Acct 351 – Intermediate Accounting II
Acct 351 COM – Communications for Accounting
Spring 2012

Individual Assignment I – Research Questions

Assignment Objectives

- To research accounting topics using the FASB Codification system.
- To clearly communicate research findings.
- To document using paraphrasing, direct quotes, citations, and references.
- To write a topic sentence for each response and one more sentence(s) containing relevant, detailed information with proper documentation.

Research Questions

Jacky Chang, the engagement partner at your firm, has given you a research assignment. She wants to know how to treat the following client accounting issues.

1. The long-time accounting manager of Alberta Co. has been debiting the current-year expense for bad debts on the assumption that some accounts would become uncollectible. During the review of accounts receivable of Alberta, the new CFO, Elaine P. Sloan, questioned this practice. She believes that the financial statements should be based on verifiable, objective evidence. In her opinion, it would be more objective to wait until specific accounts become uncollectible before the bad debt expense is recorded. Alberta, located in Canada, manufactures and sells heavy equipment, primarily in North America. The company has been in business for over 40 years and generally collects 93% of its trade receivables. Does Sloan's approach to uncollectible accounts conform to U.S. GAAP?

2. Ameriflow Water Company, located in southern California, manufactures and sells its award-winning water purifier, A-Merry-Flow. The purifiers are distributed to dealers upon their request and then they have 120 days to sell and pay for the purifiers. Until the 120-day period is over, any purifiers may be returned at the dealer's expense (even if they are damaged) and with no further obligation on the dealer's part. Historically, 80% of all purifiers distributed on this basis are sold by the dealer. In December, 2,000 units are delivered to dealers at an average billed price of $1,500 each. The average cost to Ameriflow is $900 per unit. Based on expected sales related to the delivery in December, the CFO wants to report profit of $960,000 for December.

3. In June of 2011, a major retailer, Six-Twelve, approached Tuscaloosa Inc. and made an offer to purchase a piece of land owned by Tuscaloosa. Tuscaloosa Inc. owns and operates several gas stations in the LA metro area, and had been operating a gas station on the property of interest for years. In order to sell the property, Tuscaloosa removed the underground gasoline storage tanks. Upon removal, it was discovered that there had been leakage, and Tuscaloosa would be required to clean up the contaminated soil in 2012 at a cost of $680,000. After lengthy negotiation, Six-Twelve agreed to increase the purchase price for the property to enable Tuscaloosa to recover the $680,000. Should Tuscaloosa capitalize or expense the clean-up cost in 2012?

4. Macrotough had been aggressively trying to purchase Doodle during 2011 in order to reduce potential future competition in the web-conferencing market. Doodle's board of directors voted strongly against the deal; and as a consequence, Doodle incurred significant costs during 2011 in defending itself against the hostile takeover. Should Doodle report those costs as an extraordinary item on its income statement for 2011?

5. Bruce Li and Tom Kruz recently incorporated their new business, Phixit, which specializes in selling hard-to-find appliance parts online. Given the nature of the business, shipping and handling costs are significant for Phixit. The company charges the customers for these costs. In fact, in order to cover some overhead, the customers are billed a higher fee for shipping and handling than the costs Phixit actually incurs. Li would like to increase revenues by including these fees as part of sales; however, Kruz is concerned that this would overstate revenues and thinks there should be a netting of the costs and fees with the difference treated as revenue. How would you advise Phixit to treat this issue?

Use the FASB online Accounting Standards Codification (ASC) for researching questions 1 through 5. To access the online database and search engine you will need a login name and password. The login URL for the ASC is http://aaahq.org/ascLogin.cfm

Writing Assignment

Write a one-page memo that clearly and concisely answers the five research questions. Use direct quotes and paraphrasing to demonstrate that you understand proper documentation. Use direct quotes to answer research questions 3 and 5; use paraphrasing to answer research questions 1, 2, and 4. Also, use APA style for citations and references. References should be listed on a separate page.