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Spring 2-1-2008

### ACCT 312.02: Intermediate Accounting II

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**ACCT 312**  
**Intermediate Accounting II**  
**Spring semester—2008**

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<u>Date</u>	<u>Reading</u>	<u>Assignment</u>
Jan. 22	Introduction	
24	No Class	
29	13	Q13-14; E13-2*, Attached Warranty Problem
31	6(267-276)	Q6-3; E6-1,2,3,4,7,11
Feb. 5	6(277-288, 291-292)	Q6-8; E6-6,8,10; P6-3*,4*,5*,7*,8*
		<b>Academic Conduct Code--- Assignment due by classtime</b>
7	12(557-575)	E12-8*; P12-4
12	12(557-575)	E12-6*; P12-3*
14	12(575-584) & Appendix12A	E12-17;P12-8; E12-22
19	3(Part C) & 5(Part B)	E3-13;P5-8*,9*
21	<b>Exam I</b>	
26	14*(660-675)	E14-3; P14-1(Part 1 & 2 only)
28	14*(660-675) + Handout	
	Bond Amortization Tables	E14-7*,11; P14-4
4	14(679-683) & 14(Part C)	E14-18*,19*; C14-10
Mar. 6	14(675-679) & Appendix 14	E14-15,16; P14-20
11	15 (710-720)	E15-1,2*
13	15(720-727)	E15-4,5,6; P15-3
18	15(727-736)	Attached Lease Problem A+ and B+
20	15(736-739) & Part D	Q15-13,16; E15-25,26
March 25	<b>SPRING BREAK</b>	
27	<b>SPRING BREAK</b>	
Apr. 1	<b>Exam II</b>	
3	18(892-908)	E18-3*,4*; Q18-1,4,7
8	18(908-914)& Appendix 18	P18-2,3*,13
10	18(914-925) + Handout on Pref. Dividend Examples	Attached Stock Divid/Split Problem and Attached Preferred Dividend Problem+
15	19(965-969) + EPS Chart & WACSOS Handouts	E19-14,15; P19-8*
		<b>Second Team Project Due</b>
17	19(970-979)& EPS Process Handout	E19-19; Attached EPS Problem A
22	19(979-986)	Attached EPS Problems B, C+, and D+
24	21*, Appendix 21B + Cash Flow Process Handout	Attached Cash Flow Problems A and B
29	21*	Completely redo United Brands Co (pgs. 1062-- 1079) using T-account method.* +
May 1	21*	P21-11*+

**Final Week - Exam III is Monday, May 5, from 1:10-2:40pm**

- **Key:** \*Additional information attached + Each worth 2 homework checks
- Last day to drop is March 4. 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.
- There are **no extra assignments** to improve grades
- I will use the + and – grading option, especially for borderline cases.
- **Calculators**
  - **Only HP10B or HP10BII or TI BAII or TI BAII+ may be used during exams.**
  - **No excuses if your calculator does not work during an exam. You will finish the exam without one in the same allotted time. You may not share with another.**
- **Homework**
  - 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 24 points (30 x 80%.)
  - Make a copy of your homework each day. I will collect a copy at the **beginning** of every class. This is what I will grade. Make the copy very legible for grading purposes. You can correct and keep the original to study with. I do not accept late homework.
  - 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 and the problem is completed when turned in.
  - If pages assigned don't correspond exactly with homework assigned, keep reading until you cover the homework material.
- **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.

**Academic Conduct Code Assignment** All students must practice academic honesty. Academic misconduct is subject to an academic penalty by the course instructor and/or a disciplinary sanction by the University. All students need to be familiar with the Student conduct code. The Code is available for review online at <http://www.umt.edu/SA/VPSA/index.cfm/page/1321>. Read the Code.

1) Tell me **what the teacher can do** and **what the university can do** if you are caught cheating on an exam, copying homework or any other assignments, or turning in work of any kind that you did not do and claiming you did it yourself. 2) After reading the Code, what type of cheating do you think is most prevalent today that you have witnessed? **Due date is classtime on Tuesday, February 5.** This must be typed and spellchecked.

#### **Additional Information**

**E13-2** Also do the adjusting entry in each case

**P6-3,4,5,7,8** Do all of these as present value problems. It will help if you do **P6-5** last.

**E12-8** 1) Include closing entries for 2006.

**P12-4** Note that the problem includes info 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 before you do the entries always helps. Then post to the T-accounts after you do the entries also to find the new balance in each account.

**E12-6** Include closing entry(s) for 2006.

**P12-3** Include closing entry(s) for 2006 and 2007.

**P5-8 and P5-9** After completing these problems, calculate operating cycle for each one also. This is the **number of days** it takes to go from cash → inventory → Acct. Rec. → cash.

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

**E14-18** Only do the entries for Gless. For this one problem, do assume straight-line amortization. It is done just like straight-line depreciation. See page 672. After using the book value method to do Requirement 3, do the entry over by using the market value method instead.

**E14-19** Only do the entries for Limbaugh.

**E15-2** Do all entries for all three years for the lessee and lessor. The \$96,000 advance payment is the same as a down payment.

**E18-3** Note that this exercise continues on the next page in the book.

**E18-4** Assume the market value of the stock is \$9 per share for the entire year. Then, after completing all the entries required, redo the last entry assuming that you did not know the market value of the stock.

**P18-3** Note that the problem is already in millions of dollars, so don't do millions on top of that as book indicates.

**P19-8** Assume stock dividend was given on May 1, not May 15.

**Chapter 21** – Do all homework using the T-account method instead of the spreadsheet method.

**Chapter 21 – United Brands problem.** Redo all entries and fill in T-account sheets that were given to you by following the format on the CFS Process Handout sheet. Check to see if your overall work would have resulted in the Cash Flow Statement on page 1054. Also do the Indirect Method after completing the above assignment.

**P21-11**

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 1069.

2) Treat the Tax Savings account as a separate account

**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 1069.
  - Discussion on how to do the entry for item c. is found in the green box on the top of pg. 1076
  - 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 account. So, the income tax summary entry will include the following accounts: deferred income tax liability, income tax expense, the tax savings account and, of course, cash to make it all balance.
  - At the very end, when the closing entries from the Income Statement will not yet make Retained Earnings balance, and you still need a debit to RE to make it balance, consider the one other common transaction entry that could make RE go down. (Only Net losses and one other transaction commonly make RE go down.)
- 3) Do not take time to try to do the indirect method for this problem.

### **Team Problem Assignments – FOLLOW DIRECTIONS**

I will assign you to teams of three during the first week of class. (If one of your partners drops the class, you will just have a team of two members. If both of your team members drop, I will assign you to another group.) You may not change team members. The two team problems are listed below. Read the problems. Type a response to the requirements in the problem. Handwritten information will be ignored. All team members must sign a paragraph stating what **percent** of work each did on each problem. For this, there must be individual signatures, not just a typed name. Scores will be assigned accordingly. Late problems won't count. Everything will be graded including typos, writing skills, neatness, completeness, **comparison to problems received from other teams**, as well as appropriate thoughtfulness in the answers. Team problems will be graded 0-15 points. I am not a resource for these problems. You are graded on how your team does. Show and label all work for full credit. Here are the two team problems:

- **P14-19 (pages 704-705)** See page 686 in text regarding induced conversion. **Due by classtime on Tuesday, March 11.**
- **Case 18-2 (pages 941-942)** **Due by classtime on Tuesday, April 15.**

**Points**

450	3 Midterm Exams (each worth 150 points)
30	2 Group Problems (each worth 15 points)
10	Conduct Code Assignment
<u>30</u>	Homework
520	Total points

**E-mail addresses** I will send you class information via e-mail, so you should check your e-mail several times a week. All e-mail will be sent to your UM e-mail account formatted for example as [james.jones@umontana.edu](mailto:james.jones@umontana.edu).

**Textbook:** *Intermediate Accounting*, Fourth Edition, Spiceland, Sepe, Tomassini, McGraw-Hill Irwin, 2007.

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## WARRANTY PROBLEM

### Chapter 13

Sero Corporation introduced a new line of commercial barbecues in 2003 that carry a two-year product warranty against manufacturer's defects. Based on its experience with previous product introductions, warranty costs are expected to approximate 2% of sales during the first 12 months following the sale and 4% in the next 12 months. Assume product sales in January of 2003 were \$4,000,000 on credit and actual warranty expenditures were \$100,000 in 2003 and \$140,000 in 2004. Sero also sells a 3-year extended warranty that **begins** when the product warranty ends. In January, 2003, Sero sold \$330,000 of these extended warranties.

- Give all the entries necessary for the product warranty for 2003 and 2004. Give the balance in the Estimated Warranty Liability account at the end of each year.
- Give all the entries necessary for the extended warranty for 2003 – 2007. Give the balance in the Unearned revenue account at the end of each year.

**LEASE PROBLEM A**  
**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 \$120,000.
  - 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 13% 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. **(See page 732 of the text for help in doing the Lessor's first entry.)**

**LEASE PROBLEM B**  
**Chapter 15**

- Lessor's cost of the leased asset is \$20,000.
- Lease term is 4 years starting January 1, 2001.
- Estimated useful life of the leased asset is 6 years. Residual value is zero at that time
- It is estimated that on December 31, 2004, the residual value of the leased asset will be \$4,000 and the lessee did agree to guarantee this amount.
- The lease has a purchase option of \$5,000 at the end of the lease term.
- Lessee's incremental borrowing rate is 13%. The lessor's implicit rate is 12% and the lessee knows this.
- Title does not transfer unless the purchase option is used.
- Sales price of the leased asset on January 1, 2001 is \$42,150.
- Both of the 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 \$11,643 is due at the inception of the lease term.

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.
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.

### **STOCK DIVIDEND (AND STOCK SPLIT) PROBLEM** **Chapter 18**

Simco Corporation has the following stockholders equity:

Common Stock, Par \$12, 100,000 shares authorized, 20,000 shares outstanding .....	\$240,000
Additional Paid in Capital .....	\$ 70,000
Retained Earnings .....	\$500,000

Assume the market value of the stock is \$20 per share for the entire year.

Each of the following is an independent case:

- 1) a. Assume Simco declared and paid a 10% stock dividend during the year. Do the entry.  
b. Redo stockholders equity after the above entry.
- 2) a. Assume Simco declared and paid a 30% stock dividend during the year. Do the entry assuming Retained earnings is affected.  
b. Redo stockholders equity after the above entry.
- 3) a. Assume Simco gave out a 2-for-1 stock split. Prepare a memo indicating what happened due to the split.  
b. Redo stockholders equity after the stock split.

### **PREFERRED STOCK DIVIDEND PROBLEM** **Chapter 18**

Five Cases: Compute Dividends

The charter of Gum Corporation authorized 5,000 shares of 5% 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, \$3,000, and \$42,000, 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%

**EARNINGS PER SHARE PROBLEM A**  
**Chapter 19**

- Anso Company had 300,000 shares of common stock outstanding at January 1, 2003.
- Anso Company had 10,000 shares of 3%, \$100 PV, convertible, noncumulative preferred stock at January 1, 2003. Each share of preferred can be converted to 3 shares of common stock.
- Anso had \$900,000 of 8% convertible bonds at January 1, 2003. Each bond is convertible into 36 shares of common stock
- Operating income for 2003 is \$815,000
- Extraordinary gain (net of tax) is \$15,000
- Net Income is \$830,000.
- On September 1, the company sold an additional 36,000 shares of common stock
- Anso declared and paid dividends of \$3 per share on the preferred stock in 2003
- 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 \$25 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.

**EPS PROBLEM B**  
**Chapter 19**

Spencer Inc. had the following information at the end of 2004:

- Tax rate – 40% and Net Income of \$520,000.
- 150,000 shares of common stock outstanding all year
- 5,000 shares of 6%, \$100 par, nonconvertible, cumulative preferred stock
- 6,000 shares of 5%, \$80 par, cumulative preferred stock, each convertible into 1.2 shares of common stock
- 600 bonds, 8%, each convertible into 32 shares of common stock
- 300 bonds, 6%, each convertible into 18 shares of common stock
- Options to purchase 2,000 shares at \$5. The average market price of common stock for the year was \$8.

**Required:** Compute a complete EPS schedule for 2004 for Spencer.



**EPS PROBLEM C**  
**Chapter 19**

At the end of 2004, Richardson Corporation showed the following:

- Common stock, no par, authorized 400,000 shares, 200,000 shares outstanding at January 1, 2004
- 2,000 Treasury shares acquired on June 1, 2004 (at cost)
- 10% Stock dividend issued, November 1, 2004
- 10,000 shares of Preferred Stock, 4%, par \$20, noncumulative, nonconvertible
- Contributed capital in excess of par, preferred stock is \$75,000
- Retained Earnings is \$942,000 (no cash or property dividends were declared during 2004)
- \$56,000 Bonds, Series A, 7%, each bond is convertible to 15 shares of common stock
- \$400,000 Bonds, Series B, 6%, each bond is convertible to 62 shares of common stock
- Income from operations is \$380,000
- Extraordinary gain (net of Tax) is \$15,000
- Loss from Discontinued operations (net of tax) is \$5,000
- Net income is \$390,000
- Average income tax rate for 2004 is 30%

**Required:** Compute a complete EPS schedule for 2004 for Richardson

**EPS PROBLEM D**  
**Chapter 19**

Minney, Inc. had the following information for 2004:

- Common stock outstanding all year, 10,000 shares
- Option to purchase 2,000 shares at \$8. The average market price of common stock for the year was \$13. End of year market price was \$14.
- 500, 6% bonds, each convertible into 8 shares of common stock
- 200, 8% bonds, each convertible into 28 shares of common stock
- 1,000 shares of 9%, \$100 par, cumulative preferred stock, each convertible into 6 shares of common stock.
- 500 shares of 7%, \$100 par, noncumulative, nonconvertible preferred stock
- 40% tax rate
- Income from operations is \$60,000
- Gain from discontinued operations (net of tax) is \$12,000
- Net Income is \$72,000

**Required:** Compute a complete EPS schedule for 2004 for Minney

**Cash Flow Statement Problem A**  
**Chapter 21**

Rival Co. had the following balance sheets:

	<b>2006</b>	<b>2007</b>
<b>Assets</b>		
Cash	\$ 10,000	\$ 15,000
Accounts receivable, net	35,000	26,700
Inventory	60,000	85,000
Property, plant, and equipment, net	75,000	70,000
Patent	<u>12,000</u>	<u>10,000</u>
	<b>\$192,000</b>	<b>\$206,700</b>
<b>Equities</b>		
Account payable	\$ 6,500	\$ 6,200
Long term liabilities	60,000	40,000
Common Stock	100,000	125,000
Retained Earnings	<u>25,500</u>	<u>35,500</u>
	<b>\$192,000</b>	<b>\$206,700</b>

Income statement has three accounts: Revenue of \$100,000, cost of goods sold of \$60,000, and expenses of \$25,000.

Additional information:

- During 2007, common stock was sold, long term debt was retired, and dividends of \$5,000 were declared and paid.
- The income statement showed a total of \$7,000 for depreciation and amortization combined. (You figure out how much belongs to each.)

**Required:**

- Do all the entries, post to the T-accounts provided, and complete a formal Cash Flow Statement using the Direct Method.
- Once done with the first requirement, now do the indirect method for cash flow from Operating Activities.

**Cash Flow Statement Problem B  
Chapter 21**

Miner Co. had the following balance sheets:

	<b>2006</b>	<b>2007</b>
<b>Assets</b>		
Cash	\$ 17,000	\$ 2,300
Accounts receivable, net	45,000	42,000
Inventory	23,000	36,200
Property, plant, and equipment, net	165,000	147,000
Patent	<u>    ---</u>	<u>17,500</u>
	<b>\$250,000</b>	<b>\$245,000</b>
<b>Equities</b>		
Account payable	\$ 40,000	\$ 50,000
Long term liabilities	90,000	95,000
Common Stock	100,000	120,000
Additional paid in capital	40,000	40,000
Retained Earnings	<u>(20,000)</u>	<u>(60,000)</u>
	<b>\$250,000</b>	<b>\$245,000</b>

Income statement has three accounts: Revenue of \$160,000, cost of goods sold of 110,000, and expenses of \$90,000.

Additional information:

- Patent was acquired by issuing a \$5,000 long-term note payable and paying the remainder in cash. No amortization was taken because the acquisition took place at year-end.
- Acquired a \$10,000 machine.
- No dividends were declared or paid.
- Common stock of \$20,000 was issued at par.

**Required:**

- Do all the entries, post to the T-accounts provided, and complete a formal Cash Flow Statement using the Direct Method.
- Once done with the first requirement, now do the indirect method for cash flow from Operating Activities.