



Advanced Financial Accounting, 12e

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CHAPTER-BY-CHAPTER CHANGES

Microsoft

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 **Kraft Foods Inc.** example in the introductory vignette.

Berkshire Hathaway

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 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 well-known collapse of **Enron Corporation**. 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.

Disney

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 illustrated in the appendix to the chapter.

Berkshire Hathaway Inc.

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.

Alphabet

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.

Microsoft

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.

McDonald's

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.

Walmart

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.

PricewaterhouseCoopers

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.

Laventhol & Horwath

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 government wide financial statements. We have lightly revised the chapter topics that are 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 made light revisions and updated the callout boxes illustrating the real-world application of topics discussed in the chapter by well-known not-for-profit entities.

Chapter 20 introduces our final topic of corporations in financial difficulty by illustrating **General Motors Corporation** 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.