Generally accepted accounting principles and case essay sample

Finance

ASSIGN BUSTER

In addition to the in-chapter and end-of-chapter exercises which serve as short cases you will find the following short cases arranged by course title that can also be utilized as short cases that require the student to access the authoritative literature to address the issue presented in the case. Other excellent sources of longer and more detailed cases include the Deloitte Trueblood cases, as well as the AICPA cases (www. aicpa. org). A topical listing of the cases is presented with the case and solution following the listing. Topical Index of Student Cases

INTERMEDIATE ACCOUNTING Cases

Case 1: Reporting acquisition and repayment transactions in the Statement of Cash Flows

Case 2: Recording a forfeited payment

Case 3: Revenue and expense recognition associated extended warranties

Case 4: Accounting for “ due on demand” note payable

Case 5: Purchase of a controlling interest with a greenmail premium

Case 6: Revenue recognition in the construction industry

Case 7: Accrual and measurement of interest payments

Case 8: Recognition of an asset transfer when title has not yet been received

Case 9: Capitalization of interest and property taxes on a construction project

Case 10: Deferred compensation and life insurance policy recognition

Case 11: Reporting earnings per share balances for subsidiary companies

Case 12: Deferment of lease payments

Case 13: Disclosure of prior period adjustments in the statement of cash flows

Case 14: Measurement and recording of payments for sick days

Case 15: Comparative cash flow statements

Case 16: Social security benefits as assets

Case 17: Recording a stock dividend as a stock split

Case 18: Gain on a nonmonetary exchange

ADVANCED ACCOUNTING Cases

Case 1: Reporting of letters of guarantee notes payable

Case 2: Factors affecting minority interest control

Case 3: Profits and losses in the investment in foreign currencies Case 4: Amortization of foreign currency transaction gains and losses Case 5: Reflection of expensed computer programs on consolidated financial statements Case 6: Classification of a proposed financial instrument as a hedge Case 7: Disclosure of proceeds and payments from cash flow hedging activities Case 8: Proper valuation of a “ guaranteed” business combination

GOVERNMENT AND NOT-FOR-PROFIT ACCOUNTING Cases

Case 1: Recognition restricted or non-restricted assets that are promised but not received Case 2: Affect of “ permanent” reductions in the value of “ promised” assets Case 3: Disclosure and classification on a company’s Statement of cash Flows Case 4: Disclosure of potential interest rate swings and commercial paper by a city Case 5: Capital and operating leases between related parties Case 6: Elimination of profits on intercompany sales

Case 7: Reporting of funds and potential obligations on bonds issued for third parties Case 8: Disclosure of payments made to agents or brokers Case 9: Accrual of vacation time of unestablished employees

AUDITING Cases

Case 1: Communication with predecessor auditors

Case 2: Scope limitations

Case 3: Outside services for inventory counts

Case 4: Supplementary disclosures

Case 5: Restating prior years' financial statements

Case 6: Independence in a review or compilation engagement

Case 7: Qualified report and account classification

Case 8: Re-issuance of financial statements

Case 9: Communication with audit committees

Case 10: Accounting for assets held for sale

TAX Cases

Case 1: When should gross income be accrued?

Case 2: Stock purchased by an employee

Case 3: Income sourcing- international

Case 4: Business deductions

Case 5: Deduction for foreign travel

Case 6: Contingent liabilities

INTERMEDIATE ACCOUNTING Cases

Case 1: Mead Motors purchases an automobile for its new car inventory from Generous Motors, which finances this transaction through its financial subsidiary, Generous Motors Credit Company (GMCC). Mead pays no funds to Generous Motors or GMCC until it sells the automobile. Mead must then repay the balance of the loan plus interest to GMCC. How should Mead report the acquisition and repayment transactions in its Statement of Cash Flows? Case 1 Solution:

Problem Identification: How should a company report, if at all, cash and non-cash transactions owed to an entity's financial subsidiary? Keywords: Cash flows; financ* subsidiaries; operating income. Conclusion: Per ASC 230-10-50-5), Mead should exclude transactions that involve no cash payments or receipts. However, per 230-10-45-17, it should record cash payments to GMCC for repayments of principle (and interest thereon) due to suppliers or their subsidiaries as operating cash (out) flows. Case 2: Narda Corporation agreed to sell all of its capital stock to Effie Corporation for three monthly payments of $200, 000. After Effie made the first required payment, it ceased making other payments. The stock subscription agreement states that Effie, thus, forfeits its payments and is entitled to no other future consideration. How should Narda record the $200, 000 forfeited payment? Case 2 Solution:

Problem Identification: How should a company account for forfeited stock subscriptions? Moreover, do such payments constitute operating or other income? Keywords: Stock Subscription; operating income; additional paid-in capital; owners' equity; net income; operating income. Conclusion: Per 505-10-25-2, capital transactions that incur no future corporate obligations should be excluded from calculating net or operating income. Thus, the forfeited cash should become part of additional paid-in capital about any required disclosures for such transactions. Case 3: Lowland Appliance Stores offers customers purchasing its appliances separately priced (extended) warranties. Lowland services these extended warranties. Its customers can receive no refunds for not using these warranties, and, of course, Lowland must honor these contracts—regardless of any future costs in doing so. It also “ tracks” the profits and losses these types of warranties generate by appliance category—in order to help maintain a competitive price and costing structures. How should Lowland recognize the revenues and expenses of such extended warranties? Case 3 Solution:

Problem Identification: How should a company recognize revenues and expenses associated with separately priced, extended warranties? Such contracts generally are (potential) loss contingencies. Keywords: Loss contingency; non-refundable