Dq1wk3

Week 3 - DQ 1. How would you recommend investment securities be reported (fair value controversy)? Provide detailed rationale. (Ch. 17 of Intermediate Accounting)

Investments should definitely be reported at their fair value, as opposed to other accounting methods.

The historical cost method is what is currently reflected on the balance sheet for assets. The main controversy lies in the fact that the historical cost tells investors literally nothing about how the investment is performing currently. It is up to the inventor to analyze information from other sources to determine how the company's assets are performing.

A great deal of research has gone into devising several methods companies could employ that would accurately reflect fair value estimates. By utilizing the fair value method to report investments, current market conditions are reflected allowing investors and other financial statement users to analyze how the assets are performing, compared to previous periods and as compared to other investments.

In contrast, when investments are reported under the equity method of accounting, the investment is recorded originally at the asset's cost. The investment account is then adjusted for the inventor's share of the income or loss allocated under the equity method, that the investment has produced.

Response question 1

You raised a good point on "asset management". I would like to ask the class on how to prevent this?

Dq2wk3

Week 3 - DQ 2. As a CPA of a company, which method of accounting for leases would you recommend using? What are the pros and cons ? (Ch. 21 of Intermediate Accounting)

The equity method still does not portray a true picture of the company's current position, and how the assets are performing, when compared to the fair value method. The equity method reports the unrealized gain or loss, and not any actual standing.

When taking each method into consideration that the company can utilize, the fair value method continues to stand out above the other methods for advantages. The fair value method portrays the most accurate information, which flows to the company's financial statements. Investors, shareholders, and other interested parties can then base their decisions off of information that is more accurate, than if the other methods were used for investment accounting purposes.

Using the example of a just graduated professional who is willing to start up his/her own dental practice office, in this economy where costs keep rising, and patients are putting off dental work, is more important than ever for the newly graduate to conserve the cash. However, a dental office cannot operate without essential equipment. Dental X-ray machines, dental chairs, lab equipment are all necessary to run a successful dental office.

Leasing of this and other equipment can be done through a corporation without affecting personal credit; also, down payments on a lease are far less than that of traditional bank financing, and, rather than doing an outright purchase, one would pay over time, and benefit from tax deductions as the lease payment can be expensed.

**Key benefits from Operational Lease**

Response question 2

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**Key benefits from Operational Lease**

Dq3wk3

Week 3 - DQ 3. New machinery was installed to replace a number of employees, who were paid an extra month’s wages and dismissed. This amount was added to the cost of the machinery. Discuss the propriety of the charge. If it was improper, describe the proper treatment. (Ch. 10 of Intermediate Accounting)

The cost of installing the new machinery would be capitalized by the company. The extra month's wages that the employees were paid should not be capitalized. The amount paid to employees should not have been added to the cost of the asset. The only reason the additional amounts should have been rightfully added to the machinery is if the amounts added value to the asset. Due to the circumstances, the amounts did not add value and were improperly added to the asset's cost.

The extra wages paid to the employees should be properly treated as an expense, either added to total wages or stated separately. If the company adds the extra wages paid to total wages, the company should make a disclosure in their financial statement with the exact amount of total wages that were paid as the month's extra wages.

Response question 3