NEW ISSUES OF SUBSIDIARY COMMON STOCK 369

ISSUES: Minority Stockholders and Subsidiary Stock Issues 370 / Subsidiary Sells Stock to Parent 371 / Subsidiary Sells Stock to Minority Stockholders 373 / Subsidiary Sells Stock to Parent and Minority Stockholders 376

SUBSIDIARY TRANSACTIONS IN COMMON TREASURY SHARES

Transactions with the Parent 376 / Transactions with Minority Stockholders 377

APPENDIX: OWNERSHIP CHANGES AND INTERCOMPANY GROSS

MARGIN 378

SELECTED READINGS 382

OUESTIONS 383

EXERCISES 384

PROBLEMS 390

ISSUES IN ACCOUNTING JUDGMENT 401

CHAPTER 8 CONSOLIDATION IN COMPLEX **ENVIRONMENTS**

PAGE 402

MULTIPLE SUBSIDIARIES AND INDIRECT OWNERSHIP 403

Multiple Subsidiaries 403 / Indirect Ownership 404 / Consolidation Procedures 406

MUTUAL HOLDINGS 409

Mutual Holdings between Subsidiaries 409 / Mutual Holdings between Parent and Subsidiary 413 / The Treasury-Stock Method for Mutual Holdings between Parent and Subsidiary 414 / The Allocation Method for Mutual Holdings between Parent and Subsidiary 418

PARENT'S INVESTMENT IN SUBSIDIARY PREFERRED STOCK 422

Book Value of Preferred Stockholders' Equity 423 / Intercompany Preferred Stock Investment and Consolidated Entities 424 / A Parent Invests in Subsidiary Preferred Stock 424 / Consolidation at Date of Acquisition 424 / The Equity Method 426 / Consolidation Worksheet Adjustments 427 / Consolidation Worksheet One Year after Acquisition 427 / Consolidation Worksheet Two Years after Acquisition 429

JOINT VENTURES 430

Accounting for Joint Venture Investments 431 / Proportionate Consolidation 431

DEFERRED INCOME TAXES 435

Consolidated and Separate Tax Returns 435 / Undistributed Investee Income 435 / Intercompany Merchandise Transactions 436 / Comprehensive Example with Separate Tax Returns 439 / Business Combinations 443

SELECTED READINGS 449
QUESTIONS 449
EXERCISES 450
PROBLEMS 456
ISSUES IN ACCOUNTING JUDGMENT 465

CHAPTER 9
REPORTING
DISAGGREGATED
FINANCIAL INFORMATION

PAGE 468

HISTORICAL PERSPECTIVE ON THE NEED FOR DISAGGREGATED FINANCIAL INFORMATION 469

REPORTING NONHOMOGENEOUS SUBSIDIARIES 469

SEGMENT REPORTING 470

Segment Information by Industry 473 / Segment Information by Geographic Area and Export Sales 478 / Sales to Major Customers 480 / Disposal of a Segment of a Business 484

SIGNIFICANT INVESTEES AND JOINT VENTURES 484

PARENT-COMPANY-ONLY FINANCIAL INFORMATION 485

SEPARATELY ISSUED FINANCIAL STATEMENTS FOR SUBSIDIARIES AND PUSH-DOWN ACCOUNTING 486

APPENDIX: INTERIM FINANCIAL REPORTING 491
Financial Accounting Standards for Interim Reporting 491
SELECTED READINGS 498
QUESTIONS 500
EXERCISES 501
PROBLEMS 507
ISSUES IN ACCOUNTING JUDGMENT 516

REPORTING UNDER NEW BASIS ACCOUNTING

PAGE 518

FOUR RATIONALES FOR NEW BASIS ACCOUNTING 519

PURCHASE BUSINESS COMBINATIONS AND PUSH-DOWN ACCOUNTING 520

LEVERAGED BUYOUTS 520

Recording LBOs without New Basis Accounting 520 / Recording LBOs Using New Basis Accounting 521 / Guidance from Emerging Issues Task Force 523 / Stockholders' Equity in the LBO 525 / LBO Financial Statements 525 / Analyzing LBOs 525

REORGANIZATION ACCOUNTING 526

Restructuring-Recapitalization 526 / Quasi-Reorganization 526 / Bankruptcy 527

REORGANIZATION UNDER THE BANKRUPTCY CODE 528

Accounting When the Petition Is Filed 529 / Accounting during the Bankruptcy 532 / Accounting When Emerging from Bankruptcy 533 / New Basis Accounting for the Emerging Entity 534 / Accounting for Enterprises Emerging from Bankruptcy When New Basis Is Not Allowed 535

SUMMARY 536
SELECTED READINGS 537
QUESTIONS 537
EXERCISES 538
PROBLEMS 542
ISSUES IN ACCOUNTING JUDGMENT 550

CHAPTER 11 RESEARCHING ACCOUNTING PRINCIPLES

PAGE 552

RESEARCHING FINANCIAL ACCOUNTING PRONOUNCEMENTS 553

Accounting Measurements 553 / Accounting Presentation and Disclosures 554

THE HIERARCHY OF GAAP 554

Framework of the Hierarchy 554 / Parallel Hierarchies for Private and Public Sectors 555

IMPACT OF REGULATORY AGENCIES 556

Banking Regulators and the Call Report 556 / Securities and Exchange Commission 558 / Insurance and Utility Regulators 561

THE RESEARCH PROCESS 561

Terminology and Research 561 / Standards and Interpretative Guidance 562 / Iteration and Consultation 562

A RESEARCH EXAMPLE 562

SUMMARY 565 SELECTED READINGS 565 QUESTIONS 566

PART TWO

MULTINATIONAL COMPANIES

CHAPTER 12 RESTATEMENT OF FOREIGN FINANCIAL **STATEMENTS**

PAGE 576

FOREIGN CURRENCY RESTATEMENT 577

Restatement and Conversion 577 / Currency Exchange Rates 578

MEASUREMENT ISSUES IN FOREIGN STATEMENT RESTATEMENT 578

Conformity with U.S. Generally Accepted Accounting Principles 578 / Historical Rate and Current Rate Restatement 579 / Treatment of Restatement Adjustments 581 / ISSUES: Restatement Adjustments as Income Elements or Direct Equity Adjustments 581

xiii

THE FUNCTIONAL CURRENCY CONCEPT 582

TRANSLATION 584

Translation at Date of Acquisition 584 / Translation One Year after Acquisition 585 / Translation Two Years after Acquisition 587

REMEASUREMENT 590

Remeasurement Procedures 593 / Remeasured Financial Statements 598 / Translation of Remeasured Trial Balances 599 / Inventory Remeasurement and the Lower-of-Cost-or-Market Adjustment 601

SUBSIDIARIES IN HIGHLY INFLATIONARY ECONOMIES

SUMMARY 603

APPENDIX A: EQUITY-METHOD AND CONSOLIDATION PROCEDURES FOR FOREIGN SUBSIDIARIES 603

APPENDIX B: COMPOSITION OF TRANSLATION ADJUSTMENT 616

SELECTED READINGS 616

QUESTIONS 618

EXERCISES 619

PROBLEMS 627

ISSUES IN ACCOUNTING JUDGMENT 639

CHAPTER 13 FOREIGN CURRENCY TRANSACTIONS

PAGE 642

FOREIGN CURRENCY RESTATEMENT 644

Currency Exchange Rates 644

RECORDING FOREIGN SALES AND PURCHASES 645

Transaction and Settlement Dates 645 / Restatements and Exchange Rate Movements 646 / ISSUES: Historical Perspective on Foreign Currency Standards 646 / Recording Foreign Sales 647 / Recording Foreign Purchases 649

HEDGES AND FOREIGN CURRENCY 652

Forward Contracts 653 / ISSUES: Interest Differentials and Forward Rates 654 / Hedging Exposure to Foreign Currency Assets and Liabilities 655 / Hedges of Identifiable Foreign Currency Commitments 658 / Hedges of Net Investment Positions 664 / Disclosures Rules for Transaction Gains and Losses 665

SPECULATIVE FORWARD EXCHANGE CONTRACTS 665

Recording the Speculative Forward Contract 666 / Transaction Gain on Forward Contract 666 / Recognition of Transaction Gain at Year-End 667 / Recording Exercise of the Speculative Forward Contract 667

SUMMARY 667
SELECTED READINGS 668
QUESTIONS 669
EXERCISES 670
PROBLEMS 676
ISSUES IN ACCOUNTING JUDGMENT 681

PART THREE

PARTNERSHIPS AND BRANCHES

PARTNERSHIPS:
FORMATION, OPERATION,
AND OWNERSHIP
CHANGES
PAGE 684

PARTNERSHIPS AS ORGANIZATIONS 685

Partnership Agreements 685 / Distinctive Characteristics 686

OWNERSHIP EQUITY ACCOUNTS FOR PARTNERSHIPS 686

ISSUES: Partnership versus Corporate Ownership Equity 686 / Initial Capital Balances 687 / Partners' Drawing Accounts 688 / Other Payments to Partners 690

ALLOCATION OF PARTNERSHIP INCOME OR LOSS 690

Bases for the Allocation of Income and Loss 690 / Specified Numerical Ratio 691 / Capital Investment Bases 691 / Service Contributions Bases 694 / Deficiencies of Income Relative to Salaries and Interest 695 / Partners' Salaries and Interest in the Income Statement 697 / Correction of Prior Years' Net Income 698

FINANCIAL REPORTING AND TAXATION 698

Financial Statements of Partnerships 698 / Federal Income Tax Law and Partnerships 699

CHANGES IN OWNERSHIP 701

Admission of a New Partner 702 / ISSUES: Reevaluation and Ownership Changes—Corporations and Partnerships 704 /. Admission by Investment 705 / Admission by a Purchased Interest 711 / Withdrawal or Death of a Partner 717 / ISSUES: Total versus Fractional Revaluation 719

SUMMARY 719
SELECTED READINGS 720
QUESTIONS 720

EXERCISES 721
PROBLEMS 731
ISSUES IN ACCOUNTING JUDGMENT 745

CHAPTER 15 PARTNERSHIPS: LIQUIDATION

PAGE 748

STATEMENT OF PARTNERSHIP LIQUIDATION 749

Liquidation Transactions 749 / ISSUES: Personal Liability of a Liquidation Officer 751 / Single-Step and Installment Distributions 751

SINGLE-STEP DISTRIBUTIONS 752

ISSUES: Limited and Unlimited Liability 752 / Debit Balances in Capital Accounts 752 / Insolvency and Distribution Priorities 754 / Liquidation of Insolvent Partnerships 755

INSTALLMENT DISTRIBUTIONS 756

A Two-Installment Distribution to Partners 756 / The Safe-Payment Calculation 756 / Installment Distribution Schedules 759

SUMMARY 763
QUESTIONS 763
EXERCISES 764
PROBLEMS 769

ISSUES IN ACCOUNTING JUDGMENT 777

CHAPTER 16
ACCOUNTING FOR
BRANCHES
PAGE 780

BRANCH ACCOUNTING SYSTEMS 781

ISSUES: Variations in Branch Accounting Systems 781

ACCOUNTING FOR BRANCH TRANSACTIONS 782

Branch Investment and Home Office Accounts 782 / Transfers from Home Office to Branch 783 / Branch Operating Transactions and Transfers to Home Office 787 / End-of-Period Reporting by Branch and Closing Procedures 787

PREPARATION OF COMBINED FINANCIAL STATEMENTS 790

Worksheet for Combined Financial Statements 790 / Combined Financial Statements 794

MERCHANDISE TRANSFERS BILLED IN EXCESS OF COST 794

ISSUES: Branch versus Home Office Margin 794 / Recording Merchandise Transfers from Home Office to Branch Billed in Excess of Cost 796 / Combination Worksheet when Merchandise Transfers are Billed in Excess of Cost 798

MULTIPLE BRANCHES 804

INTERBRANCH TRANSFERS 804

SUMMARY 805

QUESTIONS 805
EXERCISES 806
PROBLEMS 813
ISSUES IN ACCOUNTING JUDGMENT 823

PART FOUR

GOVERNMENTAL AND NONPROFIT ENTITIES

CHAPTER 17
ACCOUNTING FOR
GOVERNMENTS:
FUNDAMENTALS AND
THE GENERAL FUND

ACCOUNTING FOR GOVERNMENTS 827

ISSUES: Financial Reporting Objectives 828 / Accounting Standards for State and Local Governments 828 / Fund Accounting Systems 831 / Measurement and Recognition 833 / Budgets and Expenditures Control 839 / / ISSUES:
Appropriations and Expenditures 839 / Encumbrance Accounting 842

PAGE 826

ACCOUNTING FOR THE GENERAL FUND 845

Recording General Fund Budget 848 / Recording General Fund Revenues and Other Financial Sources 848 / Recording General Fund Encumbrances and Expenditures 853 / General Ledger Accounts and Closing Entries 856 / Financial Reporting for the General Fund 857

INTERFUND TRANSACTIONS 858

Quasi-External Transactions and Reimbursements 858 / Transfers 860 / Interfund Loans 861

ACCOUNTING FOR GRANTS, ENTITLEMENTS, AND SHARED REVENUES 863

SUMMARY 864
SELECTED READINGS 864
QUESTIONS 865
EXERCISES 866
PROBLEMS 877
ISSUES IN ACCOUNTING JUDGMENT 887

CHAPTER 18
ACCOUNTING FOR
GOVERNMENTS SPECIFIC
PURPOSE FUNDS,
ACCOUNT GROUPS, AND
ANNUAL FINANCIAL
REPORTING

PAGE 890

ACCOUNTING FOR SPECIAL REVENUE FUNDS 891

ACCOUNTING FOR CAPITAL PROJECTS FUNDS 891

Bond Premium and Discount 892 / Budgets and Encumbrances 892 / Recording Capital Projects Fund Transactions 892 / Financial Reporting for the Capital Projects Fund 897

ACCOUNTING FOR DEBT SERVICE FUNDS 898

Recording Debt Service Fund Transactions 899 / Financial Reporting for Debt Service Fund 903 / Accounting for Serial Bonds and Interest in Debt Service Fund 904

GENERAL FIXED ASSETS ACCOUNT GROUP 905

Classification of Fixed Assets 907 / Recording General Fixed Assets 907 / Financial Reporting for General Fixed Assets Account Group 907

GENERAL LONG-TERM DEBT ACCOUNT GROUP 907

Recording Transactions in the Long-Term Debt Account Group 910 / Financial Reporting for General Long-Term Debt Account Group 9/1

ACCOUNTING FOR PROPRIETARY FUNDS 911

Distinctive Aspects of Enterprise Funds 913 / Distinctive Aspects of Internal Service Funds 916

ACCOUNTING FOR SPECIAL ASSESSMENTS 917

Services Financed by Special Assessments 918 / Capital Improvements Financed by Special Assessments 918

ACCOUNTING FOR FIDUCIARY FUNDS 919

Recording Agency Fund Transactions 920 / Recording Trust Fund Transactions 921 / Financial Reporting for Nonexpendable and Expendable Trust Funds 924

ANNUAL FINANCIAL REPORTING 924

Level 1: General Purpose Financial Statements 926 / Level 2: Combining Statements by Fund Type 930 / Level 3: Individual Fund and Account Group Statements 931 / Level 4: Schedules 933 / ISSUES: Classification of Revenues and Expenditures 933

SUMMARY 934
SELECTED READINGS 935
QUESTIONS 938
EXERCISES 939
PROBLEMS 951
ISSUES IN ACCOUNTING JUDGMENT 963

CHAPTER 19
ACCOUNTING FOR
NONPROFIT
ORGANIZATIONS

ACCOUNTING STANDARDS FOR NONPROFIT ORGANIZATIONS 961

Historical Development 968 / The GAAP Hierarchy 968

PAGE 966

NONPROFIT ACCOUNTING PRACTICES 969

ISSUES: Revenue from Contributions 969

COLLEGES AND UNIVERSITIES 971

Fund Structure 971 / Accounting Methods of Colleges and Universities 972 / Accounting for College and University Current Funds 974 / Accounting for College and University Loan Funds 978 / Accounting for College and University Endowment and Similar Funds 978 / Accounting for College and University

ISSUES: Objectives, Revenues, and Governance of Nonprofit Organizations 967

Annuity and Life Income Funds 980 / Accounting for College and University Plant Funds 982 / Accounting for College and University Agency Funds 985 / Closing Entries for Funds Other Than Current Funds 985 / Annual Financial Statements of Colleges and Universities 990

HOSPITALS 990

Fund Structure 993 / Classification and Recognition of Hospital Revenues 993 / Classification of Operating Expenses 998 / Accounting for Hospital Unrestricted and Restricted Funds 998 / No Closing Entries for Restricted Funds 1007 / Annual Financial Statements of Hospitals 1007

VOLUNTARY HEALTH AND WELFARE ORGANIZATIONS 1010

Accounting Methods of Voluntary Health and Welfare Organizations 1010 / Fund Structure 1011 / Accounting for VHWO Funds 1013 / Annual Financial Statements 1013

OTHER NONPROFIT ORGANIZATIONS 1013

Accounting Methods of Other Nonprofit Organizations 1022 / Fund Structure 1023 / Annual Financial Statements 1024

SUMMARY 1025
SELECTED READINGS 1026
QUESTIONS 1028
EXERCISES 1029
PROBLEMS 1039
ISSUES IN ACCOUNTING JUDGMENT 1051

INDEX 1053