



ADVANCED
ACCOUNTING

Fourteenth Edition

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Advanced Accounting

Fourteenth Edition

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ADVANCED ACCOUNTING, FOURTEENTH EDITION

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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. He is also a Robins Teaching Fellow. In 2015, he was the first recipient of the J. Michael and Mary Anne Cook Prize for undergraduate teaching. The Cook Prize is awarded by the American Accounting Association and “is the foremost recognition of an individual who consistently demonstrates the attributes of a superior teacher in the discipline of accounting.” In 2019, former students raised money to create an Accounting Teaching Fellowship, which will be renamed the “Joe Hoyle Accounting Teaching Fellowship” on his eventual retirement.” He has authored a book of essays titled *Tips and Thoughts on Improving the Teaching Process in College*, which is available at <https://facultystaff.richmond.edu/~jhoyle/documents/book-teaching-x.doc.pdf>. His blog, *Teaching—Getting the Most from Your Students*, at <http://joehoyle-teaching.blogspot.com/> was named the Accounting Education Innovation of the Year for 2013 by the American Accounting Association.



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Advanced Accounting 14e Stays Current

Overall—this edition of the text provides relevant and up-to-date accounting standards references to the Financial Accounting Standards Board (FASB) Accounting Standards Codification® (ASC).

Chapter Changes for *Advanced Accounting*, 14th Edition:

Chapter 1

- Added a new section on business motivations for making equity method investments emphasizing economic benefits of significant influence.
- Updated real-world references, with a new reference when an equity method investment is reduced to zero.

Chapter 2

- Three new business combinations are discussed in terms of motivations to combine Amazon–Whole Foods, Salesforce.com–MuleSoft, and Tesla–Grohmann.
- Updated real-world references.
- Added a Discussion Question addressing situations where an acquired entity is not a business.
- Added new end-of-chapter problems and three new cases.

Chapter 3

- Updated material on goodwill impairment to reflect ASU updates for ASC Topic 350, *Intangibles—Goodwill and Other*.
- Updated real-world references.
- Revised and expanded section on accounting for contingent consideration in periods subsequent to acquisition.
- Revised and added new end-of-chapter problems and cases.

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Chapter 4

- Introduced a table showing recent noncontrolling interest reported values by business entities.
- Updated real-world references.
- Revised and added new end-of-chapter problems and cases.
- Provided additional ASC citations on valuing noncontrolling interests and control premiums.
- Revised the section covering control premiums to provide additional focus on goodwill implications.

Chapter 5

- Streamlined and clarified the coverage for intra-entity gross profits in inventory and implications of the parent's investment accounting methods.
- Revised and added new end-of-chapter problems and cases.

Chapter 6

- Updated real-world references.
- Revised and clarified the section on accounting for variable interest entities including additional ASC citations. Revised the consolidation examples for variable interest entities (acquisition date and post-acquisition) by incorporating a management fee paid by the variable interest entity to the primary beneficiary.
- Revised several end-of-chapter problems.
- Revised examples and end-of-chapter problems for changes in federal corporate income tax rates from the *Tax Cut and Jobs Act* enacted in December 2017.

Chapter 7

- Revised and updated coverage of income taxes for business combinations for changes from the *Tax Cut and Jobs Act*.
- Updated real-world references.
- Revised/updated several end-of-chapter problems and cases to align with new tax regulations.

Chapter 8

- Updated references to actual company practices and excerpts from annual reports.

as the Accounting Profession Changes

- Changed the real-world companies used to demonstrate disclosure of geographic information in “Entitywide Information” and the seasonal nature of operations in “Interim Reporting.”
- Added an annual report excerpt related to the determination and aggregation of reportable segments.
- Added a paragraph on the recent SEC requirement to include a reconciliation of changes in stockholders’ equity in an interim report.
- Decreased the scope of the requirements in the two research cases at the end of the chapter.

Chapter 9

- Updated the chapter to reflect *Accounting Standards Update* (ASU) No. 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities,” which amends ASC Topic 815, Derivatives and Hedging.

This ASU requires an entity to present the income effect of the hedging instrument in the same income statement line item in which the income effect of the hedged item is reported. If an entity excludes certain portions of a hedging instrument’s change in fair value from the assessment of hedge effectiveness (a so-called excluded component), the ASU permits an entity to recognize the initial value of the excluded component in net income using (1) changes in the fair value of the excluded component or (2) a systematic and rational method (such as straight-line) over the life of the hedging instrument. Further, the ASU requires the income effect of an excluded component to be recognized in the same income statement line item in which the income effect of the hedged item is reported.

- Introduced the concept of forward points in describing foreign currency forward contracts.
- Added a timeline in “Hedges of Foreign Exchange Risk” to illustrate how the various hedges differ in terms of timing.
- Added a subsection to the discussion on “Hedge Effectiveness” to cover issues relating to the “Exclusion of Components from Hedge Effectiveness Assessment.”
- Changed the hedge examples to exclude the forward points on a forward contract and the time value of an option from the assessment of hedge effectiveness whenever possible. In allocating the excluded components to net income, the examples consistently use

a straight-line amortization approach for forward points on a forward contract and the change in fair value approach for the time value of an option.

- Changed the name of the fictitious company in the hedge examples to Eximco and the example currency to British pounds to signal that examples have been changed.
- Deleted reference to the effective interest method for allocating forward points to net income, as well as the comparison of the effective interest versus straight line methods of allocation.
- Revised the hedges examples, for simplicity, to ignore discounting to present value in determining the fair value of forward contracts and firm commitments.
- Changed the journal entries in the hedge examples so that all gains and losses related to foreign currency denominated assets and liabilities, firm commitments, forward contracts, and options are recognized in a single income statement line item titled “Foreign Exchange Gains and Losses.”
- Changed the journal entries in the hedge examples so that those entries that are ultimately reflected in accumulated other comprehensive income are first debited or credited to an “Other Comprehensive Income (OCI)” account rather than to “Accumulated Other Comprehensive Income (AOCI).”
- Revised the facts and instructions in most of the end-of-chapter problems dealing with hedges to be consistent with changes made in the chapter. Also, changed company names in revised problems to signal that these problems have been changed.
- Updated real-world references including examples of company practices, excerpts from annual reports, and foreign exchange rates.

Chapter 10

- Updated information about countries currently meeting the definition of highly inflationary economy.
- Changed the hypothetical exchange rates used in the Swissco example (“The Translation Process Illustrated”) to be more consistent with the current U.S. dollar/Swiss franc exchange rate. Changed the hypothetical exchange rates and U.S. dollar amounts in Exhibits 10.4–10.9 accordingly.
- Expanded the discussion related to hedging balance sheet exposure and added a numerical example demonstrating the accounting related to a hedge of a net investment.

- Updated real-world references including examples of company practices and excerpts from annual reports.
- Changed the foreign currency in several end-of-chapter problems to eliminate the use of nonexistent currency names.
- Revised the facts in an end-of-chapter problem related to a hedge of a net investment.
- Changed one of the companies included in the requirements for the second research case at the end of the chapter.

Chapter 11

- Updated real-world references including excerpts from annual reports.
- Introduced the nomenclature “IFRS Standards” now used by the IASB when referring to its standards.
- Updated exhibits listing IFRS Standards and countries’ use of IFRS Standards.
- Updated information on the use of full IFRS and *IFRS for SMEs*.
- Updated CPA exam coverage of IFRS based upon the AICPA’s 2018 CPA exam blueprints.
- Updated the discussion and exhibit related to differences between IFRS and U.S. GAAP.
- Deleted the section related to gain on sale and leaseback from the comprehensive illustration.
- Added a question to the end-of-chapter material.
- Deleted end-of-chapter problems related to gain on sale and leaseback.
- Revised the end-of-chapter second analysis case to replace the requirement related to gain on sale and leaseback with convertible bonds.
- Replaced the end-of-chapter research case related to “Reconciliation to U.S. GAAP” with a case focusing on “Differences between IFRS and U.S. GAAP.”

Chapter 12

- Added new section on *SEC Content in the FASB’s Accounting Standards Codification® (ASC)*.
- Added new section on *SEC and PCAOB Fees and Budgets*.
- Added discussion of Regulation FD (Fair Disclosure) and its effect on disclosures in Form 8-K.

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- Added discussion of expanded reporting requirements requiring greater use of real-time disclosures for material changes in their financial condition or operations between periodic 10-K and 10-Q filings on Form 8-K, which were enacted as rules to implement the Sarbanes–Oxley Act.
- Updated SEC data on filing fees.
- Updated web references as necessary.

Chapter 13

- Revised references to include companies that have recently experienced bankruptcy such as Sears Holdings, Nine West, Claire’s, Bon-Ton, Brookstone, and Rockport.

Chapter 14

- Revised and updated coverage of the tax implications of partnership for changes from the *Tax Cut and Jobs Act*.
- Updated real-world references.
- Updated several end-of-chapter problems.

Chapter 15

- Added two learning objectives related to (1) preparing a statement of partnership liquidation and (2) calculating safe payments.
- Made “Partnership Liquidation Procedures,” “Statement of Partnership Liquidation,” and “Deficit Capital Balances” major headings.
- Moved the “Two Partners with Deficit Capital Balances” example to the “Deficit Capital Balances” section.
- Renamed “Statement of Liquidation” as “Statement of Partnership Liquidation.”
- Reorganized “Safe Payments to Partners” as a major section with a new, related learning objective.
- Deleted the subsection on “Insolvent Partnership.”
- Relabeled the section on “Installment Liquidations” as “Preliminary Distribution of Partnership Assets.”
- Made “Predistribution Plan” a major heading.
- Deleted an end-of-chapter question related to the Uniform Partnership Act and revised a question related to safe payments.

- Revised requirements in several end-of-chapter problems to require preparation either of a statement of partnership liquidation, proposed schedule of liquidation, or predistribution plan.
- Replaced a multi-part problem with a problem requiring preparation of a proposed schedule of liquidation.
- Deleted the Research Case.
- Replaced the previous Analysis Case with a new case.
- Replaced the previous Communication Case with two new cases.

Chapter 16

- Updated numerous references to the financial statements of a wide variety of state and local governments such as the City of Portland, the City of Phoenix, the City of Greensboro, and the City of Las Vegas.
- Discussed the ongoing evolution of U.S. GAAP to highlight GASB's release of two Preliminary Views documents, *Financial Reporting Model Improvements* and *Recognition of Elements of Financial Statements* that could eventually create significant changes in state and local government accounting.

Chapter 17

- Provided coverage of new pronouncement: *GASB Statement No. 87, "Leases,"* including comparison with *FASB Accounting Standards Update No. 2016-02, "Leases."* The two authoritative groups take significantly different approaches to the reporting of lease contracts.
- Rearranged chapter coverage to increase emphasis on the reporting of defined benefit pension plans to highlight the risk of such large government obligations.

- Updated references to the financial statements of state and local governments such as the City of Los Angeles, the City of Chicago, the City of Orlando, the City of Cincinnati, and the City of Boston.

Chapter 18

- Rewrote significant sections of the chapter as a result of *Accounting Standards Update 2016-14, Presentation of Financial Statements for Not-for-Profit Entities*, (released in August 2016) and *Accounting Standards Update 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (released in June 2018).
- Described new reporting rules that require a not-for-profit (NFP) entity to classify its net asset total as either with donor restrictions or without donor restrictions.
- Examined the difference between an exchange transaction and a contribution based on *Accounting Standards Update 2014-09, Revenues from Contracts with Customers*.
- Identified conditional contributions and discussed the reporting of conditional contributions versus unconditional contributions.
- Explained other new NFP reporting changes such as for the statement of cash flows as well as the disclosure of functional expenses and the entity's expected method of handling liquidity issues.

Chapter 19

- Updated tax code references, numbers, and statistics.
- Included coverage of the Tax Cuts and Jobs Act of 2017.
- Revised web links in footnote references as appropriate.
- Revised end-of-chapter material reflecting changes from the chapter.

Students Solve the Accounting Puzzle

The approach used by Hoyle, Schaefer, and Douppnik allows students to think critically about accounting, just as they will in their careers and 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, 14e*.

Thinking Critically

With this text, students gain a well-balanced appreciation of the accounting profession. As *Hoyle 14e* introduces them to the field's many aspects, it often focuses on past controversies and present resolutions. The text shows the development of financial reporting as a product of intense and considered debate that continues today and will in the future.

Readability

The writing style of the 13 previous editions has been highly praised. **Students easily comprehend** chapter concepts because of the conversational tone used throughout the book. The authors have made every effort to ensure that the writing style remains engaging, lively, and consistent.

EXHIBIT 2.1
Recent Notable Business
Combinations

Acquirer	Target
AT&T	Time-Warner
Walt Disney	21st Century Fox
CVS Health	Aetna
Cigna	Express Scripts
Walmart	Flipkart
Amazon	Whole Foods
Conagra	Pinnacle Foods
Celgene	Juno Therapeutic
Diamondback Energy	Energen
General Mills	Blue Buffalo
Microsoft	GitHub
Salesforce.com	Mulesoft
Verizon	Yahoo
Pepsico	SodaStream Inter
Tyson	Keystone Foods
Tesla	Grohmann Engine

Real-World Examples

Students are better able to relate what they learn to what they will encounter in the business world after reading these frequent examples. Quotations, articles, and illustrations from *Forbes*, the *Wall Street Journal*, *Time*, and *Bloomberg BusinessWeek* are incorporated throughout the text. Data have been pulled from business, not-for-profit, and government financial statements as well as official pronouncements.

Discussion Question

DOES GAAP UNDERVALUE POST-CONTROL

In Berkshire Hathaway's 2012 annual report, Warren control step acquisitions of Marmon Holdings, Inc., of

Marmon provides an example of a clear and su value and intrinsic value. Let me explain the odd

Last year I told you that we had purchased ac ownership to 80% (up from the 64% we acquire

Discussion Questions

This feature **facilitates student understand- ing** of the underlying accounting principles at work in particular reporting situations. Similar to minicases, these questions help explain the issues at hand in practical terms. Many times, these cases are designed to demonstrate to students why a topic is problematic and worth considering.

with 14th Edition Features



McGraw-Hill has partnered with Roger CPA Review (Powered by UWorld), a global leader in CPA Exam preparation, to provide students a smooth transition from the accounting classroom to successful completion of the CPA Exam. While many aspiring accountants 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 Roger CPA Review multiple choice questions supported by explanations written by CPAs focused on exam preparation. McGraw-Hill 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.

End-of-Chapter Materials

As in previous editions, the end-of-chapter material remains a strength of the text. The sheer number of questions, problems, and Internet assignments test and, therefore, **expand the students' knowledge** of chapter concepts.

Excel Spreadsheet Assignments extend specific problems and are located on the 14th edition Instructor Resources page, with template versions that can be provided to students for assignments. An Excel icon appears next to those problems that have corresponding spreadsheet assignments.

“Develop Your Skills” asks questions that address the four skills students need to master to pass the CPA exam: Research, Analysis, Spreadsheet, and Communication. An icon indicates when these skills are tested.

Comprehensive Illustration (Estimated Time: 45 to 65 Minutes) The following Richmond Company as of December 31. The fair values are also listed.

Problem

	B
Cash	\$
Receivables	

Develop Your Skills

FASB ASC RESEARCH AND ANALYSIS CASE—CONSIDERATION OR COMPENSATION?

CPA skills

AutoNav Company agrees to pay \$20 million in cash to the owners of Easy-C. The owners of Easy-C have been monitoring traffic patterns on the nation's top 20 websites and have developed a new technology that will allow them to track website traffic patterns on the nation's top 20 websites.

Questions

1. What is a business combination?
2. Describe the concept of a synergy. What are some examples of possible synergies in business combinations?
3. Describe the different types of legal arrangements that can take place to create a business combination.
4. What does the term *consolidated financial statements* mean?
5. Within the consolidation process, what is the purpose of a worksheet?
6. Jones Company obtains all of the common stock of Hudson, Inc., by issuing 50,000 shares of its own stock. Under these circumstances, why might the determination of a fair value for the consideration transferred be difficult?
7. What is the accounting valuation basis for consolidating assets and liabilities in a business combination?
8. How should a parent consolidate its subsidiary's revenues and expenses?
9. Morgan Company acquires all of the outstanding shares of Jennings, Inc., for cash. Morgan transfers consideration more than the fair value of the company's net assets. How should the payment in excess of fair value be accounted for in the consolidation process?
10. Caron Corporation is having liquidity problems, and as a result, it sells all of its outstanding stock for cash. Caron's owners are unable to pay this amount.

Problems

LO 2-1

LO 2-2

1. Which of the following does not represent a characteristic of a business combination?
 - a. Combinations are often a vehicle to achieve synergies.
 - b. Cost savings can be achieved through combinations.
 - c. Synergies may be available through combinations.
 - d. Larger firms are less likely to fail.
2. Which of the following is the best theoretical justification for a business combination?
 - a. Larger firms are less likely to fail.
 - b. Synergies may be available through combinations.
 - c. Cost savings can be achieved through combinations.
 - d. Combinations are often a vehicle to achieve synergies.

Connect Accounting for *Advanced Accounting*, 14e

The 14th edition of *Advanced Accounting* has a full Connect package, with the following features available for instructors and students.

- **SmartBook®** is the market-leading adaptive study resource that is proven to strengthen memory recall, increase retention, and boost grades. SmartBook 2.0 identifies and closes knowledge gaps through a continually adapting reading and questioning experience that helps students master the key concepts in the chapter. SmartBook 2.0 is the latest version of SmartBook, with key updates to: improve accessibility, provide mobile functionality, allow a more granular level of content selection, and provide the ability to assign Recharge activities.
- The **End-of-Chapter Content** in Connect provides a robust offering of review and question material designed to aid and assess the student's retention of chapter content. The End-of-Chapter content is composed of both static and algorithmic versions of the problems in each chapter, which are designed to challenge students using McGraw-Hill Education's state-of-the-art online homework technology. Connect helps students learn more efficiently by providing feedback and practice material when and where they need it. Connect grades homework automatically, and students benefit from the immediate feedback that they receive, particularly on any questions they may have missed.

Example of Connect End-of-Chapter Problem

Prepare a consolidated balance sheet for Pratt and Spider as of December 31, 2021.

Auto-gradeable

PRATT COMPANY AND SUBSIDIARY Consolidated Balance Sheet December 31, 2021			
Assets		Liabilities and Owners' Equity	
Cash			
Total assets		Total liabilities and equities	

- The **Test Bank** for each chapter has been updated for the 14th edition to stay current with new and revised chapter material, with all questions available for assignment through Connect. Instructors can also create tests and quizzes with Test Builder, a cloud-based tool available within Connect that formats tests for printing or for administering within an LMS.
- The **Instructor and Student Resources** have been updated for the 14th edition and are available in the Connect Instructor Resources page. Available resources include Instructor and Solutions Manuals, PowerPoint presentations, Test Bank files, Excel templates, and Chapter Check Figures. All applicable Student Resources will be available in a convenient file that can be distributed to students for classes either directly, through Connect, or via courseware.

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- Tom Stober of the University of Notre Dame for his contribution to Chapter 12 and Stacie Hughes of Athens State University for her contributions to Chapter 19 and corresponding Solutions Manual files.
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"I really liked this app—it made it easy to study when you don't have your textbook in front of you."

- Jordan Cunningham,
Eastern Washington University



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