11-52

App-10/25/11
Senate Info. - 11/8/11

Undergraduate Distance Education Review Form

(Required for all courses taught by distance education for more than one-third of teaching contact hours.)

Existing and Special Topics Course

Course: ACCT 305: Intermediate Accounting II

Instructor(s) of Record: Geoffrey Tickell, Ph.D, CPA & Sekhar Anatharaman, Ph.D, CA

Phone: 7-2753 **Email:** geoffrey.tickell@iup.edu

Step Two: Departmental/Dean Approval

Recommendation: [✓] Positive (The objectives of this course can be met via distance education)

[ ] Negative

Signature of Department Designee — Date 10/6/2011

Endorsed: Signature of College Dean — Date 10/18/2011

Forward form and supporting materials to Liberal Studies Office for consideration by the University-wide Undergraduate Curriculum Committee. Dual-level courses also require review by the University-wide Graduate Committee for graduate-level section.

Step Three: University-wide Undergraduate Curriculum Committee Approval

Recommendation: [✓] Positive (The objectives of this course can be met via distance education)

[ ] Negative

Signature of Committee Co-Chair — Date 10/25/11

Forward form and supporting materials to the Provost within 30 calendar days after received by committee.

Step Four: Provost Approval

Approved as distance education course   Rejected as distance education course

Signature of Provost — Date 10/27/11

Forward form and supporting materials to Associate Provost.

RECEIVED
OCT 26 2011
ASSOCIATE PROVOST OFFICE

Received
OCT 24 2011
Liberal Studies

Undergraduate Distance Education Review Form

(Required for all courses taught by distance education for more than one-third of teaching contact hours.)

Existing and Special Topics Course

Course: ACCT 304: **Intermediate Accounting** II

Instructor(s) of Record: Geoffrey Tickell, Ph.D, CPA; Sekhar Anantharaman, Ph.D, CA.

Phone: 7-2753 **Email:** geoffrey.tickell@iup.edu

Step One: **Proposers**

A. Provide a brief narrative rationale for each of the items, A1- A5.

1. **How is/are the instructor(s) qualified in the distance education delivery method as well as the discipline?**

Dr Geoffrey Tickell

- In his five years at IUP and at his previous universities, Dr Geoffrey Tickell (Associate Professor) has developed and taught several on-line courses. For IUP, these include ACCT 201, ACCT 202, and ACCT 607 (hybrid).
- Dr Tickell has also completed training courses for Moodle and Desire-to- Learn (D2L) at IUP.
- At his previous universities, Dr Tickell used Web-ct and Blackboard to provide on-line courses in Accounting.
- Dr Tickell has completed off-site training courses provided by the book publishers, John Wiley & Sons (i.e., WileyPlus) and Pearson (i.e., Course Compass & MyAccountingLab).
- Dr Tickell is approved by the Graduate School for graduate instruction and is classified as being Academically Qualified (AQ) by the College of Business' accreditation body (AACSB).

Dr Sekhar Anatharaman

- In his four years at IUP and at his previous universities, Dr Sekhar Anantharaman (Professor) has developed and taught several on-line courses. For IUP, these include ACCT 201, ACCT 202, and ACCT 607 (hybrid).
- Dr Sekhar has also completed training courses for Moodle and Desire-to- Learn (D2L) at IUP.
- At his previous universities, Dr Sekhar used Blackboard to provide on-line courses in Accounting.
- Dr Sekhar has completed off-site training courses provided by the book publishers, John Wiley & Sons (i.e., WileyPlus) and Pearson (i.e., Course Compass & MyAccountingLab). He has also been nominated by Pearson to be a mentor to neighboring college faculty for MyAccountingLab.

- Dr Sekhar is approved by the Graduate School for graduate instruction and is classified as being Academically Qualified (AQ) by the College of Business' accreditation body (AACSB).

2. How will each objective in the course be met using distance education technologies?

For all objectives;

1. The instructor will develop and set-up all of the required learning resources on IUP's Learning Management System (LMS) and the textbook publishers on-line learning electronic platform.
2. This on-line course will require students to purchase the textbook (either hardcover or e-book) and the textbook's on-line access code so that they can complete on-line homework and other on-line assessments.
3. The on-line course will also use IUP's Learning Management System (LMS) to provide learning resources and assessments for students. These include course materials, quizzes, exams, assignments, video, and discussion board.
4. During the semester, the instructor will respond to student emails on a daily basis and will monitor the discussion board.
5. The LMS will display individual student grades so that students can monitor their cumulative grade as the semester progresses.

Objective

1. **To review generally accepted accounting principles as they apply to financial reporting of creditor and shareholder interests in a corporation.**

   - To meet this objective, students should (preferably in this order):
     i. Watch a 30-minute introductory video on the topic of generally accepted accounting standards.
     ii. Read the chapters in the text book and take notes.
     iii. Read through the power point slides provided on the LMS.
     iv. Complete the on-line homework questions scheduled by the instructor from those provided by the textbook publisher. Students have three attempts to complete each question.
     v. Attempt a one-hour quiz, available on the LMS, on the concepts taught. Quiz questions are algorithmic and scrambled and students will have two attempts to achieve the highest score.
     vi. Undertake a one-hour on-line exam. Exam questions are algorithmic and scrambled and students have one attempt to complete each question.

2. **To introduce current financial reporting requirements for specialized financial areas, such as company pensions, capital leasing, and income tax liabilities.**

   - To meet this objective, students should (preferably in this order):

i. Watch a 30-minute introductory video on the topic of specialized financial accounting
ii. Read the chapters in the text book and take notes.
iii. Read an article outlining how accounting standards are formulated. This article will be provided on the LMS.
iv. Read through the power point slides provided on the LMS.
v. Complete the on-line homework questions scheduled by the instructor from those provided by the textbook publisher. Students have three attempts to complete each question.
vi. Attempt a one-hour quiz, available on the LMS, on the concepts taught. Quiz questions are algorithmic and scrambled and students will have two attempts to achieve the highest score.
vii. Undertake a one-hour on-line exam. Exam questions are algorithmic and scrambled and students have one attempt to complete each question.

3. To prepare journal entries and financial statements based upon an analytical review of business transactions.

- To meet this objective, students should (preferably in this order):

  i. Read the chapters in the text book and take notes.
  ii. Read through the power point slides provided on the LMS.
  iii. Complete the on-line homework questions scheduled by the instructor from those provided by the textbook publisher. Students have three attempts to complete each question.
  iv. Attempt a one-hour quiz, available on the LMS, on the concepts taught. Quiz questions are algorithmic and scrambled and students will have two attempts to achieve the highest score.
  v. Complete an individualized project that illustrates, through explanation and accompanying transactions, the different approaches taken by FASB and IFRS with regards to accounting for bond transactions. Students are to email their file to the instructor for assessment through the LMS.
  vi. Undertake a two-hour on-line final exam. Exam questions are algorithmic and scrambled and students have one attempt to complete each question.

3. How will instructor-student and student-student, if applicable, interaction take place?

Instructor interaction with the students will occur on different levels and times throughout the course. That is;

i. At the beginning of the course during the presentation of the syllabus and overall orientation of the student to distance education.
ii. During the course in the presentation of new materials and in response to general questions and comments raised by students.
iii. Individualize assistance during scheduled online office hours.
iv. Instructor participation via the discussion board.

Student-student interaction will take place via the discussion board and email.

4. **How will student achievement be evaluated?**

Student achievement will be determined by several criteria:

a. On-line homework assignments. Software provided by the textbook publisher will be used to assign homework and assist the instructor in scoring and monitoring the student's progress. The software enables students to attempt the homework up to three times and provides students with instant feedback on their answer. It also provides the student with the opportunity to work additional problems and check their answers. The highest score of each attempt counts towards the student's final grade.

b. On-line quizzes. Several quizzes will be given on-line to allow the student to determine their understanding of the course concepts. Students will be allowed two attempts to obtain the highest score for the quizzes. The quiz questions will be algorithmic thereby requiring students to work every question on each attempt. The higher score on each attempt counts towards the student's final grade.

c. On-line exams. Exams will be given on-line to assess the student's understanding of the course objectives. Exam questions will be algorithmic and scrambled and therefore no two students will receive exactly the same questions nor in the same order. Students will have one attempt for each exam.

d. Project. Students will be emailed an individual set of transactions. That is, a different set of transactions for each student. From the series of transactions, students will complete a 10-column worksheet and financial statements. Students will be required to email the completed project to the instructor via the LMS.

5. **How will academic honesty for tests and assignments be addressed?**

The course syllabus will detail the university's Academic Integrity Policy and it will be a part of the on-line orientation. Students will also be asked to acknowledge the receipt of this policy and their understanding of the consequence relating to academic dishonesty. Class assignments/quizzes/ exams/and reports will be designed, monitored and implemented in such a way as to reduce the student's opportunities to cheat or plagiarize. Examples would include:

a. The allotted time and window for completing the quiz and exam will restrict each student's opportunities to seek external assistance.

b. Quiz and exam questions will be algorithmic and scrambled.

c. The ability to print quiz and exam questions and answers will be blocked.

Since the issue of academic honesty is of major concern in the delivery on distance learning courses, as new techniques are developed to reduce dishonest behavior, they will be incorporated into the course.

B. Submit to the department or its curriculum committee the responses to items A1-A5, the current official syllabus of record, along with the instructor developed online version of the syllabus, and the sample lesson. This lesson should clearly demonstrate how the distance education instructional format adequately assists students to meet a course objective(s) using online or distance technology. It should relate to one concrete topic area indicated on the syllabus.

Appendix A: Syllabus of Record

Syllabus of Record – ACCT 305

I. Catalog Description

ACCT 305: Intermediate Accounting II — 3 credits
Prerequisite: "C" or better in ACCT 304-Intermediate Acct I — 3 Lecture hours
(3c-01-3cr)

Concentrates on financial reporting of creditor and investor claims on business assets in the form of liabilities and equity. Specialized financial reporting topics such as earnings per share, stock options, income tax, pensions and lease accounting are also covered.

II. Course Objectives

1. To review generally accepted accounting principles as they apply to financial reporting of creditor and shareholder interests in a corporation.

2. To introduce current financial reporting requirements for specialized financial areas, such as company pensions, capital leasing and income tax liabilities.

3. To prepare journal entries and financial statements based upon an analytical review of business transactions.

III. Detailed Course Outline (42 semester hours)

I. Current Liabilities (4 hours)
   1. Accounts Payables
   2. Notes Payable
   3. Refinancing of Short Term Debt
   4. Taxes Payable
   5. Payroll
   6. Compensated Absences
   7. Contingencies
      1. Categories
      2. Litigation
      3. Warranty Costs
      4. Environmental Liabilities
   H. Accounting for Employee Bonuses
   I. Financial Statement Presentation of Current Liabilities and Contingencies

II. Long-Term Corporate Bonds and Notes (5 hours)
   A. Types of Corporate Bonds
   B. Valuation of Corporate Bonds
      a. Present-Value Concepts
      b. Bond Discounts and Premiums
      c. Bonds Issued Between Interest Payment Dates.
   C. Bond Amortization
      a. Straight-Line Method

2. Effective-Interest Method

D. Early Retirement of Bonds

E. Long-Term Notes Payable

1. Issued for Property or Services

F. Troubled-Debt Restructurings

a. Loan Impairments

b. Alternative Settlement of Debt

c. Modification of Terms

a. Debtor's Books

b. Creditor's Books

G. Financial Statement Presentation of Long Term Debt

III. Accounting for Income Tax Liabilities (5 hours)

A. Financial Reporting Objectives for Income Taxes

B. Temporary Differences

1. Deferred Tax Liabilities – Future Taxable Amounts

2. Deferred Tax Assets – Future Deductible Amounts

C. Permanent Differences

D. Deferred Tax Asset Valuation Account

1. Negative and Positive Evidence for Recognition

E. Changes in Tax Rates

F. Accounting for Net Operating Losses

1. Loss Carrybacks

2. Loss Carryforwards

3. Valuation Account

G. Financial Statement Presentation of Deferred Tax Assets and Liabilities

1. Balance Sheet – Current vs. Noncurrent

2. Income Statement – Current vs. Deferred Tax Expense

3. Income Statement – Operating Loss Carrybacks and Carryforwards

H. Conceptual Aspects of Accounting for Income Taxes

1. Flow-Through Method

2. Comprehensive vs. Partial Allocation

3. Deferred vs. Asset-Liability Approach

IV. Pension and Postretirement Benefits Liability Accounting (5 hours)

A. Defined Contribution Plans

1. 401k Plans (Employee)

2. Keogh Plans (Small Business Owner)

3. Third Party Trustees

B. Defined Benefit Plans – Large Corporations

C. Measurement of the Pension Liability

1. Vested Benefit Obligation

2. Accumulated Benefit Obligation

3. Projected Benefit Obligations

D. Components of Pension Expense

1. Annual Service Cost

2. Interest on Projected Benefit Obligation

3. Actual Return on Plan Assets

4. Amortization of Unrecognized Prior Service Cost

5. Unexpected Actuarial Gains and Losses
    a. Actual vs. Expected Return on Plan Assets
    b. Changes in Projected Benefit Obligation Actuarial Assumptions
    c. Amortization of Cumulative Unexpected Gains and Losses
6. Minimum Pension Liability Measurement
7. Deferred Pension Cost Intangible Asset
8. Contra Stockholders' Equity Account
    a. Measurement
    b. Financial Statement Presentation – Other Comprehensive Income
9. Financial Statement Presentation of Pension Plans
    a. Schedule of Components of Pension Expense
    b. Reconciliation Schedule
10. Accounting for Postretirement Benefits
    a. Expected vs Accumulated Postretirement Benefits Obligations
    b. Postretirement Benefit Expense
        i. Service Cost
        ii. Interest Cost on Accumulated Postretirement Benefits Obligations
        1. Actual Return on Plan Assets
        2. Amortization of Prior Service Cost
        3. Amortization of Unexpected Actuarial Gains and Losses

V. Accounting for Leases (5 hours)
   A. Lease vs. Buy Decisions
   B. Capital vs. Operating Lease Criteria
   C. Lease Terminology
      1. Bargain Purchase Options
      2. Minimum Lease Payments
      3. Guaranteed vs. Unguaranteed Residual Values
      4. Executory Costs
      5. Interest Rates
         a. Incremental Borrowing Rate – Lessee
         b. Implicit Interest Rate - Lessor
   D. Accounting for Capital Leases - Lessee
      1. Inception of Lease
      2. Accrual of Interest
      3. Depreciation
      4. Lease Payments
      5. Residual Values
      6. Financial Statement Reporting
   E. Accounting for Capital Leases - Lessor
      1. Direct Financing vs. Sales-Type Lease
      2. Inception of Lease
      3. Interest Earned
      4. Lease Payment Receipts
      5. Residual Values
      6. Financial Statement Reporting

- F. Accounting for Operating Leases
  1. Lessee
  2. Lessor
- G. Sales-Leaseback Agreements

VI. Stockholders' Equity: Contributed Capital (3 hours)

- A. General Shareholder Rights
- B. Common Stock Issuance
  1. Par Value vs. No Par Value Stock
  2. Stock Subscriptions
  3. Multiple Security Issuances
  4. Noncash Stock Issuances
- C. Stock Buybacks (Treasury Stock)
  1. Corporate Rationale
  2. Cost Method
  3. Reissuance of Treasury Stock
  4. Retirement of Treasury Stock
- D. Preferred Stock
  1. Common Characteristics
     - a. Cumulative
     - b. Participating
     - c. Convertible
- E. Financial Statement Presentation of Contributed Capital

VII. Stockholders' Equity: Retained Earnings (3 hours)

- A. Dividends
  1. Cash
  2. Stock-Large vs. Small
  3. Other
- B. Stock Splits
  1. Rationale
  2. Effect on Stockholders' Equity
  3. Stock Split vs. Stock Dividend Differentiation
- C. Appropriations of Retained Earnings
- D. Statement of Changes of Stockholders' Equity

VIII. Dilutive Bond and Equity Securities (6 hours)

- A. Convertible Bonds
  1. Book Value Method
- B. Convertible Preferred Stock
- C. Stock Warrants Attached to Other Securities
  1. Proportional Method
  2. Incremental Method
- D. Long Term Compensation Plans (Stock Options)
  1. Rationale and Financial Reporting Controversy
  2. Incentive vs. Nonqualified Plans
  3. Current Reporting Standards
     - a. Intrinsic Method
     - b. Fair-Value Method
     - c. Noncompensatory Plans
  4. Accounting for Stock Appreciation Rights

5. Performance-Based Bonus Plans
    a. Return on Investment
    b. Percentage Growth in Sales
    c. Percentage Growth in Earnings Per Share

IX. Earnings Per Share (EPS) (4 hours)
   A. Definitions
      1. Basic
      2. Diluted
   B. Weighted-Average Common Shares Outstanding
   C. Stock Splits and Dividends
   D. Diluted EPS Computations
      1. Convertible Securities
      2. Stock Options – Treasury Stock Method
   E. Financial Statement Presentation of Earnings Per Share

X. Semester Examinations (2 hours)

IV. Evaluation Methods

The final grade for the course could be determined as follows

70% Examinations. Three hours of semester examinations and a two-hour final exam will contain questions predominantly consisting of multiple choice, short essay and short quantitative problems

15% Research paper. Research could take the form of using financial reporting databases to review current financial reporting standards, computer preparation of financial statements or reviews of recent accounting publications.

10% Homework and quizzes. Five short random quizzes or collected homework assignments will be graded during a semester.

5% Class participation. Student willingness to respond to questions regarding assignments and current accounting issues will be documented throughout the semester.

V. Example Grading Scale

A = 90 - 100
B = 80 - 89
C = 70 - 79
D = 60 - 69
F = Less than 60

VI. Undergraduate Course Attendance Policy

"The University expects all students to attend class." Your attendance and participation in classroom activities is an important component in the overall learning environment and is therefore strongly encouraged. Although attendance is not mandatory, failure to attend classes will impair your level of performance on the chapter tests, exams, and your ability to complete the homework assignments and in-class exercises. Please notify your instructor by email should you be absent from class.

VII. Required textbooks, supplemental books and readings

Required Text book: Kieso, Donald E., and Jerry J Weygandt. *Intermediate Accounting*, current edition, John Wiley and Sons, Inc. New York, New York.

Supplemental Textbook: Wiley GAAP: *Interpretation and Application of Generally Accepted Accounting Principles*, current edition, John Wiley and Sons, Inc. New York, New York.

VIII. Special Resource Requirements

Each student will be required to purchase a semester subscription to the Wall Street Journal.

IX. Bibliography

Chasteen, Flaherty and O'Connor. *Intermediate Accounting*, current edition. McGraw-Hill, Inc.

Dyckman, Davis and Dukes. *Intermediate Accounting*, current edition. McGraw-Hill, Inc

Nikolai and Bazley. *Intermediate Accounting*, current edition. Southwestern Publishing, Inc.

Appendix B: Proposed Distance Education Syllabus of Record

INDIANA UNIVERSITY OF PENNSYLVANIA
COLLEGE OF BUSINESS AND INFORMATION TECHNOLOGY
DEPARTMENT OF ACCOUNTING

3c-01-3cr

COURSE TITLE: **ACCT 305-8XX** **Intermediate Accounting II**

PREREQUISITES: ***C or better in ACCT 304***

CREDIT HRS. 3 hours

TIME & PLACE: DISTANCE EDUCATION ONLINE

INSTRUCTOR: Professor Sekhar (Shaker) Anantharaman

OFFICE: ECB 418K

OFFICE PHONE: 724-357-5754 FAX: 724-357-3776

E-MAIL: *sekhar@iup.edu*

OFFICE HOURS: Each day via email. In person office meetings only by appointment.

TEXTBOOK: **Intermediate Accounting, Kieso, Weygandt, and Warfield, 14Ed, Wiley. Also required is an Access Code for WileyPlus.**

I-DRIVE: Throughout the semester lecture notes and other materials will be placed on the "I-Drive" for students to download, print off, bring to class, etc. PLEASE Get into the habit of looking at the I-Drive each week and downloading the necessary resources.

D2L: Throughout the semester, lecture notes and other learning resources will be placed on the "D2L" site for students to download and print. Please develop the habit of looking at the D2L site regularly for class resources.

WILEYPLUS CLASS URL: http://edugen.wileyplus.com/edugen/class/clsXXXXX/

CATALOG DESCRIPTION

Concentrates on financial reporting of creditor and investor claims on business assets in the form of liabilities and equity. Specialized financial reporting topics such as earnings per share, stock options, income tax, pension, and lease accounting are also covered.

COURSE OBJECTIVES

1. To review generally accepted accounting principles as they apply to financial reporting of creditor and shareholder interests in a corporation.
2. To introduce current financial reporting requirements for specialized financial area, such as company pensions, capital leasing, and income tax liabilities.
3. To prepare journal entries and financial statements based upon an analytical review of business transactions.

COURSE CONTENT

This course covers the following topics:

1. Accounting for short-term liabilities.
2. Accounting for long-term liabilities.
3. Accounting for income tax.
4. Accounting for pension and postretirement.
5. Accounting for leases.
6. Accounting for stockholders' equity.
7. Accounting for dilutive securities and earnings per share

EVALUATION PROCEDURE AND GRADE DETERMINATION

X. Evaluation Procedure

	%
Exam 1	15
Exam 2	15
Final Exam	20
Project	15
Homework (WileyPlus)	20
Sample Questions (WileyPlus)	5
Chapter Quizzes (WileyPlus)	10
Total	100

II. Grading scale

A = 90% and above B = 80% and above but below 90%
C = 70% and above but below 80% D = 60% and above but below 70%
F = Below 60%

CLASS RULES AND/OR GUIDELINES

1. Obtain the textbook and the access code for WileyPlus **immediately**. All components of assessment are on WileyPlus. Ideally, you should have your access code by the **end** of the first day of class.
2. Regular study habits are very important to your understanding of the course material and success in the course. You should read each chapter thoroughly and attempt the exercises **BEFORE** attempting any assignments on WileyPlus.
3. Your success in the course depends on your ability to work exercises at the end of the chapter and the homework and quizzes assigned.
4. EXAMS will be administered after the completion of every two or three chapters. **All examinations are open book, open notes tests.** Please keep a calculator with you at all times for this course.

5. Your success in the course depends on your ability to work all questions at the end of the chapter and the homework, quizzes, and sample questions assigned for each chapter.

6. **You must keep up-to-date in this course.** It is easy to **keep up** with accounting but very difficult to **catch-up**. You should allow adequate study and preparation time for this course each day. If you are having difficulty please get help at the very beginning of the semester (and not a day or two before your scheduled exam(s)).

7. Homework **due dates** are **clearly indicated in WileyPlus**. Homework will **not** be accepted late under ***ANY CIRCUMSTANCES***. Please check WileyPlus on a regular basis to see which assignments are due.

8. Any student who misses a test will receive a grade of 0 (zero) for the test. There will be **NO MAKE-UPS GIVEN FOR MISSED EXAMS**. There will be no EXCEPTIONS to this rule. If you miss any exam, you should seriously reconsider your decision to continue on with the course.

9. Exams will be kept open for 48 hours. Once a student begins taking an exam s/he will have exactly 120 minutes to complete it. Please ensure that you are sitting at a computer with a reliable internet connection while taking the exam. It is your responsibility to ensure that you do not encounter any disruptions while taking the exam. If your internet connection at home is faulty, then please make alternate arrangements to ensure a good reliable connection. If you fail to complete your exam due to computer/internet connection problems you will NOT be given a make-up exam.

10. **ALL EXAMS, HOMEWORK problems Sample Questions, and QUIZZES should be done online in WileyPlus and submitted on or before the due date for credit. Assignments submitted late will not receive any credit (late submissions will not be eligible for any partial credit, so please do not ask). Exercises are for practice only and will not count towards your final course grade.**

11. You **do not** have the option of receiving an "I" or the grade earned at the end of the semester. Therefore, if you feel that you cannot make a passing grade in the course, please drop **before** the drop/add period is over.

12. SERVICES FOR PERSONS WITH DISABILITIES: Please refer to your student handbook for more information on this.

13. I will **not** release grades early to students. Also grades cannot be given out via email or over the telephone as per IUP policy and the provisions of FERPA, so please do not ask. Students can access their grades through URSA.

14. I sincerely hope you succeed in this course. I will to try my professional best to help you achieve that goal. Please review your course syllabus on a regular basis. **This is our contract for the course.**

ACCT 305-8XX – Tentative Schedule of Assignments – Semester Year
Online

DATE	CHAPTER	PRACTICE EXERCISES	HOMEWORK PROBLEMS (To be done on WileyPlus for credit)
Week 1	Introduction		
	Ch: 13 – Current Liabilities and Contingencies	E13-1, 2,	
Week 2	Ch: 13 – Continued	E13-3, 5, 8, 10, 13, 17	
Week 3	Ch: 14 – Long Term Liabilities	E14-2, 3, 4	**E 13-16 & P13-2 due**
		E14-5, 10,	
Week 4	Ch: 14 – Continued	E14-14, 15, 16	**P14-1 & P14-4 due**
Week 5	**EXAM I – Chs. 13 & 14**		
Week 5	Ch: 15 – Stockholder's Equity	E15-2, 3, 5	
		E15-6, 8, 12	
Week 6	Ch: 15 - Continued	E15-13, 18	
Week 7	Ch: 16 – Dilutive Securities and EPS	E16-1, 2, 6	**P15-1 & 15-9 due**
Week 8	Ch: 16 – Continued	E16-8, 11, 13,	
		E16-16, 19, 23,	
		E16-24, 25, 26	**P16-1 & P16-6 due**
Date	***Individual Course Withdrawal Deadline***		
Date	***Total Semester Withdrawal Deadline***		
Week 9	**EXAM 2 – Chs. 15 & 16**		
Week 9	Ch: 19 – Accounting for Income Taxes	E19-1, 2, 3, 4	
Week 10	Ch: 19 - Continued	E19-6, 8, 12,	
		E19-14, 21, 23	
Week 11	Ch: 20 – Accounting for Pensions and Postretirement Benefits	E20-2, 3	
Week 12	Ch: 20 – Continued	E20-5, 7, 8,	**P19-1 & P19-3 due**
		E20-10, 11,	
		E20-17, 20	
Week 13	Ch: 21 – Accounting for Leases	E21-1 through E21-15	
Week 14	Ch: 21 - Continued		**P20-1 & P20-4 due**
Week 15	**FINAL EXAM – Chs. 19, 20, & 21**	**(2 hours)**	

NOTE: The Instructor reserves the right to make changes in the syllabus or topics at any time during the term. Such changes, if any, will be emailed to students at their official IUP email address **If you do not check your IUP email regularly, you will still be responsible for all changes as announced.** ALL EXAMS, QUIZZES, Sample Questions, and Homework PROBLEMS have to be submitted in WileyPlus for credit. EXERCISES are for practice only and will not count towards your final course grade.

Do ALL the brief exercises for each chapter covered in class for practice.

WEBSITE to access WileyPlus for ACCT 305-8XX
Intermediate Accounting II – Semester Year
Prof. Sekhar (Shaker) Anantharaman's course

http://edugen.wileyplus.com/edugen/class/clsXXXXXX/

1. You will need to obtain an ACCESS CODE to login to this website. The access code can be purchased from the WileyPlus website. If you used WileyPlus for your ACCT 304 - Intermediate Accounting I course, then you should be able to access this site for ACCT 305-8XX using you old login ID and password. If you have forgotten your login ID or password from ACCT 304, please contact customer support at WileyPlus. ***I do not have access to your information and will not be able to help you with forgotten passwords, etc.***
2. Please log on to this website and do the sample questions that I have assigned for you.
3. Also, you will be able to do your Quizzes and Homework online and submit it online for immediate feedback.
4. Please complete all assigned work ***on or before the due date*** to receive proper credit. Pay attention to the Quiz or HW availability ***ending times*** (NOON) on the due dates. Work submitted after the due date (and time) will not receive any credit. There will be no exceptions to this policy.
5. You are responsible for obtaining an access code for WileyPlus immediately after registering for class. This will enable you to complete all online assignments on a timely basis. ***If you choose to delay obtaining the access code (or registering in WileyPlus) for any reason whatsoever, you will NOT BE PERMITTED to make up missed assignments.***

ACCT 305-8XX – Due Dates for ONLINE ASSIGNMENTS – Semester Year
Online

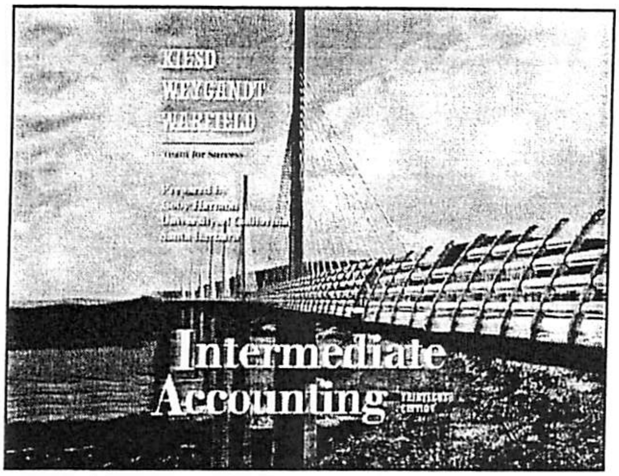
http://edugen.wileyplus.com/edugen/class/clsXXXXXX/

DATE	ASSIGNMENTS DUE DATES
Week 3	Chapters 13 HW due at noon
Week 4	Chapter 14 HW due at noon Chapters 13 and 14 QUIZZES due at noon
Week 5	***EXAM 1 on Chapters 15, 16, and Appendix 16A*** ***(Available from midnight Specific Date-Specific Date midnight - US Eastern Time)***
Week 7	Chapter 15 HW due at noon
Week 8	Chapter 16 HW due at noon Chapters 15 and 16 QUIZZES due at noon
Week 9	***EXAM 2 on Chapters 18 and 19*** ***(Available from midnight Specific Date-Specific Date midnight - US Eastern Time)***
Week 12	Chapter 19 HW due at noon
Week 14	Chapter 20 HW due at noon Chapters 19, 20, and 21 QUIZZES due at noon
Week 15	***FINAL EXAM on Chapters 19, 20, and 21*** ***(Available from midnight Specific Date-Specific Date midnight - US Eastern Time)***

IMPORTANT NOTE: You are allowed **unlimited** attempts for the regular chapter quizzes and sample questions. You are allowed a maximum of **3 (three)** attempts for your Homework problems. You have only **ONE ATTEMPT** at each EXAM.

Appendix C: Sample of Power Point slides

Topic: **Long-Term Liabilities**



CHAPTER 14

LONG-TERM LIABILITIES

Intermediate Accounting
13th Edition
Kieso, Weygandt, and Warfield

Chapter 14-2

Learning Objectives

1. Describe the formal procedures associated with issuing long-term debt.
2. Identify various types of bond issues.
3. Describe the accounting valuation for bonds at date of issuance.
4. Apply the methods of bond discount and premium amortization.
5. Describe the accounting for the extinguishment of debt.
6. Explain the accounting for long-term notes payable.
7. Explain the reporting of off-balance-sheet financing arrangements.
8. Indicate how to present and analyze long-term debt.

Chapter 14-3

Long-Term Liabilities

Bonds Payable

- Issuing bonds
- Types and ratings
- Valuation
- Effective-interest method
- Costs of issuing
- Extinguishment

Long-Term Notes Payable

- Notes issued at face value
- Notes not issued at face value
- Special situations
- Mortgage notes payable

Reporting and Analyzing Long-Term Debt

- Off-balance-sheet financing
- Presentation and analysis

Chapter 14-4

Bonds Payable

Long-term debt consists of probable future sacrifices of economic benefits arising from present obligations that are <u>not payable</u> within a year or the operating cycle of the company, whichever is longer.

Examples:

- Bonds payable
- Notes payable
- Mortgages payable
- Pension liabilities
- Lease liabilities

Long-term debt has various covenants or restrictions.

Chapter 14-5

LO 1 Describe the formal procedures associated with issuing long-term debt.

Issuing Bonds

- Bond contract is known as a **bond indenture.**
- Represents a promise to pay:
  - (1) <u>sum of money</u> at designated maturity date, plus
  - (2) <u>periodic interest</u> at a specified rate on the maturity amount (face value).
- Paper certificate, typically a $1,000 face value.
- Interest payments usually made <u>semiannually</u>.
- Purpose is to borrow when the amount of capital needed is too large for one lender to supply.

Chapter 14-6

LO 1 Describe the formal procedures associated with issuing long-term debt.

Types and Ratings of Bonds

Common types found in practice:

- Secured and Unsecured (debenture) bonds,
- Term, Serial, and Callable bonds,
- Convertible bonds, Commodity-backed bonds, Deep-discount bonds (Zero-interest debenture bonds),
- Registered bonds and bearer or coupon bonds,
- Income and Revenue bonds.

Chapter 14-7

LO 2 Identify various types of bond issues.

Types and Ratings of Bonds

Corporate bond listings would look like those below.

Issuer	Coupon Maturity	Price: High/Low	Yield: High/Low	Volume ($, 000)
BellSouth Corp.	6.000	102.190	5.839	
	11/15/2034	95.370	0.357	23,125
General Motors Corp.	8.375	96.426	8.721	
	07/15/2033	86.781	9.779	923,072

Chapter 14-8

LO 2 Identify various types of bond issues.

Valuation of Bonds – Discount and Premium

Between the time the company sets the terms and the time it issues the bonds, the market conditions and the financial position of the issuing corporation may change significantly. *Such changes affect the marketability of the bonds and thus their selling price.*

The investment community values a bond at the **present value** of its expected future cash flows, which consist of (1) **interest** and (2) **principal.**

Chapter 14-9

LO 3 Describe the accounting valuation for bonds at date of issuance.

Valuation of Bonds – Discount and Premium

Interest Rates

- **Stated, coupon, or nominal rate** = The interest rate written in the terms of the bond indenture.
- **Market rate or effective yield** = rate that provides an acceptable return on an investment commensurate with the issuer's risk characteristics.

  This is the rate of interest actually earned by the bondholders.

Chapter 14-10

LO 3 Describe the accounting valuation for bonds at date of issuance.

Valuation of Bonds – Discount and Premium

How do you calculate the amount of interest that is actually paid to the bondholder each period?

(Stated rate x Face Value of the bond)

How do you calculate the amount of interest that is actually recorded as interest expense by the issuer of the bonds?

(Market rate x Carrying Value of the bond)

Chapter 14-11

LO 3 Describe the accounting valuation for bonds at date of issuance.

Valuation of Bonds – Discount and Premium

Calculating the Selling Price of a Bond

1- Depends on Market Rate of interest

2- The selling price of a Bond (Proceeds from Issue):
  - PV of maturity value, plus
  - PV of periodic interest payments
  - Discount factor is the Market rate of interest

3- In case of Semi-annual interest paying bonds (for PV tables):
  - the periods are doubled, and
  - the interest rate is halved

Chapter 14-12

LO 3 Describe the accounting valuation for bonds at date of issuance.

Valuation of Bonds – Discount and Premium

Assume Stated Rate of 8%

Market Interest		Bonds Sold At
6%	→	Premium
8%	→	Face Value
10%	→	Discount

Bonds Issued at Par

Illustration: Three year bonds are issued at face value of $100,000 on Jan. 1, 2011, with a stated interest rate of 8%. Interest paid annually on Dec. 31. Calculate the issue price of the bonds, market interest rate of 8%.

Market Rate 8% (PV for 3 periods at 8%)

Principal		×		=	
Interest		×		=	
			Present value		
			Face value		100,000
	Discount/Premium				

Solution on notes page

Bonds Issued at Par

Illustration: Three year bonds are issued at face value of $100,000 on Jan. 1, 2011, a stated interest rate of 8%, and market rate of 8%.

Date	Cash Interest Paid	Interest Expense	Carrying Amount
1/1/11			$100,000
12/31/11	$ 8,000	$ 8,000	100,000
12/31/12	8,000	8,000	100,000
12/31/13	8,000	8,000	100,000

Bonds Issued at Par

Illustration: Stated rate = 8%. Market rate = 8%.

Journal entries for 2011:

1/1/11	Cash	100,000	
	Bonds payable		100,000
	(to record bond issue)		
12/31/11	Interest expense	8,000	
	Cash		8,000
	(to record annual interest paid)		

Bonds Issued at a Discount

Illustration: Three year bonds are issued at face value of $100,000 on Jan. 1, 2011, and a stated interest rate of 8%. Calculate the issue price of the bonds assuming a market interest rate of 10%.

Market Rate 10% (PV for 3 periods at 10%)

Principal		×		=	
Interest		×		=	
			Present value		
			Face value		100,000
			Discount		

Solution on notes page

Bonds Issued at a Discount

Illustration: Three year bonds are issued at face value of $100,000 on Jan. 1, 2011, a stated interest rate of 8%, and market rate of 10%.

Date	8% Cash Interest Paid	10% Interest Expense	Discount Amortized	Carrying Amount
1/1/11				$ 95,027
12/31/11	$ 8,000	$ 9,503	$ 1,503	96,530
12/31/12	8,000	9,653	1,653	98,183
12/31/13	8,000	9,817*	1,817	100,000

* rounding

Bonds Issued at a Discount

Illustration: Stated rate = 8%. Market rate = 10%.

Journal entries for 2011:

1/1/11	Cash	95,027	
	Discount on bonds payable	4,973	
	Bonds payable		100,000
	(to record bond issue)		
12/31/11	Interest expense	9,503	
	Discount on bonds payable		1,503
	Cash		8,000
	(to record annual interest paid)		

LO 4 Apply the methods of bond discount and premium amortization.

Bonds Issued at a Premium

Illustration: Three year bonds are issued at face value of $100,000 on Jan. 1, 2011, and a stated interest rate of 8%. Calculate the issue price of the bonds assuming a market interest rate of 6%.

Market Rate 6% (PV for 3 periods at 6%)

Principal		x		=	
Interest		x		=	
		Present value			
		Face value			100,000
		Premium			

Solution on notes page

LO 4 Apply the methods of bond discount and premium amortization.

Bonds Issued at a Premium

Illustration: Three year bonds are issued at face value of $100,000 on Jan. 1, 2011, a stated interest rate of 8%, and market rate of 6%.

Date	8% Cash Interest Paid	6% Interest Expense	Premium Amortized	Carrying Amount
1/1/11				$ 105,346
12/31/11	$ 8,000	$ 6,321	$ 1,679	103,667
12/31/12	8,000	6,220	1,780	101,887
12/31/13	8,000	6,113	1,887	100,000

LO 4 Apply the methods of bond discount and premium amortization.

Bonds Issued at a Premium

Illustration: Stated rate = 8%. Market rate = 6%.

Journal entries for 2011:

1/1/11	Cash	105,346	
	Premium on bonds payable		5,346
	Bonds payable		100,000
	(to record bond issue)		
12/31/11	Interest expense	6,321	
	Premium on bonds payable	1,679	
	Cash		8,000
	(to record annual interest paid)		

LO 4 Apply the methods of bond discount and premium amortization.

Valuation of Bonds – Discount and Premium

Bonds Issued between Interest Dates

Buyers will pay the seller the interest accrued from the last interest payment date to the date of issue.

On the next semiannual interest payment date, purchasers will receive the full six months' interest payment.

LO 4 Apply the methods of bond discount and premium amortization.

Valuation of Bonds – Discount and Premium

Illustration: On March 1, 2010, KC Corporation issues 10-year bonds, dated January 1, 2010, with a par value of $800,000. These bonds have an interest rate of 6 percent per annum, payable semiannually on January 1 and July 1. Prepare the journal entry to record the bond issuance at **par plus accrued interest**.

($800,000 x .06 x 2/12) = $8,000

Cash	808,000	
Bonds Payable		800,000
Bond Interest Expense		8,000

LO 4 Apply the methods of bond discount and premium amortization.

Valuation of Bonds – Discount and Premium

Illustration: On July 1, 2010, four months after the date of bond issue, KC pays six months' interest. KC makes the following entry on July 1, 2010.

Bond Interest Expense	24,000	
Cash		24,000

($800,000 x .06 x 6/12) = $24,000

Bond Interest Expense

Debit / Dr.	Credit / Cr.
$24,000	$8,000
$16,000	

Valuation of Bonds – Discount and Premium

Classification of Discount and Premium

Discount on bonds payable is a liability valuation account, that reduces the face amount of the related liability (contra-account).

Premium on bonds payable is a liability valuation account, that adds to the face amount of the related liability (adjunct account).

Balance Sheet (in thousands)		
Assets		
Cash	$	40,000
Inventories		95,000
Plant assets, net		280,000
Total assets	$	415,000
Liabilities and Equity		
Accounts payable	$	80,000
Bonds payable		140,000
Disount on bonds payable		(15,000)
Common stock, $1 par		150,000
Retained earnings		60,000
Total liabilities and equity	$	415,000

LO 4 Apply the methods of bond discount and premium amortization.

Costs of Issuing Bonds

Unamortized bond issue costs are treated as a deferred charge and amortized over the life of the debt. *Page 701 for example*

LO 4 Apply the methods of bond discount and premium amortization.

Extinguishment of Debt

Extinguishment before Maturity Date

- Reacquisition price > Net carrying amount = Loss
- Net carrying amount > Reacquisition price = Gain
- At time of reacquisition, unamortized premium or discount, and any costs of issue applicable to the bonds, must be amortized up to the reacquisition date.

LO 5 Describe the accounting for the extinguishment of debt.

Extinguishment of Debt

Illustration: Three year 8% bonds of $100,000 issued on Jan. 1, 2011, are recalled at 105 on Dec. 31, 2012. Expenses of recall are $2,000. Market interest on issue date was 10%.

Date	B 8% Cash Interest Paid	A 10% of CV Interest Expense	(A-B) Discount Amortized	Carrying Value (CV)
1/1/11				$ 95,027
12/31/11	$ 8,000	$ 9,503	$ 1,503	96,530
12/31/12	8,000	9,653	1,653	98,183

Account Balances at Dec. 31, 2012:

Bonds payable =	$98,183
Discount on bonds payable ($4,973-1,503-1,653) =	1,817

LO 5 Describe the accounting for the extinguishment of debt.

Extinguishment of Debt

Illustration: Three year 8% bonds of $100,000 issued on Jan. 1, 2011, are recalled at 105 on Dec. 31, 2012. Expenses of recall are $2,000. Market interest on issue date was 10%.

Journal entry at Dec. 31, 2012:

Bonds payable	100,000	
Loss on extinguishment	8,817	
Cash		107,000
Discount on bonds payable		1,817

Reacquisition price = $105,000 + 2,000 = $107,000

LO 5 Describe the accounting for the extinguishment of debt.

Long-Term Notes Payable

Accounting is Similar to Bonds

- A note is valued at the present value of its future interest and principal cash flows.
- Company amortizes any discount or premium over the life of the note.

Notes Issued at Face Value

BE14-12: Coldwell, Inc. issued a $100,000, 4-year, 10% note at face value to Flint Hills Bank on January 1, 2011, and received $100,000 cash. The note requires annual interest payments each December 31. Prepare Coldwell's journal entries to record (a) the issuance of the note and (b) the December 31 interest payment.

		Debit	Credit
(a)	Cash	100,000	
	Notes payable		100,000
(b)	Interest expense	10,000	
	Cash		10,000
	($100,000 x 10% = $10,000)		

Zero-Interest-Bearing Notes

Issuing company records the difference between the face amount and the present value (cash received) as

- a discount and
- amortizes that amount to interest expense over the life of the note.

Zero-Interest-Bearing Notes

BE14-13: Samson Corporation issued a 4-year, $75,000, zero-interest-bearing note to Brown Company on January 1, 2011, and received cash of $47,663. The implicit interest rate is 12%. Prepare Samson's journal entries for (a) the Jan. 1 issuance and (b) the Dec. 31 recognition of interest.

Date	B 0% Cash Interest Paid	A 12% of CV Interest Expense	(A-B) Discount Amortized	Carrying Value (CV)
1/1/11				$ 47,663
12/31/11	0	$ 5,720	$ 5,720	53,383
12/31/12	0	$ 6,406	6,406	59,788
12/31/13	0	$ 7,175	7,175	66,963
12/31/14	0	8,037	8,037	75,000

Zero-Interest-Bearing Notes

BE14-13: Samson Corporation issued a 4-year, $75,000, zero-interest-bearing note to Brown Company on January 1, 2011, and received cash of $47,663. The implicit interest rate is 12%. Prepare Samson's journal entries for (a) the Jan. 1 issuance and (b) the Dec. 31 recognition of interest.

		Debit	Credit
(a)	Cash	47,663	
	Discount on notes payable	27,337	
	Notes payable		75,000
(b)	Interest expense	5,720	
	Discount on notes payable		5,720
	($47,663 x 12%)		

Interest-Bearing Notes

BE14-14: McCormick Corporation issued a 4-year, $40,000, 5% note to Greenbush Company on Jan. 1, 2011, and received a computer that normally sells for $31,495. The note ***requires*** <u>annual</u> interest payments each Dec. 31. The market rate of interest is 12%. Prepare McCormick's journal entries for (a) the Jan. 1 issuance and (b) the Dec. 31 interest.

Date	5% of FV Cash Interest Paid	12% of CV Interest Expense	Discount Amortized	Carrying Value (CV)
1/1/11				$31,495
12/31/11	$ 2,000	$ 3,779	$1,779	33,274
12/31/12	2,000	$ 3,993	1,993	35,267
12/31/13	2,000	$ 4,232	2,232	37,499
12/31/14	2,000	4,501	2,501	40,000

Notes Issued at Face Value

Date	5% of FV Cash Interest Paid	12% of CV Interest Expense	Discount Amortized	Carrying Value (CV)
1/1/11				$31,495
12/31/11	$ 2,000	$3,779	$1,779	33,274
12/31/12	2,000	$3,993	1,993	35,267

(a) Computer	31,495	
Discount on notes payable	8,505	
Notes payable		40,000
(b) Interest expense	3,779	
Cash		2,000
Discount on notes payable		1,779

(to record interest expense for 2011)

 LO 6 *Explain the accounting for long-term notes payable.*

Special Notes Payable Situations

Notes Issued for Property, Goods, and Services

When exchanging the debt instrument for property, goods, or services in a bargained transaction, the stated interest rate is presumed to be fair unless:

(1) No interest rate is stated, or

(2) The stated interest rate is unreasonable, or

(3) The face amount is materially different from the *current cash price* for the same or similar items or from the *market value* of the debt instrument.

 LO 6 *Explain the accounting for long-term notes payable.*

Special Notes Payable Situations

Choice of Interest Rates

If a company cannot determine the fair value of the property, goods, services, or other rights, and if the note has no ready market, the company must impute an interest rate.

The choice of rate is affected by:

- prevailing rates for similar instruments
- factors such as restrictive covenants, collateral, payment schedule, and the existing prime interest rate.

 LO 6 *Explain the accounting for long-term notes payable.*

Special Notes Payable Situations

Illustration: On December 31, 2010, Wunderlich Company issued a promissory note to Brown Interiors Company for architectural services. The note has a face value of $550,000, a due date of December 31, 2015, and a stated interest rate of 2%, payable at the end of each year. Wunderlich cannot readily determine the fair value of the architectural services, nor is the note readily marketable. On the basis of Wunderlich's credit rating, the absence of collateral, the prime interest rate at that date, and the prevailing interest on Wunderlich's other outstanding debt, the company *imputes an 8 percent interest rate* as appropriate in this circumstance.

 LO 6 *Explain the accounting for long-term notes payable.*

Special Notes Payable Situations

Illustration 14-15

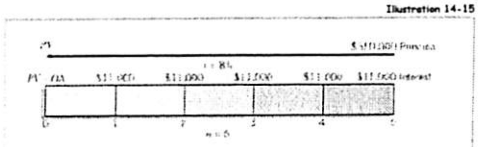


Illustration 14-16

Face value of the note		$550,000
Present value of $550,000 due in 5 years at 8% interest payable annually (Table 6-2): $FV(PVF_{5,8\%})$; ($550,000 × .68058)	$374,319	
Present value of $11,000 interest payable annually for 5 years at 8%; $R(PVF\text{-}OA_{5,8\%})$; ($11,000 × 3.99271)	43,920	
Present value of the note		418,239
Discount on notes payable		$131,761

 LO 6 *Explain the accounting for long-term notes payable.*

Special Notes Payable Situations

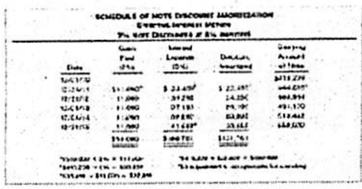
Wunderlich records issuance of the note in payment for the architectural services as follows.

Building (or Construction in Process)	418,239	
Discount on Notes Payable	131,761	
Notes Payable		550,000

 LO 6 *Explain the accounting for long-term notes payable.*

Special Notes Payable Situations

Illustration 14-17



Payment of the first year's interest and amortization of the discount as follows.

Interest expense	33,459	
Discount on Notes Payable		22,459
Cash		11,000

Mortgage Notes Payable

A promissory note secured by a document called a mortgage that pledges title to property as security for the loan.

- Most common form of long-term notes payable.
- Payable in full at maturity or in installments.
- Fixed-rate mortgage.
- Variable-rate mortgages.

Off-Balance-Sheet Financing

An attempt to borrow monies in such a way to prevent recording the obligations.

Different Forms:

- Non-Consolidated Subsidiary
- Special Purpose Entity (SPE)
- Operating Leases

Presentation and Analysis of Long-Term Debt

Presentation of Long-Term Debt

Note disclosures generally indicate the nature of the liabilities, maturity dates, interest rates, call provisions, conversion privileges, restrictions imposed by the creditors, and assets designated or pledged as security.

Must disclose future payments for sinking fund requirements and maturity amounts of long-term debt during each of the next five years.

Presentation and Analysis of Long-Term Debt

Analysis of Long-Term Debt

Two ratios that provide information about debt-paying ability and long-run solvency are:

1. Debt to total assets $= \dfrac{\text{Total debt}}{\text{Total assets}}$

The higher the percentage of debt to total assets, the greater the risk that the company may be unable to meet its maturing obligations.

Presentation and Analysis of Long-Term Debt

Analysis of Long-Term Debt

Two ratios that provide information about debt-paying ability and long-run solvency are:

2. Times interest earned $= \dfrac{\text{Income before income taxes and interest expense}}{\text{Interest expense}}$

Indicates the company's ability to meet interest payments as they come due.

Presentation and Analysis of Long-Term Debt

Illustration: Best Buy has total liabilities of $7,369 million, total assets of $13,570 million, interest expense of $31 million, income taxes of $752 million, and net income of $1,377 million. We compute Best Buy's debt to total assets and times interest earned ratios

Illustration 14-21

$$\text{Debt to total assets} = \frac{\boxed{}}{\boxed{}} = \boxed{}$$

$$\text{Times interest earned} = \frac{\boxed{} + \boxed{} + \boxed{}}{\boxed{}} = \boxed{}$$

Solution on notes page
LO 8 Indicate how to present and analyze long-term debt.

CONVERGENCE CORNER

LIABILITIES

RELEVANT FACTS

- Similar to U.S. practice, iGAAP requires that companies present current and noncurrent liabilities on the face of the balance sheet, with current liabilities generally presented in order of liquidity.
- Under iGAAP, the measurement of a provision related to a contingency is based on the best estimate of the expenditure required to settle the obligation. If a range of estimates is predicted and no amount in the range is more likely than any other amount in the range, the "mid-point" of the range is used to measure the liability. In U.S GAAP, the minimum amount in a range is used.

CONVERGENCE CORNER

LIABILITIES

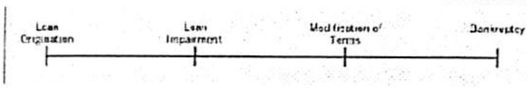
RELEVANT FACTS

- Both GAAPs prohibit the recognition of liabilities for future losses.
- iGAAP and U.S. GAAP are similar in the treatment of asset retirement obligations (AROs). However, the recognition criteria for an ARO are more stringent under U.S. GAAP.
- iGAAP and U.S. GAAP are similar in their treatment of contingencies. However, under U.S. GAAP, contingent assets for insurance recoveries are recognized if probable; iGAAP requires the recovery be "virtually certain" before recognition of an asset is permitted.

APPENDIX 14A TROUBLED-DEBT RESTRUCTURINGS

Usual Progression in Troubled-Debt Situations

Illustration 14A-1



A troubled-debt restructuring involves one of two basic types of transactions:

1. Settlement of debt at less than its carrying amount.
2. Continuation of debt with a modification of terms.

LO 9 Describe the accounting for a debt restructuring.

APPENDIX 14A TROUBLED-DEBT RESTRUCTURINGS

Settlement of Debt

Can involve either a

- transfer of noncash assets (real estate, receivables, or other assets) or
- the issuance of the debtor's stock.

Creditor should account for the noncash assets or equity interest received at their fair value.

LO 9 Describe the accounting for a debt restructuring.

APPENDIX 14A TROUBLED-DEBT RESTRUCTURINGS

Illustration (Transfer of Assets): American City Bank loaned $20,000,000 to Union Mortgage Company. Union Mortgage cannot meet its loan obligations. American City Bank agrees to accept from Union Mortgage real estate with a fair value of $16,000,000 in full settlement of the $20,000,000 loan obligation. The real estate has a carrying value of $21,000,000 on the books of Union Mortgage. American City Bank (creditor) records this transaction as follows.

Real Estate	16,000,000	
Allowance for Doubtful Accounts	4,000,000	
Note Receivable from Union Mortgage		20,000,000

LO 9 Describe the accounting for a debt restructuring.

APPENDIX 14A TROUBLED-DEBT RESTRUCTURINGS

Illustration (Transfer of Assets): The bank records the real estate at fair value. Further, it makes a charge to the Allowance for Doubtful Accounts to reflect the bad debt write-off. Union Mortgage (debtor) records this transaction as follows.

Note Payable to American City Bank	20,000,000	
Loss on Disposition of Real Estate	5,000,000	
Real Estate		21,000,000
Gain on Restructuring of Debt		4,000,000

LO 9 Describe the accounting for a debt restructuring.

APPENDIX 14A TROUBLED-DEBT RESTRUCTURINGS

Illustration (Granting an Equity Interest): American City Bank agrees to accept from Union Mortgage 320,000 shares of common stock ($10 par) that has a fair value of $16,000,000, in full settlement of the $20,000,000 loan obligation. American City Bank (creditor) records this transaction as follows.

Investment	16,000,000	
Allowance for Doubtful Accounts	4,000,000	
Note Receivable from Union Mortgage		20,000,000

LO 9 Describe the accounting for a debt restructuring.

APPENDIX 14A TROUBLED-DEBT RESTRUCTURINGS

Illustration (Granting an Equity Interest): It records the stock as an investment at the fair value at the date of restructure. Union Mortgage (debtor) records this transaction as follows.

Note Payable to American City Bank	20,000,000	
Common stock		3,200,000
Additional paid-in capital		12,800,000
Gain on Restructuring of Debt		4,000,000

LO 9 Describe the accounting for a debt restructuring.

APPENDIX 14A TROUBLED-DEBT RESTRUCTURINGS

Modification of Terms

A debtor's serious short-run cash flow problems will lead it to request one or a combination of the following modifications:

1. Reduction of the stated interest rate.
2. Extension of the maturity date of the face amount of the debt.
3. Reduction of the face amount of the debt.
4. Reduction or deferral of any accrued interest.

LO 9 Describe the accounting for a debt restructuring.

APPENDIX 14A TROUBLED-DEBT RESTRUCTURINGS

Illustration (Example 1—No Gain for Debtor): On December 31, 2009, Morgan National Bank enters into a debt restructuring agreement with Resorts Development Company, which is experiencing financial difficulties. The bank restructures a $10,500,000 loan receivable issued at par (interest paid to date) by:

1. Reducing the principal obligation from $10,500,000 to $9,000,000;
2. Extending the maturity date from December 31, 2009, to December 31, 2013; and
3. Reducing the interest rate from 12% to 8%.

LO 9 Describe the accounting for a debt restructuring.

APPENDIX 14A TROUBLED-DEBT RESTRUCTURINGS

Schedule Showing Reduction of Carrying Amount of Note

Illustration 14A-2

RESORTS DEVELOPMENT CO. (DEBTOR)

Date	Cash Paid (8%)	Interest Expense (3.46613%)	Reduction of Carrying Amount	Carrying Amount of Note
12/31/09				$10,500,000
12/31/10	$ 720,000[a]	$ 363,944[b]	$ 356,056[c]	10,143,944
12/31/11	720,000	351,602	368,398	9,775,546
12/31/12	720,000	339,833	380,167	9,395,379
12/31/13	720,000	325,621	394,379	9,000,000
	$2,880,000	$1,380,000	$1,500,000	

[a] $720,000 = $9,000,000 × .08
[b] $363,944 = $10,500,000 × 3.46613%
[c] $356,056 = $720,000 − $363,944

Dec. 31, 2010	Notes Payable	356,056	
	Interest Expense	363,944	
	Cash		720,000

LO 9 Describe the accounting for a debt restructuring.

APPENDIX 14A TROUBLED-DEBT RESTRUCTURINGS

Schedule Showing Reduction of Carrying Amount of Note

Illustration 14A-2

RESORTS DEVELOPMENT CO. (DEBTOR)

Date	Cash Paid (8%)	Interest Expense (3.46613%)	Reduction of Carrying Amount	Carrying Amount of Note
12/31/09				$10,500,000
12/31/10	$ 720,000[a]	$ 363,944[b]	$ 356,056[c]	10,143,944
12/31/11	720,000	351,602	368,398	9,775,546
12/31/12	720,000	338,833	381,167	9,394,379
12/31/13	720,000	325,621	394,379	9,000,000
	$2,880,000	$1,380,000	$1,500,000	

[a]$720,000 = $9,000,000 × .08
[b]$363,944 = $10,500,000 × 3.46613%
[c]$356,056 = $720,000 − $363,944

Dec. 31, 2013	Notes Payable	9,000,000	
	Cash		9,000,000

Chapter 14-41 | LO 9 Describe the accounting for a debt restructuring.

APPENDIX 14A TROUBLED-DEBT RESTRUCTURINGS

Creditor Calculations

Morgan National Bank (creditor)

Illustration 14A-3

Pre-restructure carrying amount		$10,500,000
Present value of restructured cash flows:		
Present value of $9,000,000 due in 4 years at 12%, interest payable annually (Table 6-2; $FVPF_{4,12\%}$); ($9,000,000 × .63552)	$5,719,680	
Present value of $720,000 interest payable annually for 4 years at 12% (Table 6-4; $R(PVF\text{-}OA_{4,12\%})$); $720,000 × 3.03735)	2,186,892	
Present value of restructured cash flows		7,906,572
Loss on restructuring		$ 2,593,428

Morgan National Bank records bad debt expense as follows

Bad Debt Expense	2,593,428	
Allowance for Doubtful Accounts		2,593,428

Chapter 14-42 | LO 9 Describe the accounting for a debt restructuring.

APPENDIX 14A TROUBLED-DEBT RESTRUCTURINGS

Creditor Calculations

In subsequent periods, Morgan National Bank reports interest revenue based on the historical effective rate.

Illustration 14A-4

MORGAN NATIONAL BANK (CREDITOR)

Date	Cash Received (8%)	Interest Revenue (12%)	Increase of Carrying Amount	Carrying Amount of Note
12/31/09				$7,906,572
12/31/10	$ 720,000[a]	$ 948,789[b]	$ 228,789[c]	8,135,361
12/31/11	720,000	976,243	256,243	8,391,604
12/31/12	720,000	1,006,992	286,992	8,678,596
12/31/13	720,000	1,041,404[d]	321,404[d]	9,000,000
Total	$2,880,000	$3,973,428	$1,093,428	

Dec. 10, 2010			
	Cash	720,000	
	Allowance for Doubtful Accounts	228,789	
	Interest Revenue		948,789

Chapter 14-43

APPENDIX 14A TROUBLED-DEBT RESTRUCTURINGS

Creditor Calculations

The creditor makes a similar entry (except for different amounts debited to Allowance for Doubtful Accounts and credited to Interest Revenue) each year until maturity. At maturity, the company makes the following entry.

Dec. 10, 2013			
	Cash	9,000,000	
	Allowance for Doubtful Accounts	1,500,000	
	Notes receivable		10,500,000

Chapter 14-44 | LO 9 Describe the accounting for a debt restructuring.

APPENDIX 14A TROUBLED-DEBT RESTRUCTURINGS

Illustration (Example 2—Gain for Debtor): Assume the facts in the previous example except that Morgan National Bank reduces the principal to $7,000,000 (and extends the maturity date to December 31, 2013, and reduces the interest from 12% to 8%). The total future cash flow is now $9,240,000 ($7,000,000 of principal plus $2,240,000 of interest), which is $1,260,000 ($10,500,000 $9,240,000) less than the pre-restructure carrying amount of $10,500,000. Under these circumstances, Resorts Development (debtor) reduces the carrying amount of its payable $1,260,000 and records a gain of $1,260,000. On the other hand, Morgan National Bank (creditor) debits its Bad Debt Expense for $4,350,444.

Chapter 14-45 | LO 9 Describe the accounting for a debt restructuring.

APPENDIX 14A TROUBLED-DEBT RESTRUCTURINGS

Illustration (Example 2—Gain for Debtor): Morgan National Bank (creditor) debits its Bad Debt Expense for $4,350,444.

Illustration 14A-5

Pre-restructure carrying amount		$10,500,000
Present value of restructured cash flows:		
Present value of $7,000,000 due in 4 years at 12%, interest payable annually (Table 6-2; $FVPF_{4,12\%}$); ($7,000,000 × .63552)	$4,448,640	
Present value of $560,000 interest payable annually for 4 years at 12% (Table 6-4; $R(PVF\text{-}OA_{4,12\%})$); ($560,000 × 3.03735)	1,700,916	6,149,556
Creditor's loss on restructuring		$ 4,350,444

Illustration 14A-6

December 31, 2009 (date of restructure)

Resorts Development Co. (Debtor)			Morgan National Bank (Creditor)		
Notes Payable	1,260,000		Bad Debt Expense	4,350,444	
Gain on Restructuring of Debt		1,260,000	Allowance for Doubtful Accounts		4,350,444

Chapter 14-46 | LO 9 Describe the accounting for a debt restructuring.

APPENDIX 14A TROUBLED-DEBT RESTRUCTURINGS

Illustration (Example 2—Gain for Debtor): Morgan National reports interest revenue the same as the previous example—

Illustration 14A-7

MORGAN NATIONAL BANK (CREDITOR)

Date	Cash Received (8%)	Interest Revenue (12%)	Increase in Carrying Amount	Carrying Amount of Note
12/31/09				$6,149,553
12/31/10	$ 560,000[a]	$ 737,947[b]	$177,947[c]	6,327,500
12/31/11	560,000	759,300	199,300	6,526,800
12/31/12	560,000	783,216	223,216	6,750,016
12/31/13	560,000	809,981[d]	249,981[d]	7,000,000
Total	$2,240,000	$3,090,444	$850,444	

[a]$560,000 = $7,000,000 × .08
[b]$737,947 = $6,149,553 × .12
[c]$177,947 = $737,947 − $560,000
[d]$31 adjustment to compensate for rounding

LO 9 Describe the accounting for a debt restructuring.

APPENDIX 14A TROUBLED-DEBT RESTRUCTURINGS

Illustration (Example 2—Gain for Debtor): Accounting for periodic interest payments and final principal payment.

Illustration 14A-8

Resorts Development Co. (Debtor)			Morgan National Bank (Creditor)		
December 31, 2010 (date of first interest payment following restructure)					
Notes Payable	560,000		Cash	560,000	
Cash		560,000	Allowance for Doubtful Accounts	177,947	
			Interest Revenue		737,947
December 31, 2011, 2012, and 2013 (dates of 2nd, 3rd, and last interest payments)					
(Debit and credit same accounts as 12/31/10 using applicable amounts from appropriate amortization schedules.)					
December 31, 2013 (date of principal payment)					
Notes Payable	7,000,000		Cash	7,000,000	
Cash		7,000,000	Allowance for Doubtful Accounts	3,500,000	
			Notes Receivable		10,500,000

LO 9 Describe the accounting for a debt restructuring.

Copyright

Appendix D: Sample of On-line Homework Software

Topic: **Long-Term Liabilities**

Chapter 14 HW

Questions/Exercises

P14-1

(Analysis of Amortization Schedule and Interest Entries)

The following amortization and interest schedule reflects the issuance of 10-year bonds by Capulet Corporation on January 1, 2004, and the subsequent interest payments and charges. The company's year-end is December 31, and financial statements are prepared once yearly.

Amortization Schedule				
Year	Cash	Interest	Amount Unamortized	Book Value
1/1/2004	$11,000		$5,651	$ 94,349
2004	11,000	$11,322	5,329	94,671
2005	11,000	11,361	4,968	95,032
2006	11,000	11,404	4,564	95,436
2007	11,000	11,452	4,112	95,888
2008	11,000	11,507	3,605	96,395
2009	11,000	11,567	3,038	96,962
2010	11,000	11,635	2,403	97,597
2011	11,000	11,712	1,691	98,309
2012	11,000	11,797	894	99,106
2013	11,000	11,894		100,000

Indicate whether the bonds were issued at a premium or a discount?

Discount

Show Solution

Is the amortization schedule based on the straight-line method or the effective interest method?

Effective interest

Show Solution

Determine the stated interest rate and the effective interest rate.

Stated Rate	11%
Effective Rate	12%

Show Solution

On the basis of the schedule above, prepare the journal entry to record the issuance of the bonds on January 1, 2004. ***(List multiple debit/credit entries from largest to smallest amount, e.g. 10, 5, 2.)***

Date	Description/Account	Debit	Credit
01/01/04	Cash	94,349	
	Discount on Bonds Payable	5,651	
	Bonds Payable		100,000

On the basis of the schedule above, prepare the journal entry or entries to reflect the bond transactions and accruals for 2004. (Interest is paid January 1.) ***(List multiple debit/credit entries from largest to smallest amount, e.g. 10, 5, 2.)***

Date	Description/Account	Debit	Credit
12/31/04	Interest Expense	11,322	
	Interest Payable		11,000
	Discount on Bonds Payable		322

On the basis of the schedule above, prepare the journal entry or entries to reflect the bond transactions and accruals for 2011. Capulet Corporation does not use reversing entries. ***(List multiple debit/credit entries from largest to smallest amount, e.g. 10, 5, 2.)***

Date	Description/Account	Debit	Credit
01/01/11	Interest Payable	11,000	
	Cash		11,000
12/31/11	Interest Expense	11,712	
	Interest Payable		11,000
	Discount on Bonds Payable		712

Link to Text

Report Content Error

Date	Description/Account	Debit	Credit
12/31/04	Interest Expense	11,322	
	Interest Payable		11,000
	Discount on Bonds Payable		322

On the basis of the schedule above, prepare the journal entry or entries to reflect the bond transactions and accruals for 2011. Capulet Corporation does not use reversing entries. ***(List multiple debit/credit entries from largest to smallest amount, e.g. 10, 5, 2.)***

Date	Description/Account	Debit	Credit
01/01/11	Interest Payable	11,000	
	Cash		11,000
12/31/11	Interest Expense	11,712	
	Interest Payable		11,000
	Discount on Bonds Payable		712

Link to Text

Report Content Error

P14-4

(Issuance and Retirement of Bonds; Income Statement Presentation)

Holiday Company issued its 9%, 25-year mortgage bonds in the principal amount of $3,000,000 on January 2, 1996, at a discount of $150,000, which it proceeded to amortize by charges to expense over the life of the issue on a straight-line basis. The indenture securing the issue provided that the bonds could be called for redemption in total but not in part at any time before maturity at 104% of the principal amount, but it did not provide for any sinking fund.

On December 18, 2010, the company issued its 11%, 20-year debenture bonds in the principal amount of $4,000,000 at 102, and the proceeds were used to redeem the 9%, 25-year mortgage bonds on January 2, 2011. The indenture securing the new issue did not provide for any sinking fund or for retirement before maturity.

Prepare journal entries to record the issuance of the 11% bonds and the retirement of the 9% bonds. ***(List multiple debit/credit entries from largest to smallest amount, e.g. 10, 5, 2.)***

Date	Account/Description	Debit	Credit
12/18/10	Cash	4,080,000	
	Bonds Payable		4,000,000
	Premium on Bonds Payable		80,000
	(To record issuance of bonds.)		
01/02/11	Bonds Payable	3,000,000	
	Loss on Redemption of Bonds	180,000	
	Cash		3,120,000
	Discount on Bonds Payable		60,000
	(To record retirement of bonds.)		

Show Solution

How would the gain or loss from retirement be shown in the income statement?

Ordinary

Show Solution

Link to Text Link to Text Link to Text

Report Content Error

Appendix E: Example of an on-line quiz

Topic: **Long-Term Liabilities**

Student Name: ____

Acct 305 Exam 1

Question 1

Which of the following is not true about the discount on short-term notes payable?

- The Discount on Notes Payable account has a debit balance.
- The Discount on Notes Payable account should be reported as an asset on the balance sheet.
- When there is a discount on a note payable, the effective interest rate is higher than the stated discount rate.
- All of these are true.

Question 2

Employer payroll taxes include all of the following except:

- federal unemployment taxes.
- federal income taxes.
- state unemployment taxes.
- FICA taxes.

Question 3

Gain contingencies are recorded when:

- a) it is probable that a benefit will be received.
- b) the amount of the gain can be reasonably estimated.
- c) Both A and B.
- d) None of the above.

Question 4

If bonds are initially sold at a discount and the straight-line method of amortization is used, interest expense in the earlier years will

- exceed what it would have been had the effective-interest method of amortization been used.
- be the same as what it would have been had the effective-interest method of amortization been used.
- be less than the stated (nominal) rate of interest.
- be less than what it would have been had the effective-interest method of amortization been used.

Question 5

The covenants and other terms of the agreement between the issuer of bonds and the lender are set forth in the

- bond debenture.
- bond indenture.
- registered bond.
- bond coupon.

Question 6

When a note payable is exchanged for property, goods, or services, the stated interest rate is presumed to be fair unless

- no interest rate is stated.
- the stated interest rate is unreasonable.
- the stated face amount of the note is materially different from the current cash sales price for similar items or from current market value of the note.
- any of these.

Question 7

Bonds that pay no interest unless the issuing company is profitable are called

- debenture bonds.

-
- income bonds.
- collateral trust bonds.
- revenue bonds.

Question 8

The ability to consummate the refinancing of a short-term obligation may be demon- strated by

- actually refinancing the obligation by issuing a long-term obligation after the date of the balance sheet but before it is issued.
- entering into a financing agreement that permits the enterprise to refinance the debt on a long-term basis.
- actually refinancing the obligation by issuing equity securities after the date of the balance sheet but before it is issued.
- All of these.

Question 9

Which of the following is a condition for accruing a liability for the cost of compensation for future absences?

- The obligation relates to the rights that vest or accumulate.
- Payment of the compensation is probable.
- The obligation is attributable to employee services already performed.
- All of these are conditions for the accrual.

Question 10

A liability for compensated absences such as vacations, for which it is expected that employees will be paid, should

- be accrued during the period following vesting.
- not be accrued unless a written contractual obligation exists.
- be accrued during the period when the compensated time is expected to be used by employees.

- be accrued during the period when earned.

Question 11

Jeff Beck is a farmer who owns land which borders on the right-of-way of the Northern Railroad. On August 10, 2010, due to the admitted negligence of the Railroad, hay on the farm was set on fire and burned. Beck had had a dispute with the Railroad for several years concerning the ownership of a small parcel of land. The representative of the Railroad has offered to assign any rights which the Railroad may have in the land to Beck in exchange for a release of his right to reimbursement for the loss he has sustained from the fire. Beck appears inclined to accept the Railroad's offer. The Railroad's 2010 financial statements should include the following related to the incident:

- creation of a liability only.
- disclosure in note form only.
- recognition of a loss and creation of a liability for the value of the land.
- recognition of a loss only.

Question 12

A company is legally obligated for the costs associated with the retirement of a long-lived asset

- when it is probable the asset will be retired.
- only when it hires another party to perform the retirement activities.
- only if it performs the activities with its own workforce and equipment.
- whether it hires another party to perform the retirement activities or performs the activities itself.

Question 13

A corporation borrowed money from a bank to build a building. The long-term note signed by the corporation is secured by a mortgage that pledges title to the building as security for the loan. The corporation is to pay the bank $80,000 each year for 10 years to repay the loan. Which of the following relationships can you expect to apply to the situation?

- The balance of mortgage payable will remain a constant amount over the 10-year period.
- The amount of interest expense will decrease each period the loan is outstanding, while the portion of the annual payment applied to the loan principal will increase each period.

The amount of interest expense will remain constant over the 10-year period.

-
- The balance of mortgage payable at a given balance sheet date will be reported as a long-term liability.

Question 14

Long-term debt that matures within one year and is to be converted into stock should be reported

- as a current liability.
- in a special section between liabilities and stockholders' equity.
- as noncurrent.
- as noncurrent and accompanied with a note explaining the method to be used in its liquidation.

Question 15

Which one of the following statements related to compensated absences is incorrect?

- Accumulated rights can be carried forward to future periods if not used in the period earned.
- Vested rights are not contingent on an employee's future service.
- The expense and related liability should normally be computed using the future salary rate.
- All of the options are correct statements.

Question 16

Which of the following is a characteristic of a current liability but not a long-term liability?

- Transaction or other event creating the liability has already occurred.
- Unavoidable obligation.
- Present obligation that entails settlement by probable future transfer or use of cash, goods, or services.
- Liquidation is reasonably expected to require use of existing resources classified as current assets or create other current liabilities.

Question 17

Glaus Corp. signed a three-month, zero-interest-bearing note on November 1, 2010 for the purchase of $150,000 of inventory. The face value of the note was $152,205. Assuming Glaus used a "Discount on Note Payable" account to initially record the note and that the discount will be amortized equally over the 3-month period, the adjusting entry made at December 31, 2010 will include a

- debit to Discount on Note Payable for $735.
- credit to Interest Expense for $1,470.
- debit to Interest Expense for $1,470.
- credit to Discount on Note Payable for $735.

Question 18

Collier borrowed $175,000 on October 1 and is required to pay $180,000 on March 1. What amount is the note payable recorded at on October 1 and how much interest is recognized from October 1 to December 31?

- $175,000 and $0
- $180,000 and $0
- $175,000 and $5,000
- $175,000 and $3,000

Question 19

Vista newspapers sold 4,000 of annual subscriptions at $125 each on September 1. How much unearned revenue will exist as of December 31?

- $333,333
- $0
- $166,667
- $500,000

Question 20

Purchase Retailer made cash sales during the month of October of $132,600. The sales are subject to a 6%

sales tax that was also collected. Which of the following would be included in the summary journal entry to reflect the sale transactions?

- Debit Cash for $132,600.
- Credit Sales Tax Payable for $7,506.
- Credit Sales for $125,094.
- Credit Sales Tax Payable for $7,956.

Question 21

Roark Co., which has a taxable payroll of $400,000, is subject to FUTA tax of 6.2% and a state contribution rate of 5.4%. However, because of stable employment experience, the company's state rate has been reduced to 2%. What is the total amount of federal and state unemployment tax for Roark Co.?

- $46,800
- $32,800
- $16,000
- $11,200

Question 22

Vargas Company has 35 employees who work 8-hour days and are paid hourly. On January 1, 2009, the company began a program of granting its employees 10 days of paid vacation each year. Vacation days earned in 2009 may first be taken on January 1, 2010. Information relative to these employees is as follows:

Year	Hourly Wages	Vacation Days Earned by Each Employee	Vacation Days Used by Each Employee
2009	$25.80	10	0
2010	27.00	10	8
2011	28.50	10	10

Vargas has chosen to accrue the liability for compensated absences at the current rates of pay in effect when the compensated time is earned.

What is the amount of expense relative to compensated absences that should be reported on Vargas's income statement for 2009?

- $72,240
- $0
- $68,880

- $75,600

Question 23

Reich, Inc. issued bonds with a maturity amount of $200,000 and a maturity ten years from date of issue. If the bonds were issued at a premium, this indicates that

- the market and nominal rates coincided.
- no necessary relationship exists between the two rates.
- the effective yield or market rate of interest exceeded the stated (nominal) rate.
- the nominal rate of interest exceeded the market rate.

Question 24

On January 1, 2010, Ellison Co. issued eight-year bonds with a face value of $1,000,000 and a stated interest rate of 6%, payable semiannually on June 30 and December 31. The bonds were sold to yield 8%. Table values are:

Present value of 1 for 8 periods at 6%	0.627
Present value of 1 for 8 periods at 8%	0.540
Present value of 1 for 16 periods at 3%	0.623
Present value of 1 for 16 periods at 4%	0.534
Present value of annuity for 8 periods at 6%	6.210
Present value of annuity for 8 periods at 8%	5.747
Present value of annuity for 16 periods at 3%	12.561
Present value of annuity for 16 periods at 4%	11.652

The present value of the interest is

- $344,820
- $376,830
- $349,560
- $372,600

Question 25

Feller Company issues $20,000,000 of 10-year, 9% bonds on March 1, 2010 at 97 plus accrued interest. The bonds are dated January 1, 2010, and pay interest on June 30 and December 31. What is the total cash received on the issue date?

- $19,100,000
- $19,400,000
- $20,450,000
- $19,700,000

Question 26

A company issues $20,000,000, 7.8%, 20-year bonds to yield 8% on January 1, 2010. Interest is paid on June 30 and December 31. The proceeds from the bonds are $19,604,145. What is interest expense for 2011, using straight-line amortization?

- $1,540,207
- $1,560,000
- $1,569,192
- $1,579,793

Question 27

On January 1, 2010, Huber Co. sold 12% bonds with a face value of $600,000. The bonds mature in five years, and interest is paid semiannually on June 30 and December 31. The bonds were sold for $646,200 to yield 10%. Using the effective-interest method of amortization, interest expense for 2010 is

- $64,620.
- $64,436.
- $72,000.
- $60,000.

Question 28

On October 1, 2010 Bartley Corporation issued 5%, 10-year bonds with a face value of $500,000 at 104. Interest is paid on October 1 and April 1, with any premiums or discounts amortized on a straight-line basis. The entry to record the issuance of the bonds would include a

- debit of $20,000 to Discount on Bonds Payable.
- credit of $480,000 to Bonds Payable.
- credit of $20,000 to Premium on Bonds Payable.
- credit of $12,500 to Interest Payable.

Question 29

Carr Corporation retires its $100,000 face value bonds at 105 on January 1, following the payment of interest. The carrying value of the bonds at the redemption date is $103,745. The entry to record the redemption will include a

- credit of $3,745 to Loss on Bond Redemption.
- debit of $3,745 to Premium on Bonds Payable.
- credit of $1,255 to Gain on Bond Redemption.
- debit of $5,000 to Premium on Bonds Payable.

Question 30

A debenture bond is a (an):

- secured bond.
- unsecured bond.
- callable bond.
- term bond.