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Instructions

- (a) Suggest factors to be considered by the board of directors in establishing a dividend policy.
- (b) Compute the return on assets, profit margin on sales, earnings per share, price-earnings ratio, and current ratio for each of the 5 years for Matheny Inc.
- (c) Comment on the appropriateness of declaring a cash dividend at this time, using the ratios computed in part (b) as a major factor in your analysis.

Term Project (CA24-1; CA24-2; CA24-3)

CONCEPTS FOR ANALYSIS

CA24-1 (General Disclosures; Inventories; Property, Plant, and Equipment) Koch Corporation is in the process of preparing its annual financial statements for the fiscal year ended April 30, 2018. Because all of Koch's shares are traded intrastate, the company does not have to file any reports with the Securities and Exchange Commission. The company manufactures plastic, glass, and paper containers for sale to food and drink manufacturers and distributors.

Koch Corporation maintains separate control accounts for its raw materials, work in process, and finished goods inventories for each of the three types of containers. The inventories are valued at the lower-of-cost-or-market.

The company's property, plant, and equipment are classified in the following major categories: land, office buildings, furniture and fixtures, manufacturing facilities, manufacturing equipment, and leasehold improvements. All fixed assets are carried at cost. The depreciation methods employed depend on the type of asset (its classification) and when it was acquired.

Koch Corporation plans to present the inventory and fixed asset amounts in its April 30, 2018, balance sheet as shown below.

Inventories	\$4,814,200
Property, plant, and equipment (net of depreciation)	6,310,000

Instructions

What information regarding inventories and property, plant, and equipment must be disclosed by Koch Corporation in the audited financial statements issued to stockholders, either in the body or the notes, for the 2017-2018 fiscal year?

(CMA adapted)

CA24-2 (Disclosures Required in Various Situations) Ace Inc. produces electronic components for sale to manufacturers of radios, television sets, and digital sound systems. In connection with her examination of Ace's financial statements for the year ended December 31, 2018, Gloria Rodd, CPA, completed field work 2 weeks ago. Ms. Rodd now is evaluating the significance of the following items prior to preparing her auditor's report. Except as noted, none of these items have been disclosed in the financial statements or notes.

Item 1: A 10-year loan agreement, which the company entered into 3 years ago, provides that dividend payments may not exceed net income earned after taxes subsequent to the date of the agreement. The balance of retained earnings at the date of the loan agreement was \$420,000. From that date through December 31, 2018, net income after taxes has totaled \$570,000 and cash dividends have totaled \$320,000. On the basis of these data, the staff auditor assigned to this review concluded that there was no retained earnings restriction at December 31, 2018.

Item 2: Recently Ace interrupted its policy of paying cash dividends quarterly to its stockholders. Dividends were paid regularly through 2017, discontinued for all of 2018 to finance purchase of equipment for the company's new plant, and resumed in the first quarter of 2019. In the annual report, dividend policy is to be discussed in the president's letter to stockholders.

Item 3: A major electronics firm has introduced a line of products that will compete directly with Ace's primary line, now being produced in the specially designed new plant. Because of manufacturing innovations, the competitor's line will be of comparable quality but priced 50% below Ace's line. The competitor announced its new line during the week following completion of field work. Ms. Rodd read the announcement in the newspaper and discussed the situation by telephone with Ace executives. Ace will meet the lower prices that are high enough to cover variable manufacturing and selling expenses but will permit recovery of only a portion of fixed costs.

Item 4: The company's new manufacturing plant building, which cost \$2,400,000 and has an estimated life of 25 years, is leased from Wichita National Bank at an annual rental of \$600,000. The company is obligated to pay property taxes, insurance, and maintenance. At the conclusion of its 10-year noncancelable lease, the company has the option of purchasing the property for \$1. In Ace's income statement, the rental payment is reported on a separate line.

Instructions

For each of the above items, discuss any additional disclosures in the financial statements and notes that the auditor should recommend to her client. (The cumulative effect of the four items should not be considered.)

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CA24-3 (Disclosures, Conditional and Contingent Liabilities) Presented below are three independent situations.

Situation 1: A company offers a one-year warranty for the product that it manufactures. A history of warranty claims has been compiled, and the probable amounts of claims related to sales for a given period can be determined.

Situation 2: Subsequent to the date of a set of financial statements but prior to the issuance of the financial statements, a company enters into a contract that will probably result in a significant loss to the company. The amount of the loss can be reasonably estimated.

Situation 3: A company has adopted a policy of recording self-insurance for any possible losses resulting from injury to others by the company's vehicles. The premium for an insurance policy for the same risk from an independent insurance company would have an annual cost of \$4,000. During the period covered by the financial statements, there were no accidents involving the company's vehicles that resulted in injury to others.

Instructions

Discuss the accrual or type of disclosure necessary (if any) and the reason(s) why such disclosure is appropriate for each of the three independent sets of facts above.

(AICPA adapted)

CA24-4 GROUPWORK (Post-Balance-Sheet Events) At December 31, 2017, Coburn Corp. has assets of \$10,000,000, liabilities of \$6,000,000, common stock of \$2,000,000 (representing 2,000,000 shares of \$1 par common stock), and retained earnings of \$2,000,000. Net sales for the year 2017 were \$18,000,000, and net income was \$800,000. As auditors of this company, you are making a review of subsequent events on February 13, 2018, and you find the following.

- On February 3, 2018, one of Coburn's customers declared bankruptcy. At December 31, 2017, this company owed Coburn \$300,000, of which \$60,000 was paid in January 2018.
- On January 18, 2018, one of the three major plants of the client burned.
- On January 23, 2018, a strike was called at one of Coburn's largest plants, which halted 30% of its production. As of today (February 13), the strike has not been settled.
- A major electronics enterprise has introduced a line of products that would compete directly with Coburn's primary line, now being produced in a specially designed new plant. Because of manufacturing innovations, the competitor has been able to achieve quality similar to that of Coburn's products but at a price 50% lower. Coburn officials say they will meet the lower prices, which are high enough to cover variable manufacturing and selling costs but which permit recovery of only a portion of fixed costs.
- Merchandise traded in the open market is recorded in the company's records at \$1.40 per unit on December 31, 2017. This price had prevailed for 2 weeks, after release of an official market report that predicted vastly enlarged supplies; however, no purchases were made at \$1.40. The price throughout the preceding year had been about \$2, which was the level experienced over several years. On January 18, 2018, the price returned to \$2, after public disclosure of an error in the official calculations of the prior December, correction of which destroyed the expectations of excessive supplies. Inventory at December 31, 2017, was on a lower-of-LIFO-cost-or-market basis.
- On February 1, 2018, the board of directors adopted a resolution accepting the offer of an investment banker to guarantee the marketing of \$1,200,000 of preferred stock.

Instructions

State in each case how the 2017 financial statements would be affected, if at all.

CA24-5 WRITING (Segment Reporting) You are compiling the consolidated financial statements for Winsor Corporation International. The corporation's accountant, Anthony Reese, has provided you with the following segment information.

Note 7: Major Segments of Business

WCI conducts funeral service and cemetery operations in the United States and Canada. Substantially all revenues of WCI's major segments of business are from unaffiliated customers. Segment information for fiscal 2018, 2017, and 2016 follows.

	(thousands)						
	Funeral	Floral	Cemetery	Real Estate	Dried Whey	Limousine	Consolidated
Revenues							
2018	\$302,000	\$10,000	\$ 73,000	\$ 2,000	\$7,000	\$12,000	\$406,000
2017	245,000	6,000	61,000	4,000	4,000	4,000	324,000
2016	208,000	3,000	42,000	3,000	1,000	3,000	260,000
Operating Income							
2018	74,000	1,500	18,000	(36,000)	500	2,000	60,000
2017	64,000	200	12,000	(28,000)	200	400	48,800
2016	54,000	150	6,000	(21,000)	100	350	39,600