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ACCT 312.01: Intermediate Accounting II

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ACCT 312 – Fall 2002

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Office hours: TR 11-11:30 & 2-3:30, W 9-11:45
also by appointment
Note: Office hours may change sometimes

<u>Date</u>	<u>Reading</u>	<u>Assignment</u>
Sept. 3		Introduction
5	4(152-166)* + Handout	P4-2*
10	4(167-172) & Appendix	P4-5*; Q4-14
12	12(520-532)	E12-8*; P12-4*
17	12(520-532)	E12-6*; P12-3*
19	12(533-541) & Appendix 12A	E12-16; P12-7 ;Attached CSV Prob.
24	13(Part A)	E13-2,7; P13-2
26	13(Part B)(575-586)	E13-10,11; P13-5,7; C13-18
Oct. 1	Exam I	---
3	14*(604-617)	E14-3; P14-1,3
8	14*(604-617) + Handout Bond Amortization Tables	E14-10,6*
10	14(617-628)	E14-13*,14*,16,17
15	14(628-634, 644-647)	E14-18; P14-18; C14-12
17	15(670-680)	E15-1*,2*
22	15(680-686)	E15-4,5,6; P15-3
24	15(687-702)	Attached Lease Problem A* and B*
29	15(702-709)	E15-22,23; P15-10(situations 3 & 4 only)*
31	Exam II	---
Nov. 5	HOLIDAY	---
7	19(890-905)	E19-1,2,3; Q19-1,3,6
12	19(905-911)	P19-2,3; E19-8
14	19(912-923) + Handout on Fractional Share Rights	P19-5; Attached fractional share problem
19	Appen 19A + Handout on Pref. Dividend Examples	P19-12; Attached Preferred dividend problem
21	20(Part A) + EPS Chart & WACSOS Handouts	E20-6,7; P20-4
26	20 (Part B)	P20-7; E20-10*
28	HOLIDAY	---
Dec. 3	20 (Part C)	3 Handout EPS Problems
5	22*, Appendix 22B	Handout Problems 22-32 and 22-33
10	22* + CFS Handout	Completely redo National Brand Co (pgs. 1035-1051) using T-account method. Show all work.
12	22*	Handout Problem 22-51
<u>Final Week - Exam III Wednesday, Dec. 18, 10:10-12:10 AM</u>		

- **Key:** *Additional info on back page
- Last day to drop is October 14. 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

Chapter 4 - Exhibit 4-1E on page 161 is wrong. Do not use it.

P4-2 Also do closing entries each year.

P4-5 This is not in the book, but give it a try. Assume that all the clients said they refused to make any more payments, so on Jan. 3, 2002, all the inventory was repossessed. At that time the inventory only had a value of \$100,000. Give the entry to record this repossession. Hint: Installment receivable, deferred gross profit, inventory, and a gain or loss on repossession will be the accounts used in this entry.

E 12-8 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 info that happened during the year before you started doing entries in Dec. You need to include this info to do Part 2.

E12- 6 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.

Chapter 14 – Ignore the examples of straight line amortization on page 614. Except for E14-13, we will only use the effective interest method on all homework. Use the handout bond amortization tables for more complete examples on how to do a complete amortization table.

E14-6 Do prepare an amortization schedule for the first four years of the bond.

E14-13 and E14-14 Hint: Do all entries for one party and then do all the entries for the other party rather than trying to both simultaneously. For example, on E14-13, do all Gless entries first, then do all of the Century entries next. Also, on **E14-13**, do use the SL method to save time.

E15-1 Do all the entries for both years.

E15-2 Do entries for all three years for Winn and the lessor.

P15-10 Also do the initial entry for lessee and lessor.

E20-10 This exercise adds on to E20-9. But, E20-10 has several typos and errors in it, so do E20-9 but add the bond info and tax rate info given in E20-10.

Chapter 22 – Do **all** homework using the T-account method instead of the spreadsheet method.

Points

450	3 Midterm Exams (each worth 150 points)
30	1 Ethics case and 1 Internet case (each worth 15 points)
<u>50</u>	Homework
530	Total points

Ethics and Internet Case Assignments – FOLLOW DIRECTIONS

I will assign teams of three. You must give me a sheet with all three names by the end of class on September 10. (If one of your partners drops the class, you will just have a team of two members.) You may not change team members. You may only turn in one case from the last three chapters. You may not do an ethics case and an internet case from the same chapter. 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 portion 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 class period immediately following the chapter in which you did the case. For example, if you chose Ethics C4-5, it is due on Sept. 12, the first class day after Chapter 4. Late cases won't count. You must do one ethics and one internet case before the semester is over. Each is worth 15 points. 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. 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.
- Here is a list of the six Ethics cases that are eligible for assignments: C4-5, C13-4, C13-16, C14-11, C15-9, C22-7. Below is guidance on a format to use to complete the ethics cases. Address the following issues for the case you select instead of the questions in the text.
 1. What is the problem? It is given in the case, but restate it in your own words.
 2. Who will be affected if the questionable activity is done? Very seldom is only one person or one company affected by ethical vs. unethical business choices.
 3. How are the financial statements affected if the questionable activity is done? Why would this activity make the company or the person look better? Why does the company or person want to consider the questionable action?
 4. Are there possible alternatives that are not unethical? What are some of them?
 5. What is the right action the company or person should take? What negative consequences are there for the action you selected?
- Here is a list of three Internet cases that are eligible for assignments: C14-13, C20-8, C22-10 (but for this case, use Microsoft and skip parts 2 and 7.). It is expected that you will do the internet cases without the guidance that you had with the ethics cases. The cases themselves tell you what to do.

Free Points - Get an e-mail address if you don't have one. Send your address to me via e-mail by Sept. 10, 4 PM. 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.

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 records each payment in the Prepaid Expense account and adjusts that 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.

HANDOUT LEASE PROBLEM A
Chapter 15

- Lessor's cost of the leased asset is \$30,000.
- Lease term is 4 years starting January 1, 1999.
- 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 January 1, 2003, the unguaranteed residual value of the leased asset will be \$4,000.
- 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 18%. The bank prime rate of interest is only 10%. (Hint: the lessee is high risk and collectibility of lease payments from them is not reasonably predictable.)
- 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, 1999 is \$40,000.
- Lessor has no unreimbursable cost uncertainties.
- Four annual lease payments are due on January 1 of each year during the lease term, and the first payment of \$11,643 is due at the inception of the lease term.
- The accounting year ends on Dec. 31 for both parties.

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.
2. Do the entry or entries for the lessee at January 1 and Dec. 31, 1999.
3. Do the entry or entries for the lessor at January 1 and Dec. 31, 1999.

HANDOUT LEASE PROBLEM B
Chapter 15

- Lessor leased a crane to Lessee for 6 years beginning on January 1, 1998. Each payment is \$43,329 and the first payment is made on Dec. 31, 1998.
 - 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? Check all four criteria and show all work for your answer.
 2. What type of lease is this for the Lessor? Check all four criteria plus the two additional lessor criteria and show all work for your answer.
 3. Do a complete amortization table for the lessee and the lessor. (Hint: they are not the same table.)
 4. For both the Lessee and Lessor, give the entry or entries at the inception of the lease and at the first payment date.

These problems were modified and taken from Intermediate Accounting,
4th edition, by Dyckman, Dukes and Davis, (Irwin McGraw-Hill Publishers.)

FRACTIONAL SHARE RIGHTS HOMEWORK PROBLEM
Chapter 19

Accounts for Alex Corporation at 12/31/96:

Common stock, par \$5, authorized shares 100,000, issued and outstanding 40,000 shares	\$200,000
Additional paid in capital – common	160,000
Retained earnings	300,000

Part A – give entries for each of the following events:

- 1) May 1, 1997 – the board of directors declared a 50% stock dividend to be issued on June 1, 1997. (for every two shares outstanding, one additional share will be issued)
- 2) June 1, 1997 – all of the required shares were issued for the stock dividend except for those required by 1,300 fractional share rights (representing 650 full shares) issued.
- 3) Dec. 1, 1997 – the company honored 1,000 of the fractional share rights by issuing the requisite number of shares. The remaining fractional share rights were still outstanding at the end of 1997.

Part B

Assume instead that the fractional share rights specified that two rights could be turned in for one share of stock without cost or each right could be turned in for \$2.50 cash. As a result, 900 rights were turned in for shares, 200 rights for cash, and the remainder lapsed. Give the entry to record this disposition of fractional shares rights.

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.

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Intermediate Accounting, Updated Second Edition, Spiceland, Sepe, Tomassini, Irwin McGraw-Hill, 2001.