

### **Chapter 13 – Current Liabilities and Contingencies**

1. **Be able to appropriately classify Liabilities as Current or Long-term**—Review outline. **Make JE's related to current liabilities, including gift cards (see outline example), customer deposits, liability for sales taxes --** In exam questions, sales figures will exclude sales tax, similar to homework BE13-6(a) and Problem Set 1, Q1.

**Accounting for Payroll Taxes –** No JE's or numerical calculations; no need to memorize

payroll tax rates or compensation thresholds/ceilings, but know which taxes are on employer and which are on employee.

*Know how the employee would calculate "take-home pay" (net pay)--which taxes and voluntary deductions (such as union dues) are withheld; Know how to calculate the employer's total payroll tax expense—which payroll taxes and benefits are added to salaries/wages/bonus expense to compute employer's total payroll expense*

*Noninterest bearing short term notes payable (outline page 2, 2<sup>nd</sup> note example) will not be tested, but long-term noninterest bearing notes (Ch. 14) will be tested.*

- *Homework: Ch. 13-Q1, Q3; BE 13-5; BE 13-6; E13-1; **E13-3-Good problem to study***
- ***Problem Set 1, Q1- Good problem to study***
- *Class Example – Payroll Accounting (But no JE's or calculations on test—see comments above)*
- *Review Problems Posted to BB: E13-4; E13-8 (First JE shows calc of take-home pay for employee, 2<sup>nd</sup> JE shows calc of employer's payroll tax expense); P13-2*

2. **Contingencies** – Know info in outline—recognize definitions, know and apply accounting rules for recognition and disclosure. Be able to make necessary JE's. Be able to interpret actual company's footnote disclosures. No questions or problems on premiums. Know Expense Warranty Approach and Sales Warranty Approach for warranties; Be able to make journal entries related to ARO

- *Homework: E13-11 (Also see blue handout with notes and alternative method for making JE's under expense warranty approach; you only need to know one method for expense warranty approach); E13-13; E13-14 (see notes posted to BB for combined JE approach; but you do not have to know information on page 2 of the notes on BB).*
- *Good problems to study: Class Examples – P13-11 (Loss contingencies); Contingencies-4 Cases*
- *Problem Set #1: Apple and P&G Questions pertaining to warranty accounting, contingencies*
- *Review Problems Posted to BB: Litigation Contingencies (BE13-10; BE13-11; Additional Review Problems #1 and #1); ARO-BE13-12; Warranty Accounting (BE13-13; BE13-14; P13-5; P13-6)*

### **Chapter 14 – Bonds Payable and Long-term Notes Payable**

1. Know **basic accounting for ordinary bonds, at par, at a discount, or at a premium; also accounting for debt issue costs**

- a. Compute bond issue price (proceeds). Present value tables will be provided.
- b. Complete amortization schedule (chart with headings provided)- effective interest method.
- c. Make JE's for issuance of bonds, amortization of discount or premium and recognition of interest using effective interest method, cash interest payments (coupon), payment of face amount at maturity.
- d. Report on Balance Sheet; Know income statement effect

- *Chapter 14 Class example –Bonds Payable-Sterling Co.- Problems 1-3; PowerPoint slide-Bond Issue Cost example using Sterling Example #2 (Modified)*
- *Problem Set #1, Q4*
- *Homework: Q5, E14-3 (#1), E14-10, E14-15 (2<sup>nd</sup> entry); P14-5*
- *Chapter 14 Review Problems Posted to BB: BE14-1; BE14-2; BE14-9; BE14-10; E14-9; P14-1; P14-2 (parts a & b); Additional Review Problems #1 (Parts A, B, C)*

2. **Omit**-Know entries for **interim accrual of interest on bonds with coupon dates that don't coincide with fiscal year-end**. Chapter 14 Class Example-Sterling Co.; Prob. 4 Problem Set #1, Q5; Chapter 14 Homework: P14-5 (#1)

Chapter 14, continued:

3. Know entries for **zero-coupon** bonds.

- Class Example-Sterling Co.- Problem 5

4. **Omit: Bonds Issued Between Interest Payment Dates** – Be able to prepare all entries for bonds issued at par; Textbook approach or alternate approach acceptable.

- Homework E14-3(#2)
- Chapter 14 Review Problems Posted to BB: BE14-5;
- PowerPoint slides – Taft Example, first 2 slides (bonds issued at par)

5. **Retirement (redemption; extinguishment of debt)**- Be able to calculate price paid to investors to call bonds (to redeem bonds), carrying amount of bonds, and gain or loss, and make journal entry for redemption.

- Homework E14-15 (first entry); P14-5 (#2)
- Problem Set #1, Q4B
- Chapter 14 Review Problems Posted to BB: BE 14-11;P14-2 (part c); Additional Review Problems #1

6. **Fair Value Option**- Read textbook p.803-804; know how the accounting procedure under the fair value option differs from the accounting for bonds/notes accounted for using the “traditional” amortized cost method. Companies may choose to value their bonds or notes payable at fair value at each reporting date, but must elect this option when the debt is first issued, and this choice is irrevocable. They may elect this option on an instrument-by-instrument basis. **Know conceptually—how does Fair Value Option differ from “traditional” (amortized cost method.)**

- Class example (pink handout) – Columbia Corp. (Part D illustrates Fair Value Option)
- Chapter 14 Review Problems Posted to BB: Additional Review Problem #2 (Part D illustrates Fair Value Option)

7. Know basic accounting for **Long-term Notes (Accounting by borrower)-Interest Bearing Note issued at face value; Interest Bearing Note Not issued at Face Value; Non-Interest Bearing Note; Installment notes with equal periodic payments each including principal and interest; Be prepared for notes like examples 2, 3, and 4. (Ch. 14 Class Example-Accounting for 4 Long-term Notes)**

- Homework BE14-14; E14-17 (Part a-Spartan)
- Review Problems Posted to BB: E14-16;P14-8

**Chapter 15 – Stockholders’ Equity**

1. Be able to determine: **authorized, issued, unissued, outstanding, treasury shares.** (See lecture example from class on Wed. Sept. 11 using Brinker International’s financial statements; Problem Set 1, Q3B –P&G.)

2. Know journal entries for **issuance of preferred shares and issuance of common shares** with a par value (or No-par common stock or stock with stated value instead of par value -see slides for examples). Know how **share issue costs** are accounted for, and how to record issuance of stock in exchange for noncash assets or services received. Also be able to apply both the proportionate and incremental methods to allocate lump sum proceeds received for the issuance of more than one security.

- Review all examples in slides (Chapter 15 Packet).
- Homework E15-2; E15-5
- Class examples A, B – Yellow handout – Good problems to study (Note that Oct. 31 transaction in Problem B is a cash dividend declared on preferred stock, not a “stock dividend” paid by issuing more shares.)
- Review Problems Posted to BB: BE15-6

3. **Know accounting for treasury shares** – Know journal entries for stock repurchase (buybacks or reacquisition of shares from stockholders) and re-issuance of treasury shares. Know effect (if any) of treasury stock transactions on number of authorized, issued, unissued, and outstanding shares. Know Balance Sheet presentation.

- Review examples in slides – Pacific Company. (See green handout with T-accounts.)
- Study Illustration 15-4, Scenarios A&B (Blue handout)—T-accounts are posted to BB – good problem to study.
- Homework E15-18 (good problem to study); P15-5-Omit-You will not have a problem where you have to apply FIFO method to Treasury Stock transactions.
- Class Example A – Yellow handout – good problem to study
- Chapter 15 Review Problems Posted to BB: BE15-7; BE15-8; P15-2; P15-3

**4. Cash dividends, Property Dividends, Liquidating Dividends** – Know journal entries, if any, that are needed on date of declaration, date of record, payment date. (Review slides.) Be able to allocate dividends between preferred and common, based on characteristics of preferred (however, *no problems will be given with participating preferred stock.*) Review slides.

- Class example-Yellow handout-Problems A, B, C
- Class examples in Chapter 15 Packet – Effect of Preferred Stock Characteristics on Dividends; E15-21-Preferred Dividends
- Homework: Q19; E15-18
- Chapter 15 Review Problems posted to BB:BE15-12; BE15-15; E15-15;Additional Review Problems #1, 2

**5. Accounting for Stock Distributions (Stock Splits, Stock Dividends)** – Review slides, study chart in Chapter 15 Packet, and study handout on stock dividends & stock splits. Be able to make appropriate journal entries and determine effect of small stock dividend, large stock dividend, and stock split Stockholders' Equity section of balance sheet. Know terminology—what is a small stock dividend, what is a large stock dividend, what is a stock split.

- Class example-Yellow handout-Problem C – Good problem to study
- Homework: E15-14 (including blue handout-Notes on E15-14 with Balance Sheet effect)-good problem to study; E15-18-good problem to study
- Chapter 15 Review Problems posted to BB:BE15-13; BE15-14; P15-3

**7. Mandatorily redeemable preferred stock** – Know that this is accounted for as debt. Review class example in Chapter 15 Packet—**for understanding/background.**

**8.** Be able to prepare and interpret the Stockholders' Equity section of Balance Sheet, answer questions based on this info. Be able to interpret questions about a real company's Stockholders' Equity section of Balance Sheet.

- Homework E15-10
- Problem Set 1, Q3B (P&G)
- Class example-Yellow handout-Problems B, C

## **Chapter 16 – Dilutive Securities** (This entire section was updated on 9/22/2013.)

**1. Accounting for convertible debt** – Be able to prepare journal entries for the issuance of bonds that are convertible into shares of the issuing corporation's stock, and for the conversion of convertible debt into equity, including the journal entry for expensing the "sweetener" in an induced conversion.

- Examples in Chapter 16 Packet - PowerPoint slide examples BE16-1 (Archer Co.), BE16-2 (Yuen Corp.), BE16-2 Modified (Yuen Corp.), Illustration 16-1
- Homework E16-1, parts 1 and 3 only
- Review Problems for Chapter 16 Posted to BB: Q2 (for background); E16-3; Additional Review Problems 1 and 2.

**2. Omit: Accounting for convertible preferred stock** – Be able to make journal entry to issuance of convertible preferred shares, and conversion of convertible preferred shares into common shares.

- Examples in Chapter 16 Packet – Illustration 16-2,PowerPoint slide examples BE16-3 (Gail, Inc.-2 slides)

**There will be no questions or problems on Exam 1 pertaining to the following Chapter 16 topics, even if they are covered in class on Monday, Sept. 23:**

Stock Warrants, Stock Options, Restricted Stock, or EPS.