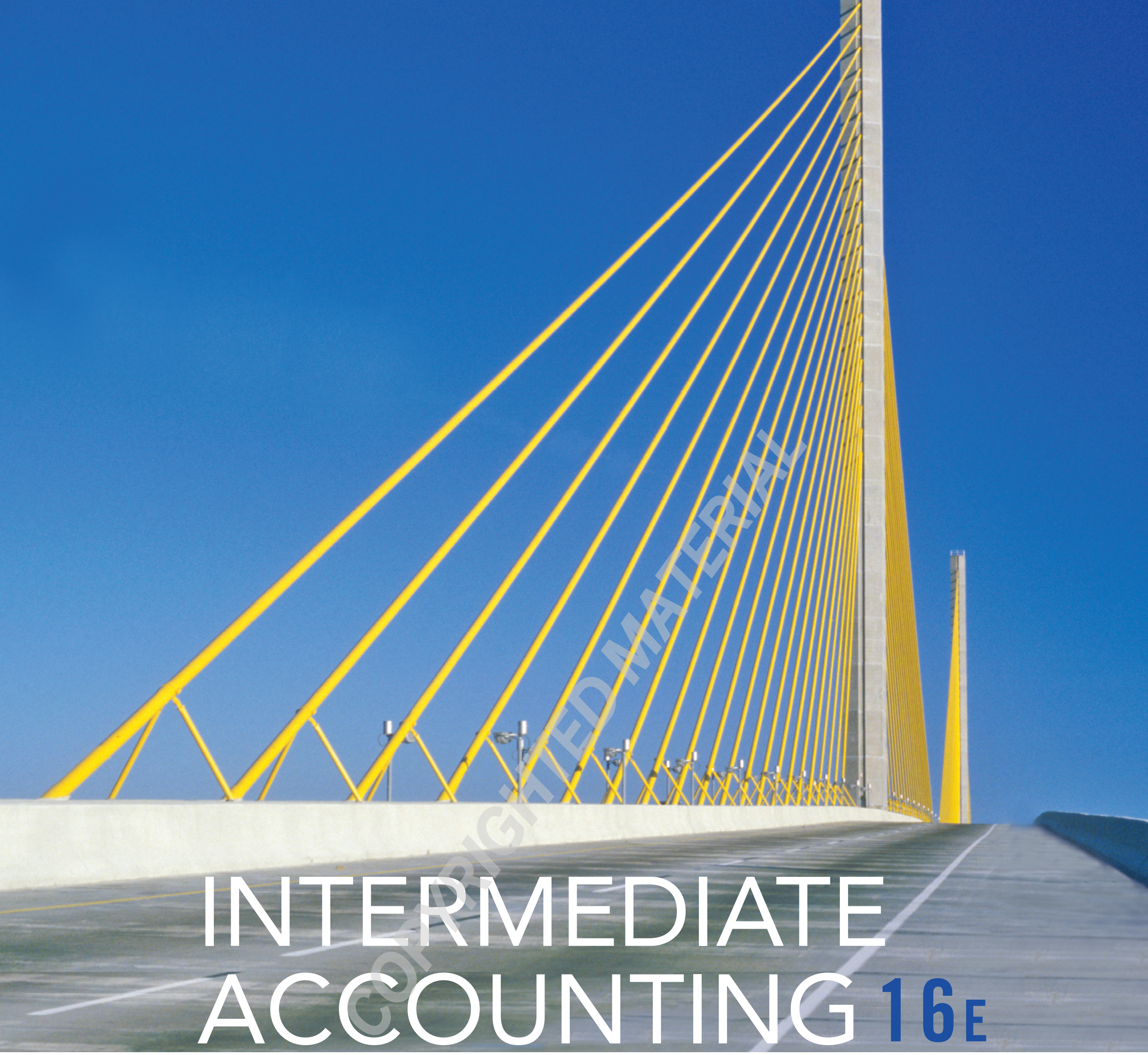

INTERMEDIATE ACCOUNTING 16E

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Our wives, Donna, Enid, and Mary, for their love, support, and encouragement

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Brief Contents

APPENDICES

From the Authors

Through many editions, this textbook has continued to reflect the constant changes taking place in the GAAP environment. This edition continues this tradition, which has become even more significant as the financial reporting environment is exploding with major change. Here are three areas of major importance that are now incorporated extensively into this edition of the textbook.

Convergence of GAAP and IFRS One of the most important innovations shaping our capital markets was the idea of GAAP. It might be said that it would be even better if we had one common set of accounting rules for the whole world, which would make it easier for international investors to compare the financial results of companies from different countries. Fortunately, GAAP and international accounting standards have converged to result in a number of common standards between GAAP and **International Financial Reporting Standards (IFRS)**. And you have the chance to be on the ground floor as we develop for you the similarities and differences in the two systems that ultimately will be one.

> "If this textbook helps you appreciate the challenges, worth, and limitations of financial reporting, if it encourages you to evaluate critically and understand financial accounting concepts and practice, and if it prepares you for advanced study, professional examinations, and the successful and ethical pursuit of your career in accounting or business in a global economy, then we will have attained our objectives."

A Fair Value Movement The FASB believes that fair value information is more relevant to users than historical cost. As a result, there is more information that is being reported on this basis, and even more will occur in the future. The financial press is full of articles discussing how financial institutions must fair value their assets, which has led to massive losses during the recent credit crisis. In addition, additional insight into the reliability related to fair values is being addressed and disclosed to help investors make important capital allocation decisions. We devote a considerable amount of material that discusses and illustrates fair value concepts in this edition.

A New Way of Looking at Generally Accepted Accounting Principles (GAAP) Learning GAAP used to be a daunting task, as it is comprised of many standards that vary in form, completeness, and structure. Fortunately, the profession has developed the Financial Accounting Standards Board Codification (often referred to as the Codification). This Codification provides in one place all the GAAP related to a given topic. This textbook is the first to incorporate this Codification—it will make learning GAAP easier and more interesting!

Intermediate Accounting is the market-leading textbook in providing the tools needed to understand what GAAP is and how it is applied in practice. With this Sixteenth Edition, we strive to continue to provide the material needed to understand this subject area. The textbook is comprehensive and up-to-date. We also include proven pedagogical tools, designed to help you learn more effectively and to answer the changing needs of this course.

We are excited about *Intermediate Accounting*, Sixteenth Edition. We believe it meets an important objective of providing useful information to educators and students interested in learning about both GAAP and IFRS. Suggestions and comments from users of this textbook will be appreciated. Please feel free to e-mail any one of us at *AccountingAuthors@yahoo.com*.

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Author Commitment

Don Kieso

DONALD E. KIESO, PhD, CPA, received his bachelor's degree from Aurora University and his doctorate in accounting from the University of Illinois. He has served as chairman of the Department of Accountancy and is currently the KPMG Emeritus Professor of Accountancy at Northern Illinois University. He has public accounting experience with Price Waterhouse & Co. (San Francisco and Chicago) and Arthur Andersen & Co. (Chicago) and research experience with the Research Division of the American Institute of Certified Public Accountants (New York). He has done post-doctorate work as a Visiting Scholar at the University of California at Berkeley and is a recipient of NIU's Teaching Excellence Award and four Golden Apple Teaching Awards. Professor Kieso is the author of other accounting and business books and is a member of the American Accounting Association, the American Institute of Certified Public Accountants, and the Illinois CPA Society. He has served as a member of the Board of Directors of the Illinois CPA Society, then AACSB's Accounting Accreditation Committees, the State of Illinois Comptroller's Commission, as Secretary-Treasurer of the Federation of Schools of Accountancy, and as Secretary-Treasurer of the American Accounting Association. Professor Kieso is currently serving on the Board of Trustees and Executive Committee of Aurora University, as a member of the Board of Directors of Kishwaukee Community Hospital, and as Treasurer and Director of Valley West Community Hospital. From 1989 to 1993, he served as a charter member of the National Accounting Education Change Commission. He is the recipient of the Outstanding Accounting Educator Award from the Illinois CPA Society, the FSA's Joseph A. Silvoso Award of Merit, the NIU Foundation's Humanitarian Award for Service to Higher Education, a Distinguished Service Award from the Illinois CPA Society, and in 2003 an honorary doctorate from Aurora University.

Jerry Weygandt

JERRY J. WEYGANDT, PhD, CPA, is Arthur Andersen Alumni Emeritus Professor of Accounting at the University of Wisconsin—Madison. He holds a Ph.D. in accounting from the University of Illinois. Articles by Professor Weygandt have appeared in the *Accounting Review, Journal of Accounting Research, Accounting Horizons, Journal of Accountancy*, and other academic and professional journals. These articles have examined such financial reporting issues as accounting for price-level adjustments, pensions, convertible securities, stock option contracts, and interim reports. Professor Weygandt is author of other accounting and financial reporting books and is a member of the American Accounting Association, the American Institute of Certified Public Accountants, and the Wisconsin Society of Certified Public Accountants. He has served on numerous committees of the American Accounting Association and as a member of the editorial board of the Accounting Review; he also has served as President and Secretary-Treasurer of the American Accounting Association. In addition, he has been actively involved with the American Institute of Certified Public Accountants and has been a member of the Accounting Standards Executive Committee (AcSEC) of that organization. He has served on the FASB task force that examined the reporting issues related to accounting for income taxes and served as a trustee of the Financial Accounting Foundation. Professor Weygandt has received the Chancellor's Award for Excellence in Teaching and the Beta Gamma Sigma Dean's Teaching Award. He is on the board of directors of M & I Bank of Southern Wisconsin. He is the recipient of the Wisconsin Institute of CPA's Outstanding Educator's Award and the Lifetime Achievement Award. In 2001, he received the American Accounting Association's Outstanding Educator Award.

Terry Warfield

TERRY D. WARFIELD, PhD, is the PwC Professor in Accounting at the University of Wisconsin—Madison. He received a B.S. and M.B.A. from Indiana University and a Ph.D. in accounting from the University of Iowa. Professor Warfield's area of expertise is financial reporting, and prior to his academic career, he worked for five years in the banking industry. He served as the Academic Accounting Fellow in the Office of the Chief Accountant at the U.S. Securities and Exchange Commission in Washington, D.C. from 1995–1996. Professor Warfield's primary research interests concern financial accounting standards and disclosure policies. He has published scholarly articles in *The Accounting Review, Journal of Accounting and Economics, Research in Accounting Regulation*, and *Accounting Horizons*, and he has served on the editorial boards of *The Accounting Review, Accounting Horizons*, and *Issues in Accounting Education*. He has served as president of the Financial Accounting and Reporting Section, the Financial Accounting Standards Committee of the American Accounting Association (Chair 1995–1996), and on the AAA-FASB Research Conference Committee. He also served on the Financial Accounting Standards Advisory Council of the Financial Accounting Standards Board, and he currently serves as a trustee of the Financial Accounting Foundation. Professor Warfield has received teaching awards at both the University of Iowa and the University of Wisconsin, and he was named to the Teaching Academy at the University of Wisconsin in 1995. Professor Warfield has developed and published several case studies based on his research for use in accounting classes. These cases have been selected for the AICPA Professor-Practitioner Case Development Program and have been published in *Issues in Accounting Education.*

WHAT'S NEW?

The Sixteenth Edition expands our emphasis on student learning and improves upon a teaching and learning package that instructors and students have rated the highest in customer satisfaction. Based on extensive reviews, focus groups, and interactions with other intermediate accounting instructors and students, we have developed a number of new pedagogical features and content changes, designed both to help students learn more effectively and to answer the changing needs of the course.

WileyPLUS with ORION Over 3,500 questions, including new medium-level, computational, and accounting-cycle-based questions, are available for practice and review. **WileyPLUS with ORION** is an adaptive study and practice tool that helps students build proficiency in course topics.

WileyPLUS Videos Over 150 videos are available in WileyPLUS. The videos walk students through relevant homework problems and solutions and review important concepts.

Review and Practice and Solutions New practice opportunities with solutions are integrated throughout the textbook and WileyPLUS course. Each textbook chapter now provides students with a **Review and Practice** section that includes learning objective summaries, a key term listing, and a practice problem with solution.

Updated IFRS Insights Content We have updated the end-of-chapter section, **IFRS Insights,** throughout the textbook. In addition, in the *Relevant Facts* section, we now present *Similarities* as well as *Differences* between GAAP and IFRS to increase student understanding.

Major Content Revisions In response to the changing environment, we have significantly revised several chapters.

CHAPTER 4 Income Statement and Related Information

- Revised discussion and presentation of unusual and infrequent gains and losses, as well as discontinued operations, per recent accounting standards.
- Deleted discussion of extraordinary items to reflect the most recent accounting standards.

CHAPTER 9 Inventories: Additional Valuation Issues

- New discussion and end-of-chapter material on lower-of-cost-or-net realizable value and lower-of-cost-or-market to reflect the most recent accounting standards.

CHAPTER 17 Investments

- Discussion and update of material in response to the recent standard on classification and measurement.

CHAPTER 18 Revenue Recognition

- New discussion based on the recent FASB ruling on the revenue recognition principle. Legacy GAAP discussion is available online.

See the next two pages for a complete list of content revisions by chapter.

Content Changes by Chapter

Chapter 1: Financial Accounting and Accounting Standards

- Updated discussion on diminishing role of AICPA in standard-setting process.
- Added discussion on potential abuse of historical cost valuation within Evolving Issue box on fair value.
- New discussion on whether convergence of GAAP and IFRS will really occur.
- New Concepts of Analysis case on financial crisis of 2008.
- Significantly updated *IFRS Insights* section to include most recent information on convergence efforts.

Chapter 2: Conceptual Framework for Financial Reporting

- New discussion on how the IASB is now moving forward on its own conceptual framework instead of a continuation of a joint FASB/IASB project.
- New WDNM boxes on (1) how the use of unconventional financial terms in statements can mislead investors and (2) the use of pro forma measures.

Chapter 3: The Accounting Information System

- Completely revised and updated opening story on economic crime and importance of effective internal controls of a company's accounting information system.

Chapter 4: Income Statement and Related Information

- New opening story on how **Groupon**'s adjusted EBITDA reflects trend of companies employing pro forma reporting and concerns with that practice.
- Completely revised Discontinued Operations section per recent FASB standard.
- Completely revised Unusual and Infrequent Gains and Losses section per recent FASB standard.
- Deleted Extraordinary Items section per recent FASB standard.

Chapter 5: Balance Sheet and Statement of Cash Flows

- New discussion of **IBM**'s financial flexibility within WDNM box on importance of cash flow information for investors.
- Moved **P&G**'s financial statements to Appendix B at end of textbook; the complete annual report is available online.

Chapter 6: Accounting and the Time Value of Money

- Changed interest rates on many of the in-chapter examples to reflect more realistic data.

Chapter 7: Cash and Receivables

- New opening story on companies moving their profits to overseas operations to avoid taxes. Previous opening story, on sources of companies' earnings, now updated and placed as a WDNM box.
- New WDNM box, on where companies park their cash.
- Thoroughly updated discussion of recognition and valuation of accounts receivable, per latest FASB standard, including deleting percentage-of-sales approach.
- Updated discussion of securitizations, now placed as a WDNM box.
- Appendix 7B, Impairments of Receivables, now Collectibility Assessment Based on Expected Cash Flows, per recent FASB standard. Impairment Evaluation Process in *IFRS Insights section* also deleted accordingly.

Chapter 8: Valuation of Inventories: A Cost-Basis Approach

- Updated discussion on ownership of goods and costs to include in inventory, per recent FASB standard.
- Inventory errors discussion moved to end of chapter, for improved flow of discussion.

Chapter 9: Inventories: Additional Valuation Issues

- Updated discussion of lower-of-cost-and-net realizable value and lower-of-cost-or-market, per recent FASB pronouncement. New EOC Exercises and Problems related to this discussion.
- New table highlighting disadvantages of the gross profit method.
- New WDNM box on price fixing, and how new technology on changing store prices can reduce the cost of implementing the retail inventory method.

Chapter 10: Acquisition and Disposition of Property, Plant, and Equipment

- Updated opening story on importance of and capital expenditures related to property, plant, and equipment for many companies.

Chapter 11: Depreciation, Impairments, and Depletion

- Generally updated for new design, content, and recent developments.

Chapter 12: Intangible Assets

- New WDNM boxes on (1) including internally generated intangible assets in the financial statements and (2) global R&D incentives.
- New footnotes on recent guidance for private companies in the accounting for goodwill.
- Moved up Presentation of Intangible Assets section within chapter for improved flow of topics.

Chapter 13: Current Liabilities and Contingencies

- Moved discussion of current maturities of long-term debt and short-term obligations expected to be

refinanced to end of Current Liabilities section for improved flow of discussion.
- New illustrations highlighting the entries required to record unearned revenues, payroll deductions, and bonus agreements.
- New footnote on refinancing criteria, to inform about FASB's latest deliberations regarding them in light of the Board's simplification initiative.
- Rewritten discussion of warranties, per latest FASB standard.
- New WDNM box, on how companies' extension of payment terms affects their current ratios and therefore analysis of them.

Chapter 14: Long-Term Liabilities
- Updated WDNM box on bond ratings for most recent trends and information.
- New footnote explaining why the effective-interest rate will be higher on bonds issued at a discount rate based on the reduced carrying value.
- Deleted Costs of Issuing Bonds section per latest FASB standard.

Chapter 15: Stockholders' Equity
- Moved up discussion of preferred stock for improved flow of discussion.
- New illustrations on common stock issuance, cash dividends, property dividends, liquidating dividends, and stock dividends to highlight journal entry procedures.
- Updated WDNM boxes for the most recent corporate information and trends on stock buybacks, classes of stock, stock splits, and dividends.

Chapter 16: Dilutive Securities and Earnings per Share
- Revised WDNM box on convertible bonds, to include most recent information and trends.
- New WDNM box on FASB's proposal of fair value method for accounting for stock options.

Chapter 17: Investments
- Discussion reflects proposed 2016 FASB pronouncement on accounting for investments.
- New WDNM boxes on (1) recent trend of many large banks shifting debt investment portfolios into the held-to-maturity category as protection against market volatility, and (2) issue of how mutual funds assign a current value to private technology companies.
- Rewrote Impairment section, as well as Fair Value Hedge section in Appendix 17A, to reflect proposed FASB pronouncement.
- Deleted Appendix 17B on variable-interest entities.

Chapter 18: Revenue Recognition
- New section with extended example of the five-step revenue recognition model, to give students a good understanding/overview before more advanced issues are discussed.
- Right of Return section completely rewritten as Sales Returns and Allowances, with more explanations and examples, per new FASB standard.
- EOC material includes many new Brief Exercises, Exercises, and Problems, to reflect new FASB standard and terminology.

Chapter 19: Accounting for Income Taxes
- New section on financial statement effects of future taxable amounts and deferred taxes.
- Rewrote balance sheet classification section, to reflect recent FASB pronouncement.
- Completely revised Financial Statement Presentation section, including new material on note disclosure.

Chapter 20: Accounting for Pensions and Postretirement Benefits
- Generally updated for new design, content, and recent developments.

Chapter 21: Accounting for Leases
- Updated Evolving Issue boxes, to coincide with expected new FASB leasing rules.
- New WDNM box on how **GM** realized losses due to inaccurate estimates of residual value profits.

Chapter 22: Accounting Changes and Error Analysis
- New WDNM box on whether changes for accounting estimates are motivated by attempt to provide more useful information or to make financial results look better.
- Motivations for Change of Accounting Method section now a WDNM box.

Chapter 23: Statement of Cash Flows
- Extraordinary Items section now Unusual and Infrequent Items, to conform to new FASB treatment.
- Expanded footnote on reporting of significant noncash transactions, as they can significantly affect analysts' assessments of capital expenditures and free cash flow.
- New marginal T-accounts in Use of a Worksheet section, to help demonstrate adjustments made to the accounts.
- New WDNM box, on COROA (cash operating return on assets), a new measure of profitability.

Chapter 24: Full Disclosure in Financial Reporting
- Updated Evolving Issue box on issue of financial disclosure, to include recent developments on the FASB's Disclosure Framework project.
- Deleted discussion of extraordinary items, to conform to new FASB treatment.

New Appendices A-E
- Appendix A: Private Company Accounting (private company alternatives for intangible assets and goodwill)
- Appendix B: Financial statements for The Procter & Gamble Company
- Appendix C: Financial statements for The Coca-Cola Company
- Appendix D: Financial statements for PepsiCo, Inc.
- Appendix E: Financial statements for Marks and Spencer plc

Key Learning Features

This edition continues to provide numerous key learning aids to help you master the textbook material and prepare you for a successful career.

CHAPTER PREVIEW

The Chapter Preview summarizes the major issues discussed in the chapter, and provides students with a visual outline of the key topics.

PREVIEW OF CHAPTER 12 As our opening story indicates, sustainability strategies are taking on increased importance for companies like **Southwest Airlines** and **Clorox**. Reporting challenges for effective sustainability investments are similar to those for intangible assets. In this chapter, we explain the basic conceptual and reporting issues related to intangible assets. The content and organization of the chapter are as follows.

This chapter also includes numerous conceptual and international discussions that are integral to the topics presented here.

INTANGIBLE ASSETS

INTANGIBLE ASSET ISSUES
- Characteristics
- Valuation
- Amortization

TYPES OF INTANGIBLES
- Marketing-related
- Customer-related
- Artistic-related
- Contract-related
- Technology-related
- Goodwill

IMPAIRMENT AND PRESENTATION OF INTANGIBLES
- Limited-life intangibles
- Indefinite-life intangibles other than goodwill
- Goodwill
- Presentation

RESEARCH AND DEVELOPMENT COSTS
- Identifying R&D
- Accounting for R&D
- Similar costs
- Presentation

UNDERLYING CONCEPTS

The Underlying Concepts highlight and explain major conceptual topics in the chapter.

INTERNATIONAL PERSPECTIVE

International Perspectives provide students with specific examples of how global companies (and countries) implement key accounting regulations. They also provide examples of how and where IFRS differs from GAAP.

UNDERLYING CONCEPTS

The controversy surrounding the accounting for R&D expenditures reflects a debate about whether such expenditures meet the definition of an asset. If so, then an "expense all R&D costs" policy results in overstated expenses and understated assets.

INTERNATIONAL PERSPECTIVE

IFRS requires the capitalization of certain development expenditures. This conflicts with GAAP.

WHAT DO THE NUMBERS MEAN?

The "What do the numbers mean?" boxes further students' understanding of key concepts with practical, real-world examples.

WHAT DO THE NUMBERS MEAN? KEEP YOUR HANDS OFF MY INTANGIBLE!

Companies go to great extremes to protect their valuable intangible assets. Consider how the creators of the highly successful game *Trivial Pursuit* protected their creation. First, they copyrighted the 6,000 questions that are at the heart of the game. Then they shielded the *Trivial Pursuit* name by applying for a registered trademark. As a third mode of protection, they obtained a design patent on the playing board's design as a unique graphic creation.

Another more recent example is the case of **Converse** and its efforts to protect its classic Chuck Taylor trademark. Converse (owned by **Nike**) accused 31 companies (including **Wal-Mart Stores, Inc.**, **Kmart**, and **Skechers**) of trademark infringement for co-opting its widely recognizable Chuck Taylor® sneakers. While Converse is suing for monetary damages, its main goal is to get these imposters off store shelves. The company went as far as filing a separate complaint with the International Trade Commission to stop any shoes considered to be counterfeit from entering the country. That Converse (Nike) is going to these ends to protect its trademark is understandable given that Nike reinvigorated the brand by expanding the franchise, introducing more colors and styles, and helping to push All Stars® into overseas markets.

Source: "Converse Sues to Protect Its Chuck Taylor All Stars," *The New York Times* (October 14, 2014).

EVOLVING ISSUE

The Evolving Issue feature introduces and discusses a current topic in the accounting industry in which the profession may be encountering controversy or nearing resolution. The feature shows how the key standard-setting organizations make decisions to adjust to the changing global business environment.

EVOLVING ISSUE RECOGNITION OF R&D AND INTERNALLY GENERATED INTANGIBLES

The requirement that companies expense immediately all R&D costs (as well as start-up costs) incurred internally is a practical solution. It ensures consistency in practice and uniformity among companies. But the practice of immediately writing off expenditures made in the expectation of benefiting future periods is conceptually incorrect.

Proponents of immediate expensing contend that from an income statement standpoint, long-run application of this standard frequently makes little difference. They argue that because of the ongoing nature of most companies' R&D activities, the amount of R&D cost charged to expense each accounting period is about the same, whether there is immediate expensing or capitalization and subsequent amortization.

Others criticize this practice. They believe that the balance sheet should report an intangible asset related to expenditures that have future benefit. To preclude capitalization of all R&D expenditures removes from the balance sheet what may be a company's most valuable asset.

Indeed, research findings indicate that capitalizing R&D costs may be helpful to investors. For example, one study showed a significant relationship between R&D outlays and subsequent benefits in the form of increased productivity, earnings, and shareholder value for R&D-intensive companies. Another study found that there was a significant decline in earnings' usefulness for companies that were forced to switch from capitalizing to expensing R&D costs, and that the decline appears to persist over time.

The current accounting for R&D and other internally generated intangible assets represents one of the many trade-offs made among relevance, faithful representation, and cost-benefit considerations. The FASB and IASB have completed some limited-scope projects on the accounting for intangible assets, and the Boards have contemplated a joint project on the accounting for identifiable intangible assets (i.e., excluding goodwill). Such a project would address concerns that the current accounting requirements lead to inconsistent treatments for some types of intangible assets depending on how they arise.

Sources for research studies: Baruch Lev and Theodore Sougiannis, "The Capitalization, Amortization, and Value-Relevance of R&D," *Journal of Accounting and Economics* (February 1996); and Martha L. Loudder and Bruce K. Behn, "Alternative Income Determination Rules and Earnings Usefulness: The Case of R&D Costs," *Contemporary Accounting Research* (Fall 1995).

REVIEW AND PRACTICE

NEW Review and Practice section includes Key Terms Review, Learning Objectives Review, and a Practice Problem with Solution. In addition, multiple-choice questions with solutions, review exercises with solutions, and a full glossary of all key terms are available online.

REVIEW AND PRACTICE

KEY TERMS REVIEW

amortization, *613*
bargain purchase, *622*
business combination, *612(n)*
copyright, *616*
development activities, *628*
fair value test, *623*
franchise, *617*
goodwill, *619*
impairment, *622*
indefinite-life intangibles, *613*
intangible assets, *612*
license (permit), *617*
limited (finite)-life intangibles, *613*
master valuation approach, *621*
organizational costs, *631*
patent, *617*
recoverability test, *623*
research activities, *628*
research and development (R&D) costs, *628*
start-up costs, *631*
trademark, trade name, *615*

LEARNING OBJECTIVES REVIEW

1 Describe the characteristics, valuation, and amortization of intangible assets. **Intangible assets have two main characteristics:** (1) they lack physical existence, and (2) they are not financial instruments. In most cases, intangible assets provide services over a period of years and so are normally classified as long-term assets.

Intangibles are recorded at cost. Cost includes all acquisition costs and expenditures needed to make the intangible asset ready for its intended use. If intangibles are acquired in exchange for stock or other assets, the cost of the intangible is the fair value of the consideration given or the fair value of the intangible received, whichever is more clearly evident. When a company makes a "basket purchase" of several intangibles or a combination of intangibles and tangibles, it should allocate the cost on the basis of fair values.

Intangibles have either a limited useful life or an indefinite useful life. Companies amortize limited-life intangibles. They do not amortize indefinite-life intangibles. Limited-life intangibles should be amortized by systematic charges to expense over their useful life. The useful life should reflect the period over which these assets will contribute to cash flows. The amount

PRACTICE PROBLEM

Sky Co., organized in 2017, provided you with the following information.

1. Purchased a license for $20,000 on July 1, 2017. The license gives Sky exclusive rights to sell its services in the tri-state region and will expire on July 1, 2025.
2. Purchased a patent on January 2, 2018, for $40,000. It is estimated to have a 5-year life.
3. Costs incurred to develop an exclusive Internet connection process as of June 1, 2018, were $45,000. The process has an indefinite life.
4. On April 1, 2018, Sky purchased a small circuit board manufacturer for $350,000. Goodwill recorded in the transaction was $90,000.

USING YOUR JUDGMENT

The Using Your Judgment section provides students with real-world homework problems covering topics such as financial reporting and financial statement analysis.

USING YOUR JUDGMENT

Financial Reporting Problem

The Procter & Gamble Company (P&G)

The financial statements of P&G are presented in Appendix B. The company's complete annual report, including the notes to the financial statements, is available online.

Instructions

Refer to P&G's financial statements and the accompanying notes to answer the following questions.

(a) Does P&G report any intangible assets, especially goodwill, in its 2014 financial statements and accompanying notes?
(b) How much research and development (R&D) cost was expensed by P&G in 2013 and 2014? What percentage of sales revenue and net income did P&G spend on R&D in 2013 and 2014?

Comparative Analysis Case

The Coca-Cola Company and PepsiCo, Inc.

The financial statements of Coca-Cola and PepsiCo are presented in Appendices C and D, respectively. The companies' complete annual reports, including the notes to the financial statements, are available online.

Instructions

Use the companies' financial information to answer the following questions.

(a) **(1)** What amounts for intangible assets were reported in their respective balance sheets by Coca-Cola and PepsiCo at year-end 2014?
(2) What percentage of total assets is each of these reported amounts at year-end 2014?
(3) What was the change in the amount of intangibles from 2013 to 2014 for Coca-Cola and PepsiCo?

BRIDGE TO THE PROFESSION

NEW to this edition, this section now includes FASB Codification References, Codification Exercises, and a Codification Research Case, all designed to refer students to the relevant FASB literature for key concepts in the text and provide assessment of their understanding.

BRIDGE TO THE PROFESSION

FASB Codification References

[1] FASB ASC 350-10-05. [Predecessor literature: "Goodwill and Other Intangible Assets," *Statement of Financial Accounting Standards No. 142* (Norwalk, Conn.: FASB, 2001).]
[2] FASB ASC 350-30-35. [Predecessor literature: "Goodwill and Other Intangible Assets," *Statement of Financial Accounting Standards No. 142* (Norwalk, Conn.: FASB, 2001), par. 11.]
[3] FASB ASC 805-10. [Predecessor literature: "Business Combinations," *Statement of Financial Accounting Standards No. 141R* (Norwalk, Conn.: FASB, 2007).]
[4] FASB ASC 350-30-35. [Predecessor literature: "Goodwill and Other Intangible Assets," *Statement of Financial Accounting Standards No. 142* (Norwalk, Conn.: FASB, 2001), par. B55.]
[5] FASB ASC 805-10-20. [Predecessor literature: "Business Combinations," *Statement of Financial Accounting Standards No. 141R* (Norwalk, Conn.: FASB, 2007).]
[6] FASB ASC 805-10-30. [Predecessor literature: "Business Combinations," *Statement of Financial Accounting Standards No. 141R* (Norwalk, Conn.: FASB, 2007).]
[7] FASB ASC 805-20-15. [Predecessor literature: None]

IFRS INSIGHTS

IFRS Insights offer students a detailed discussion and assessment material of international accounting standards at the end of each chapter.

IFRS Insights

LEARNING OBJECTIVE 6
Compare the accounting for intangible assets under GAAP and IFRS.

There are some significant differences between IFRS and GAAP in the accounting for both intangible assets and impairments. IFRS related to intangible assets is presented in *IAS 38* ("Intangible Assets"). IFRS related to impairments is found in *IAS 36* ("Impairment of Assets").

RELEVANT FACTS

Following are the key similarities and differences between GAAP and IFRS related to intangible assets.

Similarities

- Like GAAP, under IFRS intangible assets (1) lack physical substance and (2) are not financial instruments. In addition, under IFRS an intangible asset is identifiable. To be identifiable, an intangible asset must either be separable from the company (can be sold or transferred) or it arises from a contractual or legal right from which economic benefits will flow to the company.

Table of Contents

14 | Long-Term Liabilities 718

15 | Stockholders' Equity 774

16 | Dilutive Securities and Earnings per Share 834

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