• Case 9-6 Depreciation Accounting

Property, plant, and equipment (plant assets) generally represent a material portion of the total assets of most companies. Accounting for the acquisition and use of such assets is therefore an important part of the financial reporting process.

Required:

a. Distinguish between revenue and capital expenditures, and explain why this distinction is important.

b. Briefly define depreciation as used in accounting.

c. Identify the factors that are relevant in determining the annual depreciation, and explain whether these factors are determined objectively or whether they are based on judgment.

d. Explain why depreciation is shown as an adjustment to cash in the operations section on the statement of cash flows.

Case 9-7 Accounting for Land and Plant Assets

During the year, some of the securities increased in value. These securities (some in the current portfolio and some in the long-term portfolio) were sold. At the end of the year, the market value of each of the remaining securities was less than original cost.

Victoria also has investments in long-term bonds, which the company intends to hold to maturity. All of the bonds were purchased at face value. During the year, some of these bonds were called by the issuer before maturity. In each case, the call price was in excess of par value. Three months before the end of the year, additional similar bonds were purchased for face value plus two months' accrued interest.

Required:

a. How should Victoria account for the sale of the securities from each portfolio? Why?

b. How should Victoria account for the marketable equity securities portfolios at year-end? Why?

c. How should Victoria account for the disposition before their maturity of the long-term bonds called by their issuer? Why?

d. How should Victoria report the purchase of the additional similar bonds at the date of acquisition? Why?

• Case 10-3 Equity Method and Disclosures

On July 1, 2014, Dynamic Company purchased for cash 40 percent of the outstanding capital stock of Cart Company. Both Dynamic and Cart have a December 31 year-end. Cart, whose common stock is actively traded in the over-the-counter market, reported its total net income for the year to Dynamic and also paid cash dividends on November 15, 2014, to Dynamic and its other stockholders.

Required:

a. How should Dynamic report the foregoing facts in its December 31, 2014, balance sheet and its income statement for the year then ended? Discuss the rationale for your answer.

b. If Dynamic should elect to report its investment at fair value, how would its balance sheet and income statement differ from your answer to part (a)?

• Case 10-4 Research and Development

The Thomas Company is in the process of developing a revolutionary new product. A new division of the company was formed to develop, manufacture, and market this product. As of year-end (December 31, 2014), the product has not been manufactured for resale; however, a prototype unit was built and is in operation.

Throughout 2014 the division incurred certain costs. These costs include design and engineering studies, prototype manufacturing costs, administrative expenses (including salaries of administrative personnel), and market research costs. In addition, $500,000 in equipment (estimated useful life: 10 years) was purchased for use in developing and manufacturing the preproduction prototype and will be used to manufacture the product. Approximately $200,000 of this equipment was built specifically for the design and development of the product; the remaining $300,000 of equipment will be used to manufacture the product once it is in commercial production.

Required:

a. What is the definition of *research and development* as defined in *Statement of Financial Accounting Standards No. 2*?

b. Briefly indicate the practical and conceptual reasons for the conclusion reached by the FASB on accounting and reporting practices for R&D costs.

c. In accordance with *SFAS No. 2*, how should the various costs of Thomas just described be reported in the financial statements for the year ended December 31, 2014?

• Case 10-5 Trading versus Available-for-Sale Securities

The FASB issued *SFAS No. 115* to describe the accounting treatment that should be afforded to equity securities that have readily determinable market values that are not accounted for under the equity method or consolidation. An important part of the statement concerns the distinction between trading securities and available-for-sale securities.

Required:

a. Compare and contrast trading securities and available-for-sale securities.

b. How are the trading securities and available-for-sale securities classified in the balance sheet? In your answer, discuss the factors that should be considered in determining whether a security is classified as trading or available for sale and as current or noncurrent.

c. How do the above classifications affect the accounting treatment for unrealized losses?

d. Why does a company maintain an investment portfolio containing current and noncurrent securities?

e. If a company elects to adopt fair-value accounting for securities that are classified as available for sale simultaneously with the adoption of *SFAS No. 159*, what effect would the election have on its financial statements?

• Case 10-6 Accounting for Investments

Presented below are four unrelated situations involving equity securities that have readily determinable fair values.

Situation 1

A noncurrent portfolio with an aggregate market value in excess of cost includes one particular security whose market value has declined to less than half of the original cost. The decline in value is considered to be other than temporary.

Situation 2

The balance sheet of a company does not classify assets and liabilities as current and noncurrent. The portfolio of marketable equity securities includes securities