

# Assignment 3

Due 11-12-2018 on D2l dropbox before 11:59pm

## **FASB Code Questions (10 pts.):**

Your client, Cascade Company, is planning to invest some of its excess cash in 5-year revenue bonds issued by the county and in the stock of one of its suppliers, Teton Co. Teton's shares trade on the over-the-counter market. Cascade plans to classify these investments as available-for-sale. They would like you to conduct some research on the accounting for these investments.

## **Questions:**

1. Since the Teton shares do not trade on one of the large stock markets, Cascade argues that the fair value of the investment is not readily available. According to the authoritative literature, when is the fair value of a security "readily determinable"?
2. How is an impairment of a security accounted for?
3. To avoid volatility in their financial statement due to fair value adjustments, Cascade debated whether the bond investment could be classified as held-to-maturity; Cascade is pretty sure it will hold the bond for 5 years. How close to maturity could Cascade sell an investment and still classify it as held-to-maturity?
4. What disclosures must be made for any sale or transfer from securities classified as held-to-maturity?

## **Instructions:**

Use the AAA FASB Codification website (<http://www2.aaahq.org/ascLogin.cfm>) to complete the research case.

## Student Login

Username - AAA51242

Password - 2ySaB6F

**Written Questions (10 pts.):**

Cascade company owns bonds that mature in 7 years; the principal from these bonds is intended for the remodeling of Cascade's corporate offices. In years past, these bonds have been classified as Held-to-maturity because of Cascade's strong financial liquidity and intention to use the principle for remodeling.

Cascade company has strong financial liquidity and equity funding however their current financial earnings are below analyst forecast. The CEO has recently emphasized the importance of meeting the earnings target for the year and has put considerable pressure on the accounting department to meet earnings expectations.

Answer the following questions in 1 page or less for each question.

**Questions:**

1. How might the accounting department manipulate the accounting treatment of the bonds to improve the financial earnings of the company?
2. Which financial statement line items or financial ratios could an investor look at to identify potential manipulations of the financial statements?