

MANAGEMENT STUDIES 225
COURSE OUTLINE
Fall 2002
Mary Emery

TEXTBOOK: *Fundamental Financial Accounting Concepts, Fourth Edition*, Edmonds, McNair, Milam and Olds
Management 225 Packet: Readings, cases problems and other materials

OFFICE HOURS: **Holland Hall 431**
MWF 2:00 to 3:15 PM
TTH 1:00 to 3:00 PM

GENERAL INFORMATION ABOUT THE COURSE: Accountants are in the information business. Financial accounting reports are used by creditors to decide whether to make a loan; investors to decide whether to buy, sell, or hold an entity's stock; managers to assess performance and plan future actions; the Government to determine whether the firm and its owners have paid the taxes they owe; employees to determine whether they can demand salary and/or benefit improvements; and customers and suppliers as they negotiate their financial relationships with an entity. Accurate and fair financial reporting is a lynchpin of our economy. Recent, high profile financial scandals and surprise bankruptcies resulting from misleading financial reports highlight the importance of the accounting function.

You may be thinking of becoming an accountant - this course is your starting point. But you probably are not planning embark upon an accounting career. Why do you need to know about accounting?

You may be thinking about starting your own business. You should know that owners of failed businesses consistently cite lack of understanding of accounting and finance as a major reason for their lack of success.

Perhaps you have big dreams. You plan to become the CEO of an American corporation with publicly traded securities (stock and bonds). The Securities and Exchange Commission now holds CEOs personally responsible for the information contained in the company's financial statements. If the financial statements misrepresent the activities of the firm, the CEO may be found guilty of fraud, a serious criminal offense punishable by a fine and/or jail time. You cannot use ignorance of the accounting rules as a defense.

You may be planning to invest your own money or to advise others about investments in the stocks and bonds of US corporations. Financial reports (income statement, balance sheet, statement of changes in stockholders' equity, and the statement of cash flows) are one of the most important sources of information you will use to make investment decisions. You have to be able to read and understand what these reports tell you and what they don't tell you about the company or you will make some very bad investment decisions.

Finally, every citizen in a capitalist economy has a huge stake in the accuracy of financial reporting. Financial reporting has a special role in the allocation of resources in an economy like ours. We depend on financial markets to direct private sector investments to their best use. Investors rely on financial reports to measure the success or failure of past investments. This information helps them decide what investments to make in the future. Misleading financial reports lead to bad investment choices and inefficient use of the nation's (world's) scarce resources. Economists will tell you that using resources unwisely diminishes the output we get from the resources we use up and affects our wealth now and into the future.

This introductory course focuses on how to use accounting information to make decisions. You cannot become a sophisticated user of financial information unless you clearly understand how that information is generated and what it tells you (as well as what it does not tell you). The class is not specifically designed to teach you how to "keep the books" but you will have to learn how basic business transactions are recorded and reported in order to understand what the numbers on the financial statements really represent.

Throughout the course we will be looking at how the numbers are used by decision makers. We will also discuss ways that companies can follow all of the accounting rules and still issue misleading financial reports.

The textbook contains a very methodical approach to understanding how routine business transactions are reflected on a firm's financial statements. You must make sure that you understand the material in the textbook. The only way you can learn accounting is to practice it consistently throughout the semester. You must keep up, come to every class, ask questions, do practice problems, and hand in all of the assignments. Do not let yourself get behind. Ask questions – take advantage of my office hours. As Stephan Leacock once said, ***“I am a great believer in luck and I find the harder I work the more I have of it.”***

Class periods will be devoted to explaining and practicing the specific techniques presented in the textbook and to expanding on the ideas by looking at real-world situations. **You will be responsible for the material presented in the textbook and the additional material discussed in class.**

Homework assignments consist of book problems and supplemental case-type problems. You will have ample opportunity to practice doing text-type problems. The course website contains answers to all of the “A” exercises and problems in the textbook. Exams will be in the form of un-timed topic quizzes that will be available over a three-day period at the MS225 help sessions. The quizzes will primarily consist of text-type problems. There will be a short, cumulative final exam to see if you have learned the basic concepts in the course.

MS225 WEBSITE: A website has been established for this class. You can access it through my webpage or through the courses section of the St Olaf home page. The site contains the syllabus and the answers to the “A” exercises and problems in the textbook.

GRADES: Grades in the class will be based upon the activities listed below. Generally 90% of the points (405 points) are required to receive an A-; 80% (360 Points) for a B-; 65% (290 Points) for a C-. There may be occasions when the scale will be lower but it will never be higher.

<i>Activity</i>	<i>Points</i>
<i>Homework Problems (Best 9 out of 11)</i>	<i>90</i>
<i>Cases</i>	<i>90</i>
<i>Quizzes (30 points each)</i>	<i>210</i>
<i>Cumulative Final Exam</i>	<i>60</i>
<i>TOTAL</i>	<i>450</i>

HOMEWORK PROBLEMS: Homework problems consist primarily of problems from the textbook. Homework assignments will generally be due at the beginning of the class period following the class discussion of the related chapter. I will try to return the graded assignments to you at the next class period. ***Late homework assignments will accepted but they will not be graded. If you hand assignments in late they will receive a grade equal to no more than 90% of the lowest grade given to any student who hands the work in on time.***

CASE PROBLEMS: Case problems are worth the indicated number of points ranging from 10 to 25. The cases ask you to explore concepts applied to real-world situations. Case descriptions are included in the course packet. Presentation of your case solutions will be very important. Treat the each case as a job assignment and consider me to be your boss. Cases are due at the beginning the designated class period. ***Late cases will be accepted but they will not be graded. They will receives a grade of no more than 90% of the lowest grade awarded to any student who hands the case in on time.***

QUIZZES: Quizzes are un-timed (within reason) and will be available outside of class during the help sessions. Each topic quiz will be offered at three successive evening help sessions (the last topic quiz will be given during the final exam time). Each quiz counts 30 points – there will be eight of them. The quizzes

will consist primarily of book-type problems. ***Do not forget about quizzes – they represent a significant part of your grade.***

THE CUMULATIVE FINAL EXAM: The final exam will be an objective, cumulative review of the terms and concepts covered throughout the semester. You will be asked to show that you are conversant with the subject matter on a basic level. The problems will not be complex or extensive but you will need to review the fundamental ideas covered in the whole course.

CLASS ATTENDANCE: Nearly every successful accounting student will tell you that class attendance is a key to doing well in this class. We will be working steadily through the class material – every class will be important. You can probably expect to lose somewhere between 5 and 8 points for every class period you miss (either in fact or in spirit). While I do not keep formal attendance records, I often know when you are not there and I do keep informal track of student attendance especially if your grades are below average.

HELP SESSIONS: Help sessions are on Sunday through Thursday evenings. The sessions are run by student preceptors who will answer questions, help you with homework (they will not give you the answers) and administer the out-of-class topic quizzes. The times and locations of the help sessions will be announced early in the semester.

PRACTICE EXERCISES AND PROBLEMS: The only way you can learn accounting is to “do accounting”. You will probably find that you need to do more problems than are collected as homework assignments. The answers to all of the “A” exercises and problems are available on the course website so that you can practice and check your work. ***You are responsible for developing your own study strategy. You must do whatever it takes to learn the course material to the level that allows you solve accounting problems without referring to your book or notes.***

TOPIC I: INTRODUCTION TO FINANCIAL STATEMENTS – HOW ROUTINE BUSINESS TRANSACTIONS AFFECT THE FINANCIAL STATEMENTS

Financial accountants are basically historians. The financial statements that accountants prepare summarize the results of the entity’s business transactions – they tell the financial story of the entity’s transactions. Accountants supply four basic financial statements: Income Statement; Statement of Changes in Stockholder’s Equity, Statement of Cash Flows and the Balance Sheet. What does each financial statement tell you about the entity? How are routine business events reflected on these financial statements? How are the financial statements related to each other? How can you use the information on the financial statements to assess the success (or failure), strengths (or weaknesses) of a company?

QUOTABLE QUOTES:

“The beginning of wisdom is the definition of terms.” ... Socrates

“Learn to read a financial report.” ... H. Jackson Brown, #101 in Life’s Little Instruction Book

<i>Date</i>	<i>TOPIC</i>	<i>READING</i>	<i>FOR PRACTICE</i>	<i>HOMEWORK OR CASE DUE</i>
09/06	<i>Introduction to course – the basic business model</i>	<i>Chapter 1</i>	<i>Ex1-6A, Ex1-12A, , Ex1-15A</i>	
09/09	<i>Introduction to financial statements – transaction analysis</i>		<i>Ex1-13A, Ex1-14A, Ex1-16A, Ex1-17A, P1-30A</i>	
09/11	<i>More about transaction analysis</i>		<i>Ex1-18A, Ex1-19A, Ex1-20A, P1-26A, P1-27A</i>	
09/13	<i>Extending the model – accruals</i>	<i>Chapter 2 & 3</i>	<i>E2-4A, E2-5A, E2-6A, E2-7A, E2-8A, E2-9A, E2-11A, E2-13A, E2-14A, E2-16A, P2-22A</i>	HW 1
09/16	<i>More practice – deferrals</i>		<i>E3-4A, E3-5A, E3-6A, E3-7A, E3-8?A, E3-9A, E3-10A, E3-11A, E3-12A,</i>	
09/18	<i>More practice</i>		<i>P3-20A, P-21A, P3-23A, P3-24A</i>	
09/20	<i>Review of Concepts</i>			HW2
09/23				CASE I: Pat’s Pet Shelter
	<i>QUIZ TOPIC I: Available at help sessions 09/23, 09/24, 09/25</i>			

NOTE: *The answers to all “A” exercises and problems is available on the class website.*

HOMEWORK ASSIGNMENT 1: Tentative Due Date: Friday, 09/13 *(Use work papers included in packet)*

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|------------------|------------------|
| 1. Problem 1-27B | 3. Problem 1-31B |
| 2. Problem 1-28B | 4. Problem 1-32B |

HOMEWORK ASSIGNMENT 2: Tentative Due Date: Friday, 09/20 *(Use work papers included in packet)*

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|------------------|------------------|
| 1. Problem 2-22B | 4. Problem 3-21B |
| 2. Problem 2-24B | 5. Problem 3-24B |
| 3. Problem 3-20B | |

TOPIC II: DOUBLE ENTRY BOOKKEEPING

The first step in preparing financial statements is to record information about business transactions in a format that enables the accountant to summarize the results of all the transactions. The double entry bookkeeping system was developed to solve this problem. How are business events recorded in a typical double entry bookkeeping system? What are the steps in the accounting cycle? How does the accountant make sure that all events have been considered? Is there room within the rules of the system for judgment and manipulation? *Note: The assignments in this part of the course will take longer than in any other section so plan ahead.*

QUOTABLE QUOTES:

*“When you are drowning in numbers, you need a system to separate the wheat from the chaff”....
Anthony Adams, V.P. Campbell Soup Company, New York Times, April 1988.*

“No one ever said accounting was an exact science.” ... Lawrence Revsine author of Financial Reporting and Analysis.

<i>Date</i>	<i>TOPIC</i>	<i>READING</i>	<i>FOR PRACTICE</i>	<i>HOMEWORK OR CASE DUE</i>
09/23	<i>Recording daily transaction in accounts – the debit/credit system</i>	<i>Chapter 4</i>	<i>Ex4-7A, Ex4-8A, Ex4-10A, Ex4-11A, Ex4-13A P4-25A, P4-26A</i>	CASE I: Pat’s Pet Shelter
09/25	<i>Adjusting and closing entries</i>		<i>Ex4-14A, Ex4-15A, Ex4-12A, Ex4-15A, Ex16A, Ex17A, Ex18A, Ex4-19A, Ex4-20A</i>	
09/27	<i>More practice</i>		<i>Ex4-21A, Ex4-22A, Ex4-23A, Ex4-24A,</i>	
09/30	<i>More practice</i>		<i>P4-27A, P4-28A, P4-29A, P4-30A</i>	
10/02	<i>Going over it again</i>			HW3
10/07				CASE II: Webtech Inc.
	QUIZ TOPIC II: Available 10/07, 10/08, 10/09			

NOTE: *The answers to all “A” exercises and problems is available on the class website.*

HOMEWORK ASSIGNMENT 3: Tentative Due Date Wednesday, 10/02 *(Use work papers included in packet)*

1. Problem 4-30B
2. Problem 4-35B
3. Holiday Travel Court Problem (Below)

3. HOLLIDAY TRAVEL COURT: The Holiday Travel Court was organized on January 1, 1997, by Joy Merryville. Joy is a good manager but a poor bookkeeper. She prepared the following income statement for the third year of operations.

*HOLIDAY TRAVEL COURT
INCOME STATEMENT
For Year Ended 12/31/01*

<i>Travel Court Rental Fees</i>		<i>\$82,000</i>
<i>Less Expenses:</i>		
<i>Advertising</i>	<i>\$3,200</i>	
<i>Wages</i>	<i>28,800</i>	
<i>Utilities</i>	<i>1,400</i>	
<i>Dividends</i>	<i>1,200</i>	
<i>Repairs</i>	<i><u>1,500</u></i>	<i><u>\$36,100</u></i>
<i>Net Income</i>		<i>\$38,900</i>

Joy knew that something was wrong with the statement because net income had never exceeded \$20,000 and the profit margin had never exceeded 25%. You have been asked to look at the financial statements to determine if they are correct.

You first look at the trial balance and in addition to the account balances on the income statement above, the ledger contains the following additional **selected** balances and information on December 31, 2000.

<i>Supplies</i>	<i>\$4,500</i>
<i>Prepaid Insurance</i>	<i>10,800</i>
<i>Equipment (acquired on 1/1/99)</i>	<i>30,000</i>
<i>Accumulated Depreciation – Equipment</i>	<i>12,000</i>
<i>Notes Payable</i>	<i>15,000</i>

You make inquiries and discover the following:

- (a) Travel court rental fees include advanced rentals for Summer 2002 occupancy of \$25,000.
- (b) There were \$1,800 of supplies on hand on December 31, 2001.
- (c) Prepaid Insurance on 12/31/00 was \$2,000 representing coverage for the first six months of 2001. On June 15th the firm purchased a new 2-year insurance policy that came into force on July 1, 2001. The cost of the 2-year policy was \$8,800.
- (d) There are four employees who receive wages of \$80 per day per person. At December 31, 2001, there were four days' wages owed but not paid. This is unusual because in the past wages were paid on the last day of the month. In 2001 the firm began paying employees every two weeks and the end of the year did not fall on a regular payday.
- (e) The note payable is a twelve-month 18% note dated September 1, 2001. It will mature on August 31, 2002 when the principal plus all of the interest will be paid.
- (f) The mail on January 5, 2002, brought a bill for December utilities of \$100 and one for advertising that appeared on December 16th of \$200.
- (g) Accumulated Depreciation on the equipment has not been recorded for the year 2001 but it was properly recorded in prior years.

REQUIRED:

1. Prepare the adjusting entries that the firm should make and present them in general journal format. The income statement includes all of the unadjusted revenue and expense amounts that are currently on the firm's books.
2. Prepare a corrected income statement.
3. Compute the corrected profit margin figure.
4. On January 10, 2002, the firm paid its employees a total of \$3,000. Show the entry that the bookkeeper should make to record the payment of wages on that date.
5. Show the entry that the bookkeeper should make on August 31, 2002, when the firm makes the required payment to settle the note payable.

TOPIC III: ACCOUNTING FOR A MERCHANDISING BUSINESS

Merchandising operations sell goods that are manufactured by other companies. These firms acquire inventory and sell it to their customers. Profits are earned when the firm's gross margin (or markup) exceeds the other costs of doing business.

Merchandising firms are concerned with inventory control. They must purchase merchandise at favorable prices and have the right products available to meet customer demand. They try to avoid stocking items that are not selling because excess investment in inventory is costly and exposes the firm to the risk that the merchandise will become obsolete and undesirable.

Merchandising businesses also walk a fine line when determining the level of service to provide to customers. Some merchandising firms operate in expensive stores and give customers personal attention. They must add on a bigger markup in order to cover the cost of customer service. Other merchandising firms provide few amenities and can therefore offer goods at a lower price. Each merchandiser develops a business strategy that defines the way it will approach its customers..... higher markup-more service or lower markup-less service. You can generally identify the firm's business strategy by looking at relationships between items on the firm's income statement.

QUOTABLE QUOTES:

“Everyone lives by selling something.” Robert Louis Stevenson

<i>Date</i>	<i>TOPIC</i>	<i>READING</i>	<i>FOR PRACTICE</i>	<i>HOMEWORK OR CASE DUE</i>
10/04	<i>Merchandising businesses – general ideas and important ratios</i>	<i>Chapter 5</i>	<i>E5-2A, E5-3A, E5-4A, E5-5A, E5-23A, P5-28A</i>	
10/07	<i>Accounting for inventory – perpetual system</i>		<i>E5-6A, E6-7A, E5-8A, E5-9A, E5-10A, E5-11A, E5-12A, E5-13A, E5-14A, P5-25A</i>	<i>CASE II: Webtech Inc.</i>
10/09	<i>Financing inventory, recording sales</i>		<i>E5-15A, E5-17A, E5-18A, E5-19?A, E5-20A</i>	
10/11	<i>Accounting for inventory – periodic system</i>		<i>E5-15A, E5-17A, E5-18A</i>	<i>CASE III: Walmart-Nordstroms</i>
10/14	<i>Inventory cost flow methods</i>	<i>Chapter 8</i>		<i>HW 4</i>
10/16	<i>Choosing an inventory cost flow method</i>			
10/18	<i>Using inventory information – comparing companies</i>			
	<i>FALL BREAK</i>			
10/23	<i>Note: You will be able to complete this homework assignment before you leave for Fall Break if you choose to do so.</i>			<i>HW 5</i>
	<i>QUIZ III: Available 10/23, 10/24, 10/25**</i>			
10/28				<i>CASE IV: TJ International</i>

NOTE: The answers to all “A” exercises and problems is available on the class website.

***** Quiz III will be available on my office door to be taken on the fourth floor of Holland Hall on Friday 10/25 instead of at a regular help session.***

HOMEWORK ASSIGNMENT 4: Tentative Due Date: Monday, 10/14

1. P5-25B
2. P5-28B
3. ATC5-3

HOMEWORK ASSIGNMENT 5: Tentative Due Date: Wednesday, 10/23

1. P8-21B
2. P8-22B: Repeat instructions assuming that the firm uses (b) Average Cost and (c) LIFO cost flow assumptions.
3. ATC 8-5
4. ROLLER BLADE COMPANY: began 19x1 with an inventory of 100 units that cost \$70 each. During 20x1, 20x2, and 20x3 the firm made the following purchases of roller blades:

<i>Date</i>	<i>Units</i>	<i>Unit Cost</i>	<i>Total Cost</i>
01/05/x1	200	\$80	\$16,000
05/05/x1	500	100	50,000
11/13/x1	100	120	12,000
05/13/x2	300	150	45,000
09/23/x2	200	170	34,000
11/01/x2	200	180	36,000
04/05/x3	200	180	36,000

Sales for each of the three years were as follows

<i>Year</i>	<i>Unit Sales</i>	<i>Unit Sales Price</i>
20x1	600	\$200
20x2	650	250
20x3	All remaining units	220

The company uses a periodic inventory system. Assume that the firm has \$20,000 of other expenses in each year and its corporate income tax rate is 40%.

INSTRUCTIONS:

- 1) Using a FIFO cost flow assumption, determine the value of the ending inventory, cost of goods sold and net income to be reported on the firm's annual income statements for 20x1, 20x2, 20x3 and in total for the three year period. Report your results on the worksheet on the following page.
- 2) Using a LIFO cost flow assumption, determine the value of the ending inventory, cost of goods sold and net income to be reported on the firm's annual income statements for 20x1, 20x2, 20x3 and in total for the three year period. Report your results on the worksheet on the following page.
- 3) Identify the cost flow assumption (FIFO, LIFO, both or neither) that each of the following statements best describes **based upon the results of your computations for years 20x1 and 20x2** when the number of units in the ending inventory are increasing.
 - a) Matches recent costs with recent revenues
 - b) Matches oldest costs with recent revenues.
 - c) Results in the most relevant balance sheet valuation for inventory.
 - d) Generally results in the lowest net income before taxes in a period of inflation.
 - e) Generally results in the lowest income tax liability in a period of inflation.
 - f) Generally results in the lowest reported net income in a period of inflation.
 - g) Generally results in the highest net operating cash flow in a period of rising prices.

- 4) Now look at the year 20x3, a year when the number of units in the ending inventory decreases to zero. Identify the inventory method that results in the lowest net income before taxes and the lowest income taxes. Is your answer different than in part 4d and 4e above? If so why?
- 5) Compare the total three-year net income if the firm uses FIFO to the three-year net income if the firm uses LIFO. How do they compare?
- 6) Compare the three-year income tax bill if the firm uses FIFO to the three-year income tax bill if the firm uses LIFO? How do they compare?
- 7) When firms decide what cost flow assumption to use for inventory, they generally give heavy weight to the impact the choice will have on the amount of income tax the firm expects to pay. Which method should this firm choose assuming that the tax rate remains constant throughout the three-year period? Explain your reasoning.

**ROLLER BLADE COMPANY
LIFO-FIFO WORKSHEET**

FIFO SUMMARY	20x1	20x2	20x3	Total
Sales				
Less Cost of Goods Sold:				
Beginning Inventory				
Purchases				
Cost of Goods Available				
Ending Inventory				
Cost of Goods Sold				
Gross Profit				
Other Expenses	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>60,000</u>
Net Income Before Taxes				
Income Taxes				
Net Income				
LIFO SUMMARY	20x1	20x2	20x3	Total
Sales				
Less Cost of Goods Sold:				
Beginning Inventory				
Purchases				
Cost of Goods Available				
Ending Inventory				
Cost of Goods Sold				
Gross Profit				
Other Expenses				
Net Income Before Taxes				
Income Taxes				
Net Income				

- Remember that ending inventory in one period is beginning inventory in the next period.
- Also, be sure you keep track of the individual layers of inventory if the firm ends the year with more than one acquisition price for the units remaining in the inventory.

Use a separate piece of paper to answer parts 3 through 7.

TOPIC IV: CASH AND RECEIVABLES

Many businesses find out the hard way that cash is a vulnerable asset. Chapter 6 describes steps that firms can take to safeguard cash and other tempting assets. There are many important suggestions in this chapter that will become especially meaningful to you if you start your own business. In this class we will only have time to concentrate on the process of “reconciling the bank account”. Reconciliation is required whenever you need to be sure that your records correspond to those of another entity such as your bank. You and the bank have different information about the activity in your account. Therefore you and the bank are likely to show a different account balance. The reconciliation process allows you to determine the “correct” balance – the one that accurately reflects all of the available information. If you have a personal checking account, you should regularly reconcile the balance you show in your checkbook to the balance that appears on the monthly bank statement so the procedures we will be discussing are relevant to your own life right now.

Receivables are generated when firms extend credit to customers. Credit may be extended in the form of an open account receivable (like a Dayton’s or Macy’s charge card) or in the form of a formal note receivable. Allowing customers to postpone paying for goods and services may increase sales. But whenever a business extends credit, it assumes the risk that the customer will fail to pay the bill. Generally accepted accounting principles require that bad debt expense be recognized in the accounting period when the credit sale is made and that receivables be valued on the balance sheet at “net realizable value” (the amount the firm eventually expects to collect). This means that firms should estimate bad debts before they actually occur and adjust the value of the receivable to reflect expected uncollectibles. This is not an easy task.

QUOTABLE QUOTES:

“No man’s credit is as good as his money.” ... Ed Howe

“Creditors have better memories than debtors.” ... Benjamin Franklin

“Short accounts make long friends.” ...Honore De Balzac

<i>Date</i>	<i>TOPIC</i>	<i>READING</i>	<i>FOR PRACTICE</i>	<i>HOMEWORK OR CASE DUE</i>
10/23	<i>Reconciling the bank account</i>	<i>Chapter 6 pages 264-279</i>	<i>E6-7A, E6-8A, E6-9A, E6-10A, E6-11A, P6-18A, P6-19A</i>	
10/25	<i>Accounts receivable and bad debts</i>	<i>Chapter 7</i>	<i>E7-1A, E7-2A, E7-5A, P7-15A, P7-16A</i>	HW 6
10/28	<i>More on bad debt allowances</i>		<i>E7-3A, E7-4A, E7-9A, E7-10A</i>	CASE IV: TJ International
10/30	<i>Short term notes receivable</i>		<i>E7-11A, E7-12A, E7-13A, E7-14A, P7-18A, P7-21A</i>	
11/01	<i>Receivables wrap up</i>			HW 7
11/04				CASE V: Sunbeam Corp
	QUIZ IV: Available 11/04, 11/05, 11/06			

NOTE: *The answers to all “A” exercises and problems is available on the class website.*

HOMEWORK ASSIGNMENT 6: Tentative Due Date Friday, 10/25

1. P6-21B
2. BANK RECONCILIATION PROBLEM: Standard Company makes all cash receipts and disbursements by check. You have obtained the following information for November and December 2000:

*STANDARD COMPANY
BANK RECONCILIATION
November 30, 2000*

<i>Balance per bank</i>	<i>\$14,785</i>
<i>Add: Deposit in transit</i>	<i>1,756</i>
<i>Deduct: Outstanding checks</i>	<i>(3,574)</i>
<i>Adjusted bank balance</i>	<i>\$12,967</i>
<i>Balance per books</i>	<i>\$12,972</i>
<i>Less: Service charge</i>	<i>(5)</i>
<i>Adjusted book balance</i>	<i>\$12,967</i>

Transactions during December as summarized on the bank statement and the company books are shown below:

	<i>Per Bank Statement</i>	<i>Per Company Books</i>
<i>Balance, November 30, 2000</i>	<i>\$14,785</i>	<i>\$12,967</i>
<i>December Deposits</i>	<i>21,788</i>	<i>24,599</i>
<i>Collection on accounts receivable of \$1,771, less collection fee of \$15</i>	<i>1,756</i>	
<i>December checks</i>	<i>(20,759)</i>	<i>(19,178)</i>
<i>Service charge</i>	<i>(25)</i>	
<i>Balance, December 31, 2000</i>	<i>\$17,545</i>	<i>\$18,388</i>

REQUIRED:

- 1) Determine the Deposits in Transit and the Outstanding Checks as of December 31, 2000.
- 2) Prepare a bank reconciliation at December 31.
- 3) Make the required adjusting entries to correct the cash account on the company's books.

HOMEWORK ASSIGNMENT 7: Tentative Due Date Friday 11/01

- 1) P7-15B
- 2) P7-18B
- 3) P7-22B
- 4) BAD DEBT PROBLEM: The YU Company operates in an industry that has been experiencing a high rate of bad debts. On December 31, 2000, before the company made any year-end adjustments, the balance in the YU Company's Accounts Receivable account was \$5 million, and the Allowance for Uncollectible Accounts account had a credit balance of \$250,000. The Allowance for Uncollectible Accounts account will be adjusted using the aging method and applying the schedule shown below:

<i>Days Account Outstanding</i>	<i>Amount</i>	<i>Probability of Collection</i>
<i>Less than 15 days</i>	<i>\$3,000,000</i>	<i>.98</i>
<i>Between 16 and 30 days</i>	<i>1,000,000</i>	<i>.90</i>
<i>Between 31 and 45 days</i>	<i>500,000</i>	<i>.80</i>
<i>Between 46 and 60 days</i>	<i>300,000</i>	<i>.70</i>
<i>Between 61 and 75 days</i>	<i>100,000</i>	<i>.60</i>
<i>Over 75 days</i>	<i>100,000</i>	<i>.50</i>

REQUIRED:

- 1) What is the appropriate balance for the Allowance for Uncollectible Accounts account at December 31, 2000?
- 2) Make the journal entry to record the required adjustment.
- 3) Show how Accounts Receivable would be presented on the balance sheet prepared at December 31, 2000.
- 4) What is the effect of the year-end bad debt expense adjustment on net income for 2000?
- 5) What is the effect of the year-end bad debt expense adjustment on cash flow from operations for 2000?

TOPIC V: ACCOUNTING FOR LONG-TERM OPERATIONAL ASSETS

Most firms invest in assets that will be of use over a relatively long period of time. These assets include (1) tangible items like land, buildings, equipment, natural resource deposits and (2) intangible items such as patents and goodwill. Acquisition of an asset (something that will provide future benefits) has a significantly different effect on the financial statements than, say, payment of an expense. The first question the accountant has to answer is “does this transaction involve the acquisition of an asset or are we merely paying an expense?” If an asset has been acquired, the accountant must decide how to account for it.

The basic rules of accounting are essentially the same for all tangible long-life assets. The original value of the asset is the sum of all necessary and reasonable costs of acquiring and asset and preparing it for use in its intended place of use. If the asset is used up over time (buildings, equipment, natural resources, but not land), its cost is allocated in some systematic way to the periods of use. This cost allocation process is called depreciation or amortization. Finally, accounting for the disposition requires that the asset be removed from the books. A gain(loss) is recognized if the proceeds are more than(less than) the book value of the asset at the time of the disposition. Lest this seem too simple, you should know that many transactions involving long-life assets involve complex financial elements that make application of the basic rules much more difficult.

Rules for valuing intangible assets depend upon the kind of asset. We will talk about some of the special problems associated with valuation of patents and goodwill.

By now, you should be aware of the fact that many valuable attributes of a firm are never shown as assets on a balance sheet. A reputation for honesty, a loyal workforce, accumulated know-how etc. may be the most valuable things a firm has. These things are not purchased in a market transaction. They cannot be objectively valued and hence they do not appear on a balance sheet.

QUOTABLE QUOTES:

“Little of all we value here

Wakes on the morn of its hundredth year.” Oliver Wendell Holmes

“One asset is omitted... and its worth I want to know

The asset is the value of the men who run the show.” Mathew Webster Jenkinson

“In business a reputation for keeping absolutely to the letter and spirit of an agreement, even when it is unfavorable, is the most precious of assets, although it is not entered in the balance sheet.” ... Lord Chandos (Oliver Lyttleton)

“Some day, on the corporate balance sheet, there will be an entry which reads, “Information”, for in most cases, the information is more valuable than the hardware which processes it”Grace Murray Hopper, Speech 1987

<i>Date</i>	<i>TOPIC</i>	<i>READING</i>	<i>FOR PRACTICE</i>	<i>HOMEWORK OR CASE DUE</i>
11/04	<i>Capitalizing vs expensing – an important difference</i>	<i>Chapter 9</i>	<i>E9-2A, E9-4A, E9-5A, E9-15A, P9-20A</i>	<i>CASE V: Sun-beam Corp</i>
11/06	<i>Depreciation and amortization</i>		<i>E9-9A, E9-16A, E9-17A, P9-21A, P9-22A, P9-23A</i>	
11/08	<i>Change of estimates and disposition of operational assets</i>	<i>“Garbage In, Garbage Out” (in packet)</i>	<i>E9-8A, E9-10A, E9-11A, E9-13A, P9-24A, p9-25A</i>	
11/11	<i>Intangibles</i>		<i>E9-18A, E9-19A, E9-30A, P9-31A</i>	<i>HW8</i>
11/13				<i>CASE VI: DEPRECIATION – AIRLINES</i>
	<i>QUIZ V: Available 11/13, 11/14, 11/15**</i>			

NOTE: The answers to all “A” exercises and problems are available on the class website.

***** Quiz VI will be available on my office door to be taken on the fourth floor of Holland Hall on Friday 11/15 instead of at a regular help session.***

HOMEWORK 8: Tentative Due Date Monday, 11/11

1. P9-20B
2. P9-23B
3. P9-24B
4. P9-26B
5. P9-28B

TOPIC VI: TIME VALUE OF MONEY AND LONG-TERM LIABILITIES

Would you rather have a dollar now or a dollar a year from now? Your preference should be for a dollar now. Why? If you have the dollar now, you can earn a return by investing it over the next year. Money is worth more now than at some time in the future because of the interest factor, the earning potential of the money. This concept is extremely important to understanding the basic rules of finance.

GAAP requires firms to use compound interest concepts (the effective interest method) to account for long-term debt. This method is only briefly discussed in your textbook. We will therefore use supplemental readings that are included in your packet. The readings present a general approach for accounting for all long-term debt and give you a chance to practice applying the effective interest method to a wide variety of debt instruments.

Bonds are one form long-term borrowing (lending) with some unique features. They obligate the borrower to make regular payments (usually twice a year). A large final payment, upon maturity, settles the debt. Accounting for bonds is often confusing because the variables associated with the loan are decided in a “strange” order. When you borrow money from the bank, you negotiate (1.) the amount to be borrowed (loaned) and (2) the interest rate to be paid (charged). The bank then sets up a payment schedule that reflects your agreement. When companies borrow by issuing bonds, they establish a payment schedule first. The amount that lenders are willing to give the company for the bonds is determined last. The amount borrowed (loaned) depends upon prevailing interest rates at the time the bonds are issued. High(low) prevailing interest rates reduce(increase) the present value of the payments and therefore decrease (increase) the amount that lenders are willing to give in exchange for the bonds. **You will find that you need to think about this carefully in order to understand it. Missing class at this point in the semester is unwise.**

QUOTABLE QUOTES:

“Time is money.”Benjamin Franklin

“Gentlemen prefer bonds.” Andrew Mellon

<i>Date</i>	<i>TOPIC</i>	<i>READING</i>	<i>FOR PRACTICE</i>	<i>HOMEWORK OR CASE DUE</i>
11/13	<i>Present and future value of a single sum</i>	<i>Emery, "Chapter 11: Compound Interest Concepts" (In packet)</i>	<i>All problems in the assigned reading</i>	CASE VI: DEPRECIATION –AIRLINES
11/15	<i>Present and future value of annuities</i>	<i>Emery, "Chapter 12: Annuities", (In packet)</i>	<i>All problems in the assigned reading</i>	
11/18	<i>Borrowing and lending long-term</i>	<i>Emery, "Basics of Long-term Borrowing" (In packet)</i>	<i>Be sure you understand all of the solved problems in the reading</i>	HW 9
11/20	<i>Bonds</i>			CASE VII: CAR LEASE CASE
11/22	<i>Bonds Continued</i>			
11/25	<i>The bond market</i>			HW 10
12/04				CASE VIII: BOND CASE
	QUIZ VI: Available 11/24, 11/25, 11/26**			

**** The quiz will be available on my office door during the day on Tuesday, 11/26. You must be sure to take the quiz before you leave for Thanksgiving break. The quiz will not include material covered in class on 11/25.**

HOMEWORK 9: Tentative Due Date: Monday, 11/18

COLLEGE COST AND SAVINGS PROBLEM: This problem will allow you to apply compound interest concepts to a college savings program for your first child, born, September 1, 2002. You begin the savings program immediately. You intend to have enough money in the college savings account when the child reaches age 19 and enrolls at the College to pay 70% of the comprehensive fee for all four years. Assume that the comprehensive fee at St. Olaf College is \$26,000 at the time the child is born.

INSTRUCTIONS:

1. What would you expect the annual comprehensive fee to be in 19 years when the child enrolls here if the Board of Regents increases the fee at an annual rate of 4%? What will the fee be for your child's sophomore, junior and senior years assuming the same rate of increase in the fee?
2. How much money will you have to have in your college savings account on the day your first child enrolls (beginning of the first-year) in order to cover 70% of his/her comp. fee for all four years assuming that you will earn an 8% return on your investments?
3. What is the annual amount you will have to save starting on September 1, 2002, with equal contributions going into the account on September 1 of each year so that the balance in the account will be adequate on September 1, 2021 to meet your 70% objective? You will not make a contribution on September 1, 2021, but will begin drawing from the account on that date to make the first payment of 70% of the first-year comprehensive fee.

4. Note: this problem requires that you use concepts of future value and present value for single amounts and annuities. It is not a simple problem so don't try to make it simple. Map out the cash flows in and out of the account. Be careful. Show the variables in your calculations.

HOMEWORK ASSIGNMENT 10: Tentative Due Date: Monday, 11/25

Hand in Practice Problems 1 through 13 in the reading: "Basics of Long-term Borrowing". You should work on this assignment as you read the material.

TOPIC VII: STOCKHOLDERS' EQUITY

Companies both large and small are organized as corporations where ownership is divided into “shares”. Each share of stock represents a proportionate ownership of the firm. Pay attention to the terminology in this chapter. While the specific definitions may seem picky, a clear and accurate understanding of the meaning of the words and the what the numbers represent is critical to understanding how equity transactions affect the financial statements. Be sure you read the part of the chapter that outlines the advantages and disadvantages of the corporate form of organization. You will need to know this information if you ever decide to start your own business.

QUOTABLE QUOTES

*“A corporation is an artificial being, invisible, intangible, and existing only in contemplation of law.”
.... Chief Justice John Marshall*

“Don’t gamble; take all your savings and buy some good stock and hold it til it goes up, then sell it. If it don’t go up, don’t buy it.” Will Rogers

<i>Date</i>	<i>TOPIC</i>	<i>READING</i>	<i>FOR PRACTICE</i>	<i>HOMEWORK OR CASE DUE</i>
12/02	Stock – introduction	Chapter 11	E11-3A, E11-4A, E11-5A, E11-7A	
12/04	Treasury stock		E1-8A, E11-9A, P11-20A, P11-21A	CASE VII: BOND CASE
12/06	Dividends and splits		E11-10A, E11-11A, E11-12A, E11-13A, E11-15A, P11-19A, P11-22A	
12/09	Values and ratios		E11-16A, P11-23A, P11-25A	
12/11	Debt vs. equity financing			HW10
	QUIZ VII: Available during the final exam period			
	CUMULATIVE FINAL EXAM			

The answers to all “A” exercises and problems are available on the class website.

HOMEWORK 11: Tentative Due Date Wednesday, 12/11

1. P11-19B
2. P11-22B
3. P11-25B

4. STOCK SPLITS AND STOCK DIVIDENDS: Jerry Dunphy purchased 1,000 shares of common stock of the Little Corporation for a price of \$20,000 several years ago. At the end of 2000, the stockholders’ equity section of the balance sheet is as follows:

*LITTLE CORPORATION
PARTIAL BALANCE SHEET
December 31, 2000*

<i>STOCKHOLDERS' EQUITY:</i>	
<i>Common stock (\$10 par value, 100,000 shares authorized, 80,000 shares issued and outstanding)</i>	<i>\$800,000</i>
<i>Paid-in capital in excess of par – common stock</i>	<i>450,000</i>
<i>Retained earnings</i>	<i>700,000</i>

<i>Total stockholders' equity</i>	<i>\$1,950,000</i>
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REQUIRED: For each of the following situations, make the appropriate journal entries or answer the required questions:

- 1) On June 30, 2001, the firm decided on a 2-for-1 stock split. At the time, the stock was trading at \$30 per share.
 - a) What entry should the firm make to record the stock split?
 - b) What effect did the split have on the total stockholders' equity of the firm?
 - c) What effect do you think that the split will have on the value Jerry's investment?
 - d) If Jerry decided to sell some shares at \$12 per share, how much gain or loss would he record per share? How much gain or loss would Little Corporation on its books when Jerry completes the sale of some of these shares?
- 2) On September 30, 2001, the firm declared and paid a cash dividend of \$.10 per share.
 - a) Make the entry required on the books of the Little Corporation.
 - b) After the cash dividend is declared and paid and the closing entries for the year have been posted, what is the total stockholders' equity of the company?
- 3) On December 31, 2001, the firm declared and distributed a 5% stock dividend. At the time of the declaration, the stock was trading at \$20 per share.
 - a) Make the required entry on the books of the Little Corporation.
 - b) What effect does this dividend have on total stockholders' equity of the company?
 - c) Assuming that Jerry has never sold any shares of stock, how many shares does he have on December 31, 2001? What is his cost per share?

5. FINDING MISSING NUMBERS: The stockholders' equity section on December 31, 2000 balance sheet of Sandy Bean Corporation appeared as follows (certain details omitted)

*SANDY BEAN CORPORATION
PARTIAL BALANCE SHEET
December 31, 2000*

<i>Preferred stock (5%, \$40 par value, authorized 100,000 shares; ??? issued and outstanding)</i>	<i>\$2,400,000</i>
<i>Common stock (\$5 par value, authorized 100,000 shares: ??? issued and ??? outstanding)</i>	<i>250,000</i>
<i>Paid-in capital in excess of par - common</i>	<i>750,000</i>
<i>Paid-in capital from sale of treasury stock</i>	<i>10,000</i>
<i>Retained earnings</i>	<i>580,000</i>
<i>Treasury stock at cost (1,000 shares of common)</i>	<i>22,000</i>

REQUIRED: Answer each of the following questions. Show your computations.

- 1) How many shares of preferred stock were issued?
- 2) Was the preferred stock issued at par, above par, below par?
- 3) How many shares of common stock were issued?
- 4) How many shares of common stock are outstanding?
- 5) What was the average issue price of the common stock?
- 6) Have the treasury stock transactions increased or decreased the firm's net assets, and by what amount?
- 7) How much did the treasury stock cost per share?
- 8) What is the amount of an annual preferred dividend?
- 9) What is the total amount of "contributed capital"?
- 10) What is the amount of total stockholders' equity?

(CONTINUED ON NEXT PAGE)

6. USING FINANCIAL RATIOS: Use the following information for Chrysler and General Motors (*note: this is not current information*) to answer the questions below:

	<i>Chrysler</i>	<i>General Motors</i>
<i>Annual Dividend</i>	<i>\$1.00</i>	<i>\$.80</i>
<i>Yield</i>	<i>2.2%</i>	<i>1.9%</i>
<i>Price-Earnings Ratio</i>	<i>5</i>	<i>8</i>

REQUIRED:

- 1) Based on the above figures, determine the closing stock price for Chrysler and General Motors.
- 2) Based on the above figures, determine the earnings per share for Chrysler and General Motors.
- 3) Based on the above figures, determine the Payout Ratio for both companies.
- 4) Based on the above figures, which firm do you think investors feel has the best potential for future earnings growth? Why?