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ACCT 312.01: Intermediate Accounting II

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ACCT 312 – Spring 2004

Office hours: TR 1-3:30, W 9-11:45
also by appointment

Note: Office hours may change sometimes

<u>Date</u>	<u>Reading</u>	<u>Assignment</u>
Jan. 27		Introduction
29	5(218-230) & Appendix 5	Q5-16; P5-2*
Feb. 3	5(230-243)	P5-4*+
5	13(616-643)	NO CLASS, read Chapter 13 and start on homework due next time.
10	13(616-643)	Q13-8,13;E13-2,10,11; C13-16: and Attached Subsequent Event Problem
12	12(570-586)	E12-8*; P12-4*
17	12(570-586)	E12-6*; P12-3*
19	12(587-598) & Appendix 12A	E12-16 ;P12-7 ;Attached CSV Prob
24	Exam I	- - -
26	14*(664-679)	E14-3; P14-1,4
Mar. 2	14*(664-679) & Handout Bond Amortization Tables	E14-7*,11
4	14*(684-688) & Part C	P14-19; C14-10*
9	14(679-684) & Appendix 14	E14-15,16; P14-20
11	15(714-724)	E15-1*,2*
16	15(724-730)	E15-4,5,6; P15-3
18	15(730-743)	Attached Lease Problem A+ and B+
23	15(743-751) & Part D	Q15-13,16; E15-25,26
25	Exam II	- - -
March 29-April 2	Spring Break	- - -
April 6	19(936-953)	Q19-1,4,7; E19-3*,4*,5
8	19(953-959)	P19-2(Part 1), P19-3(Part 1)*; E19-10
13	19(959-970)	E19-20;P19-5+; Attached Stk Divid /Split Problem
15	Appendix 19A + Handout on Pref. Dividend Examples	P19-13; Attached Preferred Dividend Problem+
20	20(Part A) + EPS Chart & WACSOS Handouts	E20-6,7; P20-4*
22	20(Part B) & EPS Process Handout	E20-13; Attached EPS Share Problem A.
27	20(Part C)	Handout EPS Problems 1, 2+, 3+
29	22*, Appen. 22B, & CFS Process Handout	Handout Problems 22-32* and 22-33*
May 4	22* & Handout materials	Completely redo United Brands Corp. (pgs. 1089-1107) using T-account method. *+
6	22*	Problem 22-11* +
Final Week - Exam III	Section 1 Wednesday, May 12, 8-10:30 AM	
	Section 2 Thursday, May 13, 8-10:30 AM	

- **Key:** *Additional information is attached and + problem is worth more credit
- Last day to drop is March 9. No drops will be signed after this date. (NOTE: This date is too late for a refund.)
- **Basic grading standards:** 90% for an A, 80% for a B, 70% for a C, and 60% for a D.

- Homework points are based on homework turned in and credit received as a percent of total points received on all homework collected. For example, if you get credit for 80% of the homework, you will get 40 points (50 x 80%).
- **Incompletes** are not given for failing grades. See the university catalog for the conditions under which an incomplete may be given.
- There are **no makeup exams** unless you contact me in advance and I agree to an alternative. Makeup exams will be given before everyone else takes the exam, not after. Few makeup exams will be given.
- There are **no extra assignments** to improve grades
- Homework will be collected daily. No late homework will be accepted unless I decide the reason is sufficient. **The syllabus and/or homework assignments may change with advance notice either in class or by e-mail. You are responsible for all changes. No credit will be given on homework or exam problems unless all calculations are shown and labeled. If pages assigned don't correspond exactly with homework assigned, keep reading until you cover the homework material.**

Additional Information

P5-2 Do the problem in the book. a) The problem asks for the balance in the Realized Gross Profit account at the end of each year. Also give the balance in the Deferred Gross Profit account at the end of each year for the installment method and the cost recovery method. b) Finally, assume that all the clients said they refused to make any more payments, so on Jan. 3, 2005, all the inventory was repossessed. At that time the inventory only had a value of \$100,000. Give the entry to record this repossession on 1/3 /05 for the installment method and the cost recovery method. Hint: There is an example of this in the chapter.

P5-4 Also do closing entries.

E 12-8 In addition to the requirements in the book: 1) Include closing entry(s) for 2003. 2) Complete the exercise from the book. Then, instead, assume that Grocers was not sold on January 5, 2004. Assume that it was held until March 15, 2004 and was reclassified as an available for sale security. Do the entry for each assumption.

- a) the market value for Grocers was \$5 per share
- b) the market value for Grocers was \$3 per share

P12-4 Note that the problem includes information about gains, losses, and investment revenue that happened during the year before you started doing entries in December. You need to include this info to do Part 2. Setting up T-accounts and posting to them will help.

E12- 6 In addition to the requirements in the book: 1) Include closing entry(s) for 2003. 2) Assume that on March 5, 2004, the Platinum Gauges shares were reclassified as trading securities. Do the entry for each assumption.

- a) the market value for Platinum was \$35 per share
- b) the market value for Platinum was \$25 per share

P12-3 Also do closing entry(s) for 2003. And there is an error in the problem. It says no investments were held by Ornamental at 12/31/**03**. They mean at 12/31/**02**. As you can see, after you do the entries for 2003, there certainly will be investments at year end.

Chapter 14 – Ignore the examples of straight line amortization on page 677.

E14-7 Do prepare an amortization schedule for the first four years of the bond.

C14-10 Review Part B of Chapter 5 before you do this case. Note that the case provides two years of information.

E15-1 Do all the entries for both years.

E15-2 Do entries for all three years for Winn and the lessor. Also, assume the cost of the building to Winn was \$510,000.

E19-3 Note that this exercise continues to the next page in the book.

E19-4 Assume the market value of the stock is \$9 per share for the entire year.

P19-3 Note that the problem is already in millions of dollars, so don't do millions on top of that as book indicates.

P20-4 Assume stock dividend was given on May 1, not May 15.

Chapter 22 – Do **all** homework using the T-account method instead of the spreadsheet method. Also, it would be very helpful if you reviewed the information in Part B of Chapter 4. This gives a very good listing of what belongs in each Cash Flow Statement section.

22-32 and 22-33 Do all entries. Post to T-accounts. Do a proper Cash Flow Statement.

Chapter 22 – United Brand Corp. problem. Redo all the entries yourself according to the process I gave you. Post to the T-account sheets that were given to you. Check to see if your overall work would have resulted in the Cash Flow Statement on page 1080.

P22-11

1) On the Balance Sheet – Accounts Receivable and the Allowance account are shown as separate accounts in this problem. And, on the Income Statement, there is a Bad Debt Expense account. In the first entry you do with A/R and Sales, you must also now include the Allowance and Bad Debt Expense accounts. See the entry in the green box on page 1096.

2) Treat the tax savings on the loss as a separate account called Tax Savings.

In the Additional Information section

- Item a. needs no entry since you ‘took care’ of the Allowance account and A/R in your first entry. Again, see the info in the green box on page 1096.
 - The entry for item c. is to debit cash from operating activities and credit gain. We will discuss this in class.
 - Ignore item e. for now. It is much easier to take care of the Deferred Income Tax Liability account when you do the entire income tax summary entry. Also, when doing the income tax summary entry do not forget the tax savings on the loss. So, the income tax summary entry will include the following accounts: income tax payable, Deferred Income Tax Liability, income tax expense, the tax savings account and, of course, cash to make it all balance.
- 3) Do not take time to try to do the indirect method for this problem.

Points

450	3 Midterm Exams (each worth 150 points)
30	2 cases (each worth 15 points)
50	Homework
530	Total points

Case Assignments – FOLLOW DIRECTIONS

I will assign teams of three during class on January 29. (If one of your partners drops the class, you will just have a team of two members. If two of your team members drop, I will assign you to another group.) You may not change team members. You must complete two cases before the semester is over. Each case is worth 15 points. Choices are noted below. Read the case. Type a response to the requirements in the case. Handwritten information will be ignored. All team members must sign a paragraph stating what **percent** of work each did on each case. For this, there must be individual signatures, not a typed name. Scores will be assigned accordingly. Turn the case in the regular class period immediately following the chapter in which you did the case. (For example, if you chose Case 12-1, it is due by class time on February 26, the first regular class day after Chapter 12. C14-8 would be due by class time on March 11, etc.) Late cases won't count. Everything will be graded including typos, writing skills, neatness, completeness, **comparison to other cases received**, as well as appropriate thoughtfulness in the answers. Cases will be graded 0-15 points. Just turning a case in will not earn points if it is not good. Only very good cases will earn all 15 points. No exceptions to the above guidelines will be made.

- I am not a resource for these cases. The assignments will be graded on your own teamwork and your joint attempt at a good answer in comparison to the other cases I get on that same topic.
- Use the information from the chapter to discuss the cases. Each case is attached to a chapter that relates to the topic in the case.

Here is a list of the cases that are eligible for assignments: C 12-1, C14-8 (note that this one continues on the next page), C15-6, C19-2, C20-1

Free Points - Get an e-mail address if you don't have one. Send your address to me via e-mail by 4PM on February 3. YOU WILL BE GIVEN 5 'FREE' POINTS IF YOU DO THIS BY THE DEADLINE. I will send you class information via e-mail, so you should check your e-mail several times a week. My e-mail address is on the top of the front of this syllabus.

Textbook: *Intermediate Accounting*, Third Edition, Spiceland, Sepe, Tomassini, Irwin McGraw-Hill, 2004.

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SUBSEQUENT EVENT PROBLEM **Chapter 13**

Zippy Company's year ends on December 31, 2002 and the company issues its financial statements on the following February 1, 2003. Below are some events that occurred during 2003. Indicate the appropriate treatment for each of the events in Zippy's financial statements for **2002**.

- Jan. 3 Sale of common stock
- 10 Wrote off an account receivable after finding out that one of Zippy's customers went bankrupt. The bankruptcy litigation was in progress at the end of 2002.
 - 14 A rain storm created a huge flood that destroyed one of Zippy's warehouses.
 - 18 Negotiated and purchased a new line of business in January. The papers were signed today.
 - 21 Purchased inventory
 - 22 Wrote off an account receivable because one of Zippy's customer's lost his business when it was destroyed by an earthquake in mid-January.

CASH SURRENDER VALUE HOMEWORK PROBLEM **Chapter 12**

On January 2, 1998, Filbert Company insured its president with a \$100,000 face-value insurance policy with Filbert as the beneficiary. Premiums are \$1,900 per year and are payable each January 2, beginning in 1998. The cash surrender value after each of the three payments is as follows:

Cash Surrender Value

Jan. 2, 1998	-0-
Jan. 2, 1999	\$300
Jan. 2, 2000	\$650

Filbert makes each payment at the beginning of the year and that is when the CSV accrues to the company. So, at each payment date, Filbert debits the Prepaid Expense account and the CSV account and then adjusts the Prepaid account each December 31, the end of its financial reporting period.

- 1) Prepare all general journal entries required for this insurance policy from January 2, 1998, through December 31, 2000.
- 2) Assume that the president dies on March 15, 2000. Give the appropriate entry for Filbert.
- 3) Instead, assume the president retires on March 15, 2000. Give the appropriate entry for Filbert.

LEASE PROBLEM A

Chapter 15

- Lessor's cost of the leased asset is \$30,000.
- Lease term is 4 years starting January 1, 2001.
- Estimated useful life of the leased asset is 6 years. Estimated residual value at the end of the 6 years is zero.
- It is estimated that on December 31, 2004, the residual value of the leased asset will be \$4,000 and the lessee has agreed to guarantee this amount.
- The lease has a purchase option of \$4,500 at the end of the lease term.
- Straight-line depreciation is used by both parties.
- Lessee's incremental borrowing rate is 12%. The lessor's implicit rate is 16% and the lessee knows this.
NOTE: PV1, 4p, 16% = .55229; PVOA, 4p, 16% = 2.79818; PVAD, 4p, 16% = 3.24589
- Title does not transfer unless the purchase option is used.
- Sales price of the leased asset on January 1, 2001 is \$40,000.
- Lessor has no unreimbursable cost uncertainties and collectibility is expected so both additional lessor criteria have been met.
- Four annual lease payments are due on January 1 of each year during the lease term, and the first payment of \$12,643 is due at the inception of the lease term. Each \$12,643 payment includes executory costs of \$1,000. **NOTE:** executory costs are not part of minimum lease payments and are not present valued. So, the lease payments themselves are \$11,643 per year. The additional \$1,000 is a period cost and expensed immediately. See example present value table format below.
- The accounting year ends on Dec. 31 for both parties.

PV table format when executory costs exist.

<u>Date</u>	<u>T. payment</u>	<u>Executory cost</u>	<u>Lease payment</u>	<u>Interest</u>	<u>Principal</u>	<u>Balance</u>
1/1/1/01	\$12,643	\$1,000	\$11,643	(rate X previous balance)	(based on \$11,643 less interest)	(previous balance less principal)

Round all work to the nearest dollar for this problem.

1. What type of lease is this to the lessee? To the lessor? Show your work for each answer. Do a complete amortization table for both parties. Note: they will not be the same table.
2. Do the entry or entries for the lessee at January 1 and Dec. 31, 2001.
3. Do the entry or entries for the lessor at January 1 and Dec. 31, 2001.

LEASE PROBLEM B

Chapter 15

- Lessor leased a crane to Lessee for 6 years beginning on January 1, 2000. Each payment is \$43,329 and the first payment is made on Dec. 31, 2000.
 - Cost of the crane to the lessor was \$150,000.
 - Estimated useful life of the crane is 10 years and the estimated residual value at the end of the 10 years is \$10,000.
 - Selling price of the crane is \$200,000.
 - There is no title transfer and no bargain purchase option in the lease.
 - Estimated residual value at the end of the lease term is \$20,000 and it is not guaranteed by any party.
 - Lessee's incremental borrowing rate is 12% and the lessee also knows that the lessor's implicit rate is 10%.
 - Future payments are expected to be predictable and there are no cost uncertainties left out of the contract.
1. What type of lease is this for the Lessee? For the Lessor? Check all criteria and show all work for your answer.
 2. Do a complete amortization table for the lessee and the lessor. (Hint: they are not the same table.)
 3. For both the Lessee and Lessor, give the entry or entries at the inception of the lease and at the first payment date.

STOCK DIVIDEND (AND STOCK SPLIT) HOMEWORK PROBLEM
Chapter 19

Simco Corporation has the following stockholders equity at 12/31/03:

Common Stock, Par value \$1, 20,000 shares outstanding ...	\$ 20,000
Additional Paid in Capital	\$ 70,000
Retained Earnings	<u>\$500,000</u>
	\$590,000

Assume that the market value of the stock is \$8 per share for the entire year.

Each of the following is an independent case:

- a. 1. Assume Simco declared and paid a 10% stock dividend during the year. Do the entry.
2. Redo stockholders equity after the above entry.
- b. 1. Assume Simco declared and paid a 3-for-2 stock split during the year. This is a stock split effected in the form of a 50% stock dividend. Do the entry. Companies are allowed a choice of two entries to do here. Give both entries that are allowed.
2. Redo stockholders equity after both of the above entries showing how it would look either way.
- c. 1. Assume Simco gave out a 4 -for-1 pure stock split. Prepare a memo indicating what happened due to the split.
2. Redo stockholders equity after the stock split.

PREFERRED STOCK DIVIDEND HOMEWORK PROBLEM
Chapter 19

Five Cases: Compute Dividends

The charter of Gum Corporation authorized 5,000 shares of 6% preferred stock, par value \$20 per share, and 8,000 shares of common stock, par value \$50 per share. All of the authorized shares have been issued. In a five-year period, annual dividends paid in chronological order were \$4,000, \$40,000, \$32,000, \$5,000, and \$36,000, respectively. Compute the dollar amount of dividends that would be paid to each class of stock for each year under the following separate cases:

Case A - preferred stock is noncumulative and nonparticipating

Case B - preferred stock is cumulative and nonparticipating

Case C - preferred stock is noncumulative and fully participating

Case D - preferred stock is cumulative and fully participating

Case E - preferred stock is cumulative and partially participating up to an additional 2%; also assume that the dividend for year 5 was \$42,000 instead of \$36,000.

EARNINGS PER SHARE PROBLEM A
Chapter 20

- Anso Company had 300,000 shares of common stock outstanding at January 1, 2003.
- Anso Company had 10,000 shares of nonconvertible noncumulative preferred stock at January 1, 2003.
- Anso had \$1,000,000 of 8% convertible bonds at January 1, 2003
- Net income for 2003 is \$750,000
- On September 1, the company sold an additional 36,000 shares of common stock
- Anso paid dividends of \$3 per share on the preferred stock in 2003
- Each bond is convertible into 40 shares of common stock
- There are 30,000 stock options that allow the holders to convert each option for 1 share of common stock at an exercise price of \$22.50 per option.
- There are 20,000 stock warrants that allow the holders to convert each warrant into 1 share of common stock at an exercise price of \$38 per warrant.
- Average market price of Anso's stock in 2003 was \$36 per share. The end of year market price per share of Anso's stock was \$33 per share.
- Anso's tax rate is 40%.

Using the EPS process handout, calculate Basic EPS and Diluted EPS for Anso for 2003. Show all work.