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SEVENTH EDITION

Advanced Financial Accounting

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Advanced Financial Accounting

Seventh Edition

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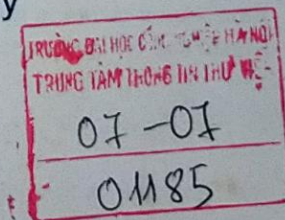
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ADVANCED FINANCIAL ACCOUNTING

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About the Authors

Richard E. Baker

Richard E. Baker is a member of the faculty at Northern Illinois University. His academic recognitions include being named the Ernst & Young Distinguished Professor of Accountancy at Northern Illinois University. In addition, he was recognized as an inaugural University Presidential Teaching Professor, the highest teaching recognition of his university. He received his B.S. degree from the University of Wisconsin—River Falls and his MBA and Ph.D. from the University of Wisconsin—Madison. His activities in the American Accounting Association have been continuous over many years and include serving on the AAA's Executive Committee as the Director of Education of the AAA; as a member of the AAA's Council as the Chair of the Teaching and Curriculum Section; and previously as the President of the Midwest Region. His lengthy service to the Federation of Schools of Accountancy (FSA) includes the offices of the President, the Vice President, and the Secretary. Many of his extensive professional or academic organization committee service efforts have involved research in assessing teaching and learning outcomes, designing innovative curriculum models, developing meaningful measurement criteria for evaluating accounting programs, and continually integrating new electronic technology into the accounting classroom. Professor Baker has served as an Associate Editor for *Issues in Accounting Education* and previously served as a reviewer for this journal for several years. He also has served as an Associate Editor of *Advances in Accounting Education*. He has received numerous teaching awards at both the undergraduate and graduate levels and has been selected as the Illinois CPA Society's Outstanding Accounting Educator. His most recent published research studies have concentrated on ways to make the learning/teaching experience as effective as possible. Other published research includes studies in financial reporting and mergers and acquisitions. Professor Baker's major teaching areas include advanced financial accounting, financial theory, and international business management. He is a CPA and has taught advanced financial accounting topics in CPA Examination review courses.

Valdean C. Lembke

Valdean C. Lembke has been a faculty member in the Department of Accounting at the University of Iowa for many years. He received his B.S. degree from Iowa State University and his MBA and Ph.D. from the University of Michigan. He has internal audit and public accounting experience. He has been active in the American Accounting Association, including service as President of the Midwest Region and Book Review Editor for *Issues in Accounting Education*. He was twice named recipient of the Gilbert P. Maynard Excellence in Accounting Instruction award. Professor Lembke has been actively involved in service to the Department of Accounting. He served two terms as department head and has been head of the Professional Program in Accounting. Professor Lembke has authored or coauthored articles in journals such as *The Accounting Review*; the *Journal of Accounting, Auditing and Finance*; the *Journal of Accountancy*; and the *Internal Auditor*. He also coauthored *Financial Accounting: A Decision-Making Approach*, an introductory accounting text, and a chapter on business combinations and consolidated financial statements in the *Accountant's Encyclopedia*. His teaching has been primarily in undergraduate and graduate coursework in financial accounting and in governmental and not-for-profit accounting. He has taught advanced financial accounting on a continuing basis.

Thomas E. King

Thomas E. King is a member of the faculty of the School of Business at Southern Illinois University Edwardsville. He received his B.S. degree from California State University, Northridge, and his MBA and Ph.D. from the University of California, Los Angeles. He is a CPA and received an Elijah Watt Sells Award and the Illinois gold medal for his scores on the Uniform CPA Examination. He has a number of years of business and consulting experience

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Cynthia G. Jeffrey is an Associate Professor of Accounting in the College of Business at Iowa State University. She received her B.S. and M.S. at Iowa State University and her Ph.D. from the University of Minnesota. She is a CPA and a member of the AICPA, the American Accounting Association, and the Canadian Academic Accounting Association. Professor Jeffrey received the Graduate Teaching Award from Iowa State University in 2005 and was recognized as Teacher of the Year in 2000. She was Director of the Master of Accounting program from its inception in 1999 until 2004. Professor Jeffrey has authored or coauthored articles in journals such as *The Accounting Review*, the *Journal of Accounting, Auditing and Finance*, *Business Ethics Quarterly*, *Behavioral Research in Accounting*, *The International Journal of Accounting*, the *Asia-Pacific Journal of Accounting*, and *Issues in Accounting Education*. Professor Jeffrey is the editor of *Research on Professional Responsibility and Ethics in Accounting*. She teaches both graduate and undergraduate courses and her major teaching areas are financial accounting, financial accounting theory, and international accounting.

Preface

The seventh edition of *Advanced Financial Accounting* is a comprehensive and highly illustrated presentation of the accounting and reporting principles used in a variety of business entities. Every day, the business press carries stories about the merger and acquisition mania, the complexities of modern business entities and new organizational structures for conducting business, accounting scandals related to complex business transactions, the foreign activities of multinational firms, the operations of governmental and nonprofit entities, and other topics typically included in advanced accounting. Accountants must know how to deal with the accounting and reporting ramifications of these issues.

OVERVIEW

The seventh edition of *Advanced Financial Accounting* continues to provide strong coverage of advanced accounting topics, as well as integrated coverage based on continuous case examples. The text is highly illustrated with complete presentations of worksheets, schedules, and financial statements so that students can see the development of each topic. The inclusion of all recent FASB and GASB pronouncements and the continuing deliberations of the authoritative bodies provides a current and contemporary text for students preparing for the CPA Examination and current practice. In the chapters covering consolidation subsequent to the date of combination, three alternative methods of accounting for the parent's investment in the subsidiary are presented in each chapter (basic equity) and appendices (cost and fully adjusted equity) to provide the opportunity for exploring the differences in the methods and seeing that the consolidated financial statements are the same regardless of the method the parent company uses to account for the investment. The chapters dealing with global operations include a comprehensive discussion of accounting for foreign currency derivatives and other financial instruments and arrangements used in today's business arena. The governmental and not-for-profit chapters include all recent important pronouncements and developments in those areas.

KEY FEATURES

The key strengths of this book are its clear and readable discussions of concepts and the detailed demonstrations of these concepts through illustrations and explanations. The many favorable responses to earlier editions from both students and instructors confirm our beliefs that clear presentation and comprehensive illustrations are essential to learning the sophisticated topics in an advanced accounting course. Key features of the seventh edition include:

- **A building block approach based on a strong conceptual foundation.** For each major topic area, students are provided with a thorough conceptual understanding before advancing to the procedures. The discussion begins with the fundamental concepts and why they are important. These fundamentals are then illustrated, giving students a basic example before progressing. Once this conceptual foundation is established, the complexities are layered gradually in successive steps. The authors developed this methodology through years of teaching advanced accounting. Many adopters have commented favorably on the effectiveness of this approach.
- **The use of a continuous case for each major subject matter area.** The comprehensive case of Peerless Products Corporation and its subsidiary, Special Foods Inc., has been continued in the for-profit chapters. For the governmental chapters, the Sol City case has been used to facilitate the development of governmental accounting and reporting concepts and procedures. Using a continuous case provides several benefits. First, students need only become familiar with one set of data and can then move more quickly through the subsequent discussions 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