



Accounting

for Corporate
Combinations and
Associations

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Preface

The aims of this book are to explain, illustrate and evaluate the methods used to account for investments in other entities and contractual arrangements in the form of joint operations. A major focus of the book is on the process of consolidation and related accounting issues that are associated with the process of preparing financial statements for larger entities and groups, including the preparation of information related to operating segments. In accounting for larger groups, the accountant will need to have an understanding of the measurement of assets and liabilities at fair value acquired and assumed as part of a business combination (including goodwill), the measurement methods of non-controlling interest in subsidiaries, the treatment of transactions between members of a group and the translation of the financial statements of foreign operations.

The issues covered in this book are thus of particular relevance in the modern business environment where economic activity is increasingly dominated by large corporate groups. These groups frequently form strategic alliances with other corporations, groups or government entities that can take a range of forms, including joint arrangements. With the continuing trend towards the globalisation of business, accounting for the effects of exchange rate changes is becoming increasingly relevant to accounting practitioners. Also, an understanding of the impact of exchange rate changes on income, financial position and cash flows is important for those involved in financial analysis.

The book is also suitable for students in undergraduate and postgraduate accounting courses and for candidates for professional accounting qualifying examinations (in particular the CPA Australia or CA programs). An understanding of the topics covered in the book is relevant not only to those intending to pursue a career in accounting, but also to those intending to pursue a career in banking, investment advice and finance or wealth management to assist in evaluating investment decisions and providing investment advice.

The book is structured as follows. The first part of the text (Chapters 1–7) explains the issues and techniques relevant to consolidation accounting including:

- Identification of subsidiaries that are part of the group with specific reference to the application of the criterion of ‘control’.
- Issues in accounting for business combinations including the measurement of goodwill (or bargain purchase gain) associated with a business combination, and fair value issues in relation to an acquiree’s assets and liabilities.
- The inputs, processes and outputs of consolidation accounting.
- Intragroup transactions.
- Measurement and disclosure of non-controlling interests.
- Consolidation of multiple subsidiaries.
- Preparation of the consolidated statement of cash flows.

The second part of the book (Chapters 8–11) covers related accounting issues that are commonly faced by accountants preparing accounts for larger entities and groups including:

- Accounting for investments in associates and joint arrangements.
- Translation of foreign currency financial statements.

- Accounting for joint arrangements.
- Segment reporting by diversified groups and entities.

As in previous editions of the book, the sequence of the material and the content of the individual chapters are designed to provide a text that provides instructors with maximum flexibility. This will allow the book to be used without loss of continuity in courses that omit certain topics covered in the text. For example, if an instructor chooses to omit the chapter on consolidated cash flow statements from course materials, the subsequent chapters, such as the translation of foreign currency financial statements, will link to the earlier material covered by students. The current edition is now significantly updated for changes in accounting standards that have occurred since the 7th edition was written. The text is based on the revised suite of standards, including AASB 10, 11, 12, 127 and 128, that applied to investments in subsidiaries, associates, joint arrangements and other investments as at 31 December 2015. Amendments made to IFRS 10, 11 and 12 and IAS 27 and 28 in 2014 are therefore also reflected in the book. As well as these changes, the examples used in the text have been revised and updated for the impact of the myriad other changes that are relevant to the preparation of financial statements, including changes to AASB 101, *Presentation of Financial Statements*, as well as recent amendments to AASB 9, *Financial Instruments*.

Over time, the number of differences between Australian accounting standards and IFRS has become fewer, as have the number of differences between US GAAP and IFRS. A new feature in this 8th edition of the book is a description of the differences between the requirements of IFRS (and Australian GAAP) and US GAAP. Some of these differences referred to in the book, for example the fair value option in accounting for associates under US GAAP, create potential issues for class discussion and opportunities for students to reflect on alternate approaches.

The book retains some of the key features of previous editions that have made the book popular with both students and instructors. The book includes extensive reference to relevant accounting research to assist students to see the links between research, standards and practice. To cater for students with different learning styles, diagrams have been incorporated in the text to illustrate the main ideas and concepts. In addition, the detailed explanations and comprehensive examples provided in the book cater for the increasing number of students studying in 'blended learning' or 'flipped classroom' contexts.

A key feature of the answers to the end-of-chapter exercises is the extensive use of Excel spreadsheets, which enable students to check not just the numbers in the answers, but more importantly the formulas used to calculate the numbers. This facilitates the understanding of the structure of the worksheets. This allows the instructor to show how the changes in one variable, such as the cost of acquisition, affect other variables such as goodwill.

The chapters in the book include examples that progress from relatively simple examples through to explorations of complex practical issues. By introducing the main ideas and methods, the book allows students to develop an understanding of the more complex issues and methods that represent an extension of the methods used to account for simpler examples. This approach also allows instructors the flexibility of omitting some of the more advanced issues dealt with in separate sections at the end of most chapters.

We hope that this book proves a valuable resource for students and instructors and encourage feedback from all users.



Educator Resources

A suite of resources is provided to assist with delivery of the text, as well as to support teaching and learning. These resources are downloadable from the Pearson website: www.pearson.com.au.

SOLUTIONS MANUAL

The Solutions Manual provides educators with detailed, accuracy-verified solutions to the end-of-chapter problems in the book.

TEST BANK

The Test Bank provides a wealth of accuracy-verified testing material. Updated for the new edition, each chapter offers a wide variety of true/false and multiple-choice questions, arranged by learning objective and tagged by AACSB standards.

POWERPOINT LECTURE SLIDES

A comprehensive set of PowerPoint slides can be used by educators for class presentations or by students for lecture preview or review. They include key figures and tables, as well as a summary of key concepts and examples from the text.

DIGITAL IMAGE POWERPOINT SLIDES

All the figures and tables from the text are available for lecturer use.