

# BGSU<sup>®</sup>

**Bowling Green State University**

## Intermediate Accounting II

ACCT 422/522

Fall, 2008



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# Intermediate Accounting II

ACCT 422/522

Fall, 2008



Accounting can be  
the key  
to your future.

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<b>Classes:</b>	<b>432/532</b>	<b>3:30</b>	<b>MWF 217 Ols</b>
	<b>422/522</b>	<b>4:30</b>	<b>MW 217 Ols</b>
	<b>222</b>	<b>6:00</b>	<b>MW 217 Ols</b>
<b>Off Hrs:</b>	<b>1:45-3:15</b>		<b>M&amp;F 335</b>

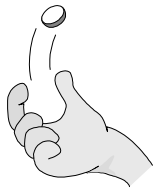
## Prerequisites & position in the accounting program

The prerequisite of this course for undergraduate students is passing *Intermediate Accounting I* (ACCT 321) or the equivalent with a grade of C or better **and** receiving permission of the department. If you have received a **permission to enroll** slip, and if you've passed ACCT 321 with a grade of C or better, then you're in. Students without a permission slip must obtain one from the department office in 332 BA.

Undergraduate accounting students must take at least seven accounting courses to graduate with a *BSBA Accounting Concentration* degree. The five required accounting courses are *Intermediate Accounting I* (ACCT 321), *Cost Accounting* (ACCT 331), *Accounting Information Systems* (ACCT 460), *Auditing* (ACCT 451) and either *Individual Tax* (ACCT 341) or *Corporate Tax* (Acct 442). The additional courses from which two must be taken are *Intermediate Accounting II* (ACCT 422), *Managerial Accounting* (ACCT 432), several tax courses, *Financial Statement Analysis*, *Governmental and Non-profit Accounting*, and *Information Systems Auditing & Control*. If you are going to take the CPA exam, you will need an eighth accounting class.

## Introduction

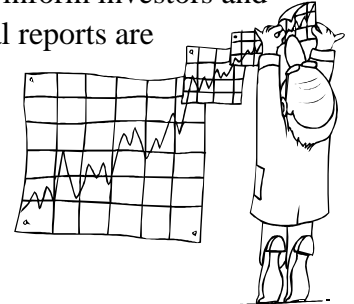
Financial accounting refers to the financial statements (and the entire process involved in creating the financial statements) published by a company for an audience of interested parties outside the company. It is very important to our economy because many people, such as investors and lenders, need information to help them make informed decisions. For example, an investor is a person with excess money who wants additional income. The investor sometimes has the opportunity to buy stock in a particular company. Many factors go into the investor's decision, such as:



What to do?

- Is the person running the company capable?
- Is the manager someone I can trust?
- Can the business make money?
- How long before I can get my profits & money out of the investment?
- What are the chances of losing my investment?

A company prepares financial reports, financial accounting's product, to inform investors and other interested parties about its financial performance. The principal financial reports are the income statement, balance sheet, and statement of cash flows. For example, the investor looks at the income statement to see if the company has made a profit in the past. Past profitability is a factor in predicting future profitability. The investor can look at the balance sheet to see if the company owes others a lot of money. A small debt load lessens the investment's risk. The statement of cash flows reveals the rates of dividend payout in the past.



To help the investor, the manager hires a credible outsider (a Certified Public Accountant) to check on the truthfulness of the financial statements. This may not help the investor trust the manager, but it will enable the investor to trust the financial statements. Financial reports don't directly evaluate the manager, but they can be used by investors to help them form an opinion about the manager.

## Why you should take this course

I believe *Intermediate Accounting II* is the most valuable course in the undergraduate accounting program, and possibly the most valuable course you will ever take. There are many reasons for this, however, I will focus on only four.

Taking this course now is more important than ever because the rules of financial accounting change all the time. Perhaps you knew something about the financial accounting rules in place two years ago. Well, they have changed so much that publishing houses are giving up on revising older texts that teach accounting. They are commissioning authors to start from scratch in explaining the current rules of accounting.

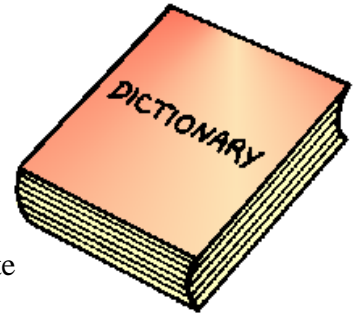
Moreover, the Bush administration has decided to scrap more stringent American GAAP and replace it with international GAAP, called IFRS. Although this course is not yet about IFRS, as a result of taking this course you will be well positioned to learn it when it becomes necessary.

Second, American businesses are measured by the amount of profit they make. If ever you will be in a position to evaluate a business—for investing in it, selling to it on credit, lending money to it, auditing it—then you will need to know as much as you can about the primary

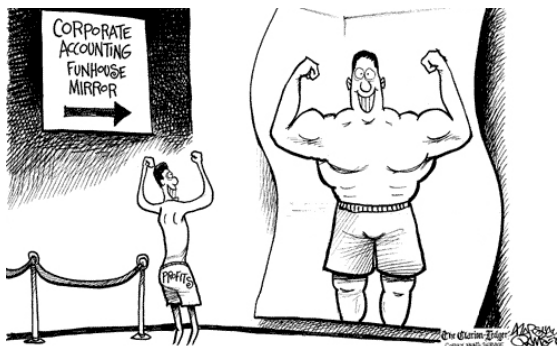


evaluation criterion of profit. If you don't know about or understand profit, then any decision you will make would have to be suspect—a gamble in part or in whole. Well, the measurement of profit is net income, and net income is an accounting calculation. I don't know that calculating net income is as difficult as calculating the trajectory needed to take a space shuttle from launch pad to orbiting space station, but I think it is arguable. Net income is the most important number that financial accounting produces and reports. In the same way that the person guiding a space shuttle needs to know about trajectory, business people need to know about accounting's net income

Third, accounting is more than the calculation of net income. ***It is the language of business!*** This language is composed of vocabulary (business and accounting words), grammar (rules for constructing the equivalent of sentences and paragraphs) and idiom (expression of a given language that cannot be understood from the individual meanings of its elements). In the same way that you would need to know Chinese if you were going to emigrate to China, you should know accounting if you are going to work in business.



Finally, there are people who will try to dupe you when they communicate to you in accounting. There are subtle ways to influence the meaning of accounting reports. There are dozens of recent stories of corporate fraud, and the resulting coverup in which the financial statements have been deliberately misstated. Enron, for example, was a complex situation of infectious greed on the part of corporate management. Once their coverup in the financials was discovered, the company went bankrupt, its auditor (Arthur Andersen) was forced out of business and the financial markets of the world crashed. WorldCom, another example, was a case of a company whose unprecedented growth suddenly stopped. As it turned out, its large, costly investments in additional capacity were unnecessary and bankrupted the company. It hid its losses by a simple (but effective) misstatement of the financials. Then, the truth came out.



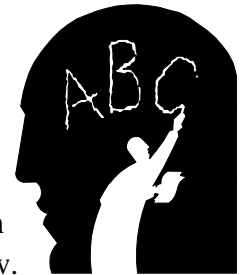
In the past few years, there have been thousands of instances of corporations restating their previous financials to correct an error. In many cases, this has been the result of companies pushing the envelope of what is a reasonable disclosure and auditors now finally forcing better accounting.

The public outcry motivated Congress to pass the Sarbanes-Oxley Act of 2002, the most significant legislation pertaining to the financial markets since the Securities Act of 1933 and the Securities Exchange Act of 1934. We are in a new age where companies simply have to get the numbers right.

And what if the companies don't get the numbers right? ***It is the responsibility of auditors and the users of financial information to be able to dig into the financial statements to discover what is really going on!***

## Approach to the course and professor's goals

Knowledge of generally accepted accounting principles is the foundation of this course. Application of the rules and uses of accounting information cannot be understood until you have mastered the knowledge.



There are two ways to teach a college course. The teaching-centered approach is in use when the professor tells in great detail what the student is supposed to know. The student studies what the professor knows and what is in the book. Periodically, the teacher administers tests to see what the student knows. The student is supposed to remember the knowledge through subsequent courses and into the real world, where the student eventually will have to apply what is remembered. The conclusion from more than one thousand research studies is clear. Most knowledge that the professor wants students to know will soon be forgotten. Much will be lost even by the end of the course. There is a rapid decline in retention to three months and by six months hardly anything is left. If the student doesn't put the knowledge to use, 100% will be forgotten after one year.

The learning centered approach is in use when the course is structured to allow the student opportunities to apply (in realistic simulations) what is learned. When the student starts applying knowledge, a statement like "Oh that's how it works. I see now," is frequently heard. Class time is enhanced when students get an opportunity *to do* something during each class. This approach is called learning by doing.

Unlike most other professors at the university and the College of Business, I use the second approach. Don't get me wrong, learning what to know is still a major part of the course, but it isn't the entirety.

Sometimes opportunities to learn by doing will take place in working a homework problem. There also will be a major project where the focus will be you putting your knowledge to play in a simulated but realistic business setting. This will help you learn how to do it, and at the same time you'll learn the knowledge better.



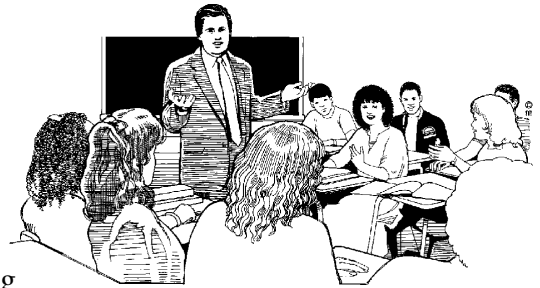
*Learning by doing is a moo-ving experience.*

The professor has the following goals for this offering of the course:

- (1) To train students in the basic policies (rules) governing the preparation of financial accounting reports. In other words, you will be taught more generally accepted accounting principles, mostly related to the right side of the balance sheet.
- (2) To give students an opportunity to apply accounting rules in at least one realistic situation.
- (3) To give students an opportunity to think through the issues related to post-retirement benefits.
- (4) To show how external parties can use financial accounting information.

## What each class is like

A fair portion of each class period is conducted in a lecture/clarification format. This doesn't sound too appealing, but there is quite a bit of interaction. I have been working for 25 years on developing effective explanations on how to compute the numbers required by generally accepted accounting principles. Some of my explanations have spread to other schools. I am best known for teaching pensions, but my explanation of errors and leases have also gained some attention. It is to your advantage to work with me during every class.



*Come prepared to get involved.*



*I know that!*

Unless every student can get involved, little or no learning will take place. I'll frequently interact with various students while we go through the material. During this interactive portion, I usually ask several types of questions, including: "What is this?" "How is this done?" "Why is it done?" "What's next." "What if we did this?" "Define this." "Can you relate this to other concepts or principles we've talked about?" "Can you reconcile this accounting with the underlying economic event?" "Are there any aspects of the economic event that aren't being accounted for?" "Can you explain how this accounting principle could be applied to this different issue?"

I never bring a calculator to class. I rely on all students to compute the numbers for examples and homework. I'll lay out a problem in class, and students work it, step-by-step with me in the lead. Or, it might be that I'll stop and let everyone in the class do a problem on his/her own. I encourage students to work together in class, check answers with neighbors, and help others until everyone has it figured out.

Periodically, I'll bring to class financial statements from real companies. Perhaps they will be for a few companies in the same industry. Through analysis and interpretation, we should be able to see which one is doing the best job in one respect or another. Perhaps the financial statements will be for one company over time. Through analysis and interpretation we should be able to describe the stories being told.

I'm sure you will get your money's worth if you regularly come to class.

## Student learning outcomes and assessment

After taking this course, you will be able to:

- (1) Define and explain common accounting terminology without referring to the textbook, your notes or an accounting dictionary. The professor assesses your ability to do this through using vocabulary drills, writing papers and working problems (formative), and knowledge oriented tests (summative).
- (2) Explain how each number on the right side of the balance sheet is computed, and what information is needed for the computation. The professor assesses your ability to do this through using vocabulary drills and homework problems (formative), and knowledge oriented tests and projects (summative).
- (3) Prepare financial statements (with notes) for a business with many types of activities. The professor assesses your ability to do this through using homework problems (formative) and projects (summative).
- (4) Intelligently discuss what, if any, obligation society has to care for its elderly citizens. The professor assesses your ability to do this through class discussion (formative) and a written paper (summative).

### About the Professor

As an undergraduate student at the University of Iowa, I majored in playing cards, foosball and pool (and political science). As you can imagine, I didn't make much progress toward getting a good start in life. After working for a while at making pizzas and then delivering mail, I saw the light and returned to school at Iowa to learn something worthwhile-accounting and business.



Subsequently, in no particular order, I married, fathered two sons, received a Ph.D. from Virginia Tech, and professed accounting at Andrews University, Virginia Tech and North Carolina-Chapel Hill. In 1990 I came to Bowling Green.

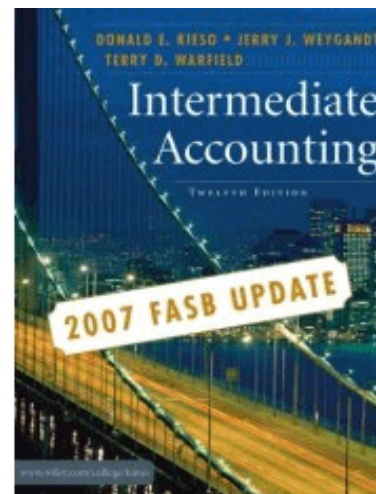
Helping students learn is very important to me. I have become a proponent of the learning-centered approach. Creating the "learn accounting while playing Monopoly" simulation game has earned me a reputation in accounting education. Increasingly adapting the learning-centered approach to my classes has resulted in much student acceptance.

In my spare time I have several activities to keep me busy. Professionally, I

read up to 100 articles per day about accounting from Internet newspapers and magazines. I am also putting my approach for 221H into a textbook. Outside of the professional realm, I play bridge at several tournaments each year. I also view about 300 films per year. Usually people gang up against me in Monopoly and Boggle to keep a level playing field. In addition, I am always open to receiving your movie recommendations, favorite cartoons or jokes, and challenging sudoku puzzles.

## Required materials

Intermediate Accounting (12th ed., 2007 FASB Update) by Kieso, Weygant & Warfield  
 Calculator capable of performing present and future value computations.



## Grading

Letter grades will be assigned according to relative class standing (in other words, students that score better on tests will receive better grades). In the past, the final GPA for this course has ranged from 3.0 to 3.5. The intra course grade distribution (e.g., percentage of A grades) depends upon individual student performance and varies from term to term. Rest assured that the goal is a fair assessment of student knowledge and understanding. ***When all is said and done, grade assignments remain the result of the professor's professional judgment.***

The grade of "A" requires excellent performance on tests and projects. Exam scores are nearly perfect. "B" means very good. Students really know their stuff, but make small errors. "C" stands for competent. Students sometimes really know their stuff, and other times make errors because they are only familiar with the material. Students who don't get it very well receive a "D." A grade of "F" is for those who don't get it at all.

Your course grade will be assigned on the professor's subjective evaluation of your tests and papers. The course grade will integrate these items:

Exams (two during term & final)	~ 60%
Paper	10%
Projects	~ 30%
	<u>100%</u>



Exams are scheduled to be taken at night. The primary reason for this is that it permits students an unlimited amount of time for taking the test. Exams are problem-oriented, and can contain

problems, written response questions and case analysis. Exams are usually closed-book and closed-notes. Calculators should always be used. Approximately one week preceding the date of the exam, each student will receive a copy of an *exam preview* (detailed description of content and format of test) as well as a copy of a test from a previous semester.

Not all *undergraduate* students can perform up to their potential when only one test is offered over a certain amount of course content. Research studies have shown that *undergraduate* student performance on tests is affected by many things other than amount of student knowledge. The key factors in explaining test performance are family, economic status, race, sex, quality of high school, part-time or full-time work during the semester, how well intimate relationships are going, amount of distractions in week that course test is taken, amount of time allowed for students to complete the test, etc. Consequently, I allow *undergraduate* students the option of being retested if they are not satisfied with their score on a test. More details will follow in class. Graduate students (those signed up in 522, are not eligible for retesting.

Projects are designed to give you an opportunity to work a real-world problem in a realistic setting.

## Attendance policy

You should attend every class. However, I realize that interviews, work and family commitments sometimes get in the way. If you miss a class, please make arrangements with another student for a copy of their notes. If you know about an absence in advance, send a voice recorder of some type. Finally, if you need to miss a class, send me an e-mail letting me know of your absence. There is no penalty for missing a class.

## Homework

Completion of homework problems is a nongraded requirement of the class. Homework problems are assigned for most of the class periods. You will not have to hand in HW solutions on a daily basis throughout the term. However, you will be expected to be current for discussion purposes. If the class does not stay current on the HW assignments, then daily quizzes will be given. Solutions to the HW problems are e-mailed or distributed in class. Many homework problems are worked interactively in class.



## Computers and e-mail

All students are required to regularly check their e-mail, whether it be BGSU or a private e-mail. I recommend free e-mail accounts on the Internet. Check your e-mail often, because I'm going to send out notes, assignments, etc., by e-mail. I assume that by 24 hours after I send out an e-mail, everyone

has read it.

## Accommodations for disability

In accordance with the University policy, if a student has a documented disability and requires accommodations to obtain equal access in this course, he or she should contact the instructor at the beginning of the semester and make this need known. Students with disability must verify their eligibility through the Office of Disability Services for Students, 413 South Hall, 419-372-8495. (<http://www.bgsu.edu/offices/sa/disability/index.html>)

I am committed to going the extra mile in making reasonable accommodations for a student's disability

## Religious Holidays

It is the policy of the University to make every reasonable effort allowing students to observe their religious holidays without academic penalty. In such cases, it is the obligation of the student to provide the instructor with reasonable notice of the dates of religious holidays on which he or she will be absent. Absence from classes or examinations does not relieve the student of responsibility for completing required work missed. Following the necessary notification, the student should consult with the instructor to determine what appropriate alternative opportunity will be provided, allowing the student to complete his or her academic responsibilities. (As stated by *The Academic Charter*, B-II.G-4.b at <http://www.bgsu.edu/downloads/file919.pdf>)

I am committed to going the extra mile to accommodate a student's religious beliefs. If you have decided to follow your religion's prescription to observe a certain day or date, I guarantee that you will not be penalized in this course.

## Codes of Conduct and Academic Policy Statement

The instructor and students in this course will adhere to the University's general Codes of Conduct defined in the *BGSU Student Handbook*. Specifically, the Code of Academic Conduct (Academic Honesty Policy) requires that students do not cheat, fabricate, plagiarize or facilitate academic dishonesty. For details, refer to:

- *BGSU Student Handbook* ([http://www.bgsu.edu/offices/sa/book/Student\\_Handbook.pdf](http://www.bgsu.edu/offices/sa/book/Student_Handbook.pdf))
- *The Academic Charter*, B.II.H (<http://www.bgsu.edu/downloads/file921.pdf>)
- Student Discipline Programs (<http://www.bgsu.edu/offices/sa/judicial/academic/index.html>)

## Academic honesty for ACCT 422/522

You are expected to adhere to BGSU Academic Honesty. At various times, the professor will describe activities that constitute academic dishonesty. Violations will be dealt with according to

BGSU policy. If you are academically dishonest on an exam, the penalty is score of zero on the exam and a grade of F for the course. If you are academically dishonest either on the intermediate length paper or a course project, the penalty is a score of zero and a grade of F for the course.

Two well written paragraphs, “What constitutes plagiarism” and “How can you avoid plagiarism” can be found on-line at [www.liuedu/cws/cwp/library/exhibits/plagstudent.htm](http://www.liuedu/cws/cwp/library/exhibits/plagstudent.htm)

## Schedule of approximate due dates

Test one	week 6
Test two	week 11
Intermediate length paper	week 9
Course projects	various dates

## Topical content in ACCT 422/522

### Review

- Accounting cycle
- Financial statements
- Quick review of TVM, financial calculator

### American GAAP and IFRS

#### Payroll & other current liabilities

#### Long-term liabilities / Notes and Bonds

- Installment loans, interest bearing notes, non-interest bearing notes

For all of above, amortization tables (ordinary & due), journal entries

#### Troubled debt restructuring

#### Debt covenants

- Basic bonds, serial bonds, bonds issued between dates, early retirement / convertibles

### Contingencies

#### Leases & lease obligations

##### Operating, capital

Both for lessor and lessee

#### Investments & OCI & minority interest

##### Comprehensive income

##### Fair value method, equity method

##### Consolidations

Equities & monetary for above

#### Pension obligations

##### Basic worksheet with CSC & PSC

##### Tables

##### Minimum liability, unrecognized gains/losses

##### Other post-retirement benefits

#### Preferred stock

#### Income taxes

##### Intra period tax allocation,

Interperiod tax allocation  
Stockholders equity  
    Contributed capital, retained earnings, treasury stock, dividends  
BEPS & DEPS  
Accounting errors  
    Analysis  
    Correction  
Accounting changes  
Derivatives