The accounting capstone problem

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ABSTRACT

Capstone courses in accounting programs bring students experiences integrating across the curriculum (University of Washington, 2005) and offer unique (Sanyal, 2003) and transformative experiences (Sill, Harward, & Cooper, 2009). Students take many accounting courses without preparing complete sets of financial statements. Accountants not only must calculate amounts for financial statements, but need knowledge and skills to select principles and reporting methods, the judgment to apply them, and the ability to prepare financial statements, including disclosures. The use of technology in the accounting classroom improves learning (Talley, 2009). Albrecht and Sack (2000) urged inclusion of technology instruction in the accounting curriculum. Employers need graduates with critical thinking skills, and proficiency with computers (AICPA, 2005). The ability to effectively leverage technology is among the core competencies in the CPA Vision Project (AICPA, 2010). This paper is about the use of Excel in a computer assisted, individually tailored, learning experience intended to provide students integrative experiences that otherwise would be missing from the accounting program, through an Excel randomization process to create a unique problem for each student, using Excel's =RAND() function. The capstone course includes this problem, an assignment intended to provide students with integrative experiences through the preparation of financial statements.

Keywords: capstone, accounting, technology, financial statements, transformative experience.

INTRODUCTION

Capstone courses in accounting programs have proven useful in bringing students experiences to integrate their knowledge of discipline curriculum (University of Washington, 2005). Capstone courses allow faculty opportunities to offer students unique experiences (Sanyal, 2003). Faculty are urged to teach with learner-centered styles or methods that have their geneses in well thought out, coherent sets of pedagogical values (Weimer, 2002), and the resulting capstone courses are expected to be transformative experiences for the students as they complete their programs of study, and prepare to enter the post-academic world (Sill et al., 2009). Students of financial accounting may take the introductory principles course, two or three courses in intermediate accounting, and a course in advanced accounting, perhaps without preparing a complete set of financial statements. The American Institute of Certified Public Accountants (AICPA) in the Content and Skill Specifications for the Uniform CPA Examination (2009) includes not only calculation of the amounts for inclusion in financial statements, but candidates are expected to demonstrate the knowledge and skills necessary to (a) identify and select appropriate accounting and reporting methods, and exercise professional accounting judgment in the application of accounting principles, and (b) prepare a complete set of financial statements, including appropriate disclosures and notes to those financial statements. The design of the capstone course in the masters in accounting degree included an assignment intended to provide students with integrative experiences, through the preparation of a set of financial statements that reflect a level of complexity and sophistication that might be encountered in small to medium companies in industry. In addition to mastering the fundamental disciplines of business (accounting fundamentals) faculty have included among the desired outcomes for the capstone course enhancement of students' abilities to leverage technology, in particular with the use of industry-standard spreadsheets and spreadsheet applications. This paper is about the use of Excel in a computer assisted, individually tailored, learning experience intended to provide students integrative experiences that otherwise would be missing from the accounting program, using an Excel randomization process.

The use of a computer assisted individually tailored experience intended to provide the integrative learning process, through an Excel randomization process, is the primary focus of this paper. The literature in support of the capstone experience in master's level accounting programs, and the use of technology to enhance the integrative learning experience are briefly examined. The design of the financial statement preparation problem delineated, together with an explanation of the use of Excel functions to generate a unique problem for each student, including generation of unique sets of financial statements, with supporting schedules related to the solution for each component of the problem, which may be used as grading keys.

LITERATURE

There is growing evidence that the use of technology in the accounting classroom improves learning. Students report that educational innovation, such as the introduction of technology, helps them learn (Talley, 2009). Tam (2008) indicates that dynamic problem content embedded in accounting problems, accessed by the students using the Internet, may provide enriched learning experiences, as compared to the traditional static content of accounting course materials. Pridmore, Bradley, and Mehta (2010) echo this, suggesting that the use of traditional

lecture only, or the use of multimedia case studies only, will be rated by students as less effective than both methods combined.

Albrecht and Sack (2000), in their baseline study of a decade ago, urged the inclusion of the instruction of technology in the accounting curriculum. Chew, McInnis-Bowers, and Drewry (1996) called for the use of the capstone course in business administration studies (a) to enable faculty to evaluate a school's academic program, (b) to integrate student learning across the business disciplines, and (c) to allow faculty to assess student achievement. Chew, et al., identified a need for courses and programs that would produce graduates able to perform productive work, and mandated intensive teamwork and interactive student/faculty relationships in the capstone courses.

Hadsell and Burke (2007) noted there is much literature on all sides of the question of whether the use of computers as instructional technology (a) enhances, (b) has no perceptible effect, or (c) is a detriment to the achievement of learning outcomes. This echoes earlier research suggesting a framework for evaluation of the learning outcome effectiveness of the use of computers as educational technology (Jones & Paolucci, 1999). Employer's needs for graduates with both critical thinking skills and proficiency with computers (AICPA, 2005) are well documented and clear. The need for graduates to efficiently and effectively leverage technology to create value for both firms and clients is among the top five core competencies listed in the CPA Vision Project (AICPA, 2010). Black (2001) advocated capstone simulation courses to provide students with integrative processes using their skills in the fundamental disciplines of business, such as the ability to apply theory to practical business scenarios (i.e., to use critical thinking skills), to apply technology to business situations (i.e., to leverage technology), to understand the organizational structures of businesses, and to apply a global perspective to business problems. The need to provide, through the capstone experience, a wide-ranging and reasoned perspective look at the complex reality of the business world has also been stressed (Sanyal, 2003).

The capstone course should not only be instructional, but should act as a transformative experience for the students (Sill et al., 2009). Citing national student engagement surveys as having identified capstone courses as one of the few identifiable experiences for which results can be measured and demonstrated, Sill et al. say the transformational effect of the capstone, helping students prepare for the world after college, is a general rationale for such courses. The Boyer Commission (Kenny, 1998) noted the use of capstone courses and the creative use of technology, utilizing the communication and research skills of the students to bring the educational efforts of the previous years to a close, and integrate the overall experience, were integral parts of a series of recommendations to revitalize undergraduate education at the major research institutions. The need for transformative integrative experiences is thought to be no less strong in the accounting discipline at the master's level, and in teaching colleges and universities, as well as at the research universities, and the demonstrated need for graduates with computer and technology proficiency is equally clear.

ACCT 6350

The course ACCT 6350 is the capstone course for students in the Master of Science in Accounting. This course draws upon the body of knowledge the students have built during their program. The course builds on this foundation with a mix of problems and contemporary issues that accountants deal with during their careers.

Much like Jervis and Hartley (2005), the design of the capstone course began with the need, in light of the liberal arts format of the university, to integrate the academic discipline with the critical thinking and technology outcomes selected by the faculty. The capstone was designed to provide the integrative process for the discipline, with aspects of the major research project, accounting theory, and contemporary accounting issues formats described by Ehoff (2010). Although instructors vary in styles and teaching philosophies, most who have taught the ACCT 6350 Problems in Accounting have utilized the financial statement problem discussed in this paper in their versions of the course. The problem was included to fill an experiential hole in the curriculum. Although former students do not always report back to the university about their employment experiences, estimates are that (a) only a minority start with large audit firms, and fewer stay beyond a few years, (b) perhaps half start their careers with regional and local audit firms, and again, only a few stay beyond a few years, and (c) the balance of the graduates either start their careers in industry, or migrate to industry from their public accounting jobs. An integrative experience problem for the capstone course may serve needs for a majority of students for practical experience in the application of generally accepted accounting principles (GAAP), in an unstructured environment in which the onus for timely completion of appropriate accounting reports falls on the student accountants.

THE MID-TERM PROBLEM

The problem discussed in this paper is designated the Mid-term Problem, for lack of a better name, and because that is what the problem has come to be called in ACCT 6350. The students are provided with two trial balances and a story, attached here as Appendices A and B.

The trial balance for the year ended December 31, 2008 is a post-closing trial balance. It is included to provide prior year balance sheet numbers necessary to the computation of the balances to be included in the statement of cash flows, using the indirect method. The trial balance for the year ending December 31, 2009 is a preliminary trial listing of the general ledger accounts of the problem company (a) after the general operating transactions (i.e., sales, collections of receivables, purchase of inventory, etc.) are posted, but (b) before the year end adjusting entries have been composed or posted. The problem is intended to include some items from GAAP that are ignored or only briefly examined in most intermediate accounting courses, but of necessity includes other items from GAAP as well. Here, in the order in which the information appears in the story (that is to say, in no particular order), is the thematic content of the story:

- Mid-year sale of partially depreciated plant equipment, for cash and note. Student must calculate the mid-year depreciation, calculate gain or loss, and record both the depreciation and the sale transaction.
- Information is provided concerning the collapse of an antenna tower, during a windstorm, reducing a significant asset to scrap. Students must (a) determine whether the event is extraordinary, (b) record the transactions generated by the event, and (c) make decisions about the amount, presentation, and disclosure related to the event.
- The company has a series of simple transactions in a portfolio of three or four trading securities, including a purchase, a sale, and both increases and decreases in the year end market values of individual securities. Students must appropriately mark the portfolio to market, and record any gain or loss.

- The company owns one security held for sale, for which students must prepare and record a mark-to-market entry reflecting the change in value.
- Actuarial information is provided regarding the various balances and expenditures related to a traditional pension plan. Students must prepare and record appropriate entries to adjust pension liabilities and assets, and to reflect pension expense.
- The company owns a consolidated subsidiary. In this version of the problem, consolidating entries have already been recorded. For future versions of the problem, it is expected that the subsidiary will have an outstanding minority interest and both inter-company sales and expenses, and a cash dividend will be paid by the subsidiary to its shareholders. In this future version, students will be required to prepare consolidation working papers, and utilize them in preparation of the financial statements.
- In the current version of the problem, students are required to determine whether the fair values of a wholly owned subsidiary and related goodwill have been impaired, and to prepare and record appropriate adjusting entries.
- The company has a large balance in a suspense account, related to defense of a patent, cost of obtaining the patent, and costs of development of the product that is the subject of the patent. Students should recognize that the suspense account balances must be reclassified, and prepare and record appropriate entries to do so.
- Depreciation has not been recorded. Students are presented a small table of the company's property, plant, and equipment, including dates of acquisition, estimated useful lives, and salvage value percentages, and must prepare and record an appropriate entry.
- Treasury stock is purchased on the open market. Students must choose a method, and prepare and record the journal entry.
- During the year, the company issues bonds with warrants attached. This segment of the problem is set up as the traditional classic warrants issue problem, in which the bonds with warrants attached are sold for a price in excess of the face value of the bonds, but not high enough to prevent the bonds being issued at a discount.
- Near the end of the year, after the bonds are issued, some of the warrants are exercised, and common stock is issued.
- A preferred dividend is declared by the Board of Directors. For some iterations of the problem, when the income for year 2009 is posted, the company may not have enough earned capital to support both the purchase of treasury stock and the payment of the preferred dividend, without impairing contributed capital. Students should recognize this situation if it occurs, and find a way to deal with it.

Other data are presented, which may or may not be useful to the student accountants. These include statutory two-step tax rates, information about company depreciation policies, and a description of the capitalization of the company. The company uses straight line depreciation with no salvage costs (with one exception) over estimated useful lives of 5, 7, 10 years for equipment, and 35 years for buildings, and uses a mid-year convention in which purchases made during the first half of any year are treated as a full year, and purchases in the second half of a given are considered one-half of a year. Contributed capital includes a single class of common stock, and a single issue of non-cumulative convertible preferred stock. Information provided includes the requisite (a) par values, (b) issue quantities, (c) dates, and (d) dollar amounts.

Finally, information is provided about three long term lease obligations related to company office space and parts storage. One of the leases includes a rental escalation clause based on a contingency the students must evaluate, and the other involves an option to extend the term of the lease.

The students are to assume the role of chief financial and accounting officer, and prepare a complete set of financial statements. The financial statements they prepare are to include many items the students must consider, which are not mentioned in the text of the problem. The two major items for such consideration and action are the footnote disclosures required by GAAP, and the necessity of calculating and disclosing basic and diluted earnings per share.

THE EXCEL RANDOMIZATION PROCESS

The basis for the capstone problem is an unadjusted trial balance, presented to the students with the prior year's adjusted trial balance (see Appendix A). The latter is needed to generate the Statement of Cash Flows. The customization of these two trial balances to create an individual problem set for each student is done with the =RAND() function in Excel.

The =RAND() function returns a number between zero and one each time the worksheet is recalculated. The result of the function is used as a decimal fraction multiplier to recalculate the values for all the numbers in the 2009 trial balance. If recalculation is set to automatic, the values using the =RAND() multiplier are updated to new values each time any new data is entered into the workbook file. Pressing the F9 key generates a new multiplier, no matter whether the workbook is set for automatic or for manual recalculation.

The formula for the current year's cash account is:

=ROUND('Trial Balance - Master'!K5*'Trial Balances'!$R$1,-3)

The =ROUND function is used, with a factor of -3 for the number of digits, to create balances in the nearest thousand (i.e. $462,000 as opposed to $462,123 for example). The original master trial balances are in the worksheet tab named Trial Balance - Master, where the current year's cash balance is found in cell K5. The random number generated by the =RAND function in Trial Balances'!$R$1 is a decimal fraction between one and zero. Each value down the student's trial balance in turn is reduced in similar fashion, by copying the formula shown to the other cells in the student trial balances.

With the use of the =RAND and =ROUND functions, some recalculations can result in either or both of the two trial balances being out of balance. When this happens, the user (the instructor) simply continues to recalculate by pressing F9, until both trial balances sum to zero.

The next step in the development of the model used the =TEXT function to embed the current account balances into text account titles and the problem narrative. An example is the preferred stock account title, which reads:

Preferred non-cumulative, 6%, $500 par, 3,218 shares outstanding

Each time a new trial balance is generated the number of shares outstanding changes. The 3,218 shares in the above example becomes 1,644 in the next iteration. To concatenate the numerical values from the trial balances into the text string for this account, the formula used was:

="Preferred non-cumulative, 6%, $500 par, "&TEXT(-O35,"##,000")&" shares outstanding"

The =TEXT function converts the value calculated as the current value in the preferred stock account in the trial balance (recalculated for each iteration of the problem), divided by the

$500 par value, using the special format strings provided by Excel to display text between 1,000 and 99,000. This same format is used for the common stock account with its $10 par. The =TEXT function is used this way in the Given tab, where the narrative for the adjustments to be made by the students resides. Most of the adjustments are predicated on the current account balance that the latest calculation has derived. In addition to changing the trial balance numbers with each recalculation, the name of the company, and the dates on the trial balances are all updated with the recalculation for all iterations of the problem.

The introduction to the story is:

RDZ, Inc. presents the preliminary trial balance at 12/31/09 and the related information set out below. Entries for the related information have not been recorded, but routine transactions for operation of the company during the year have been recorded. Accordingly, there is an unadjusted trial balance at 12/31/09. The trial balance for 12/31/08, also called the prior year trial balance, is a post-closing trial balance. The following information, for which no adjustment has been made, is available:

Starting with the name of the company the formula is:

=CHAR(RANDBETWEEN(65,90))&CHAR(RANDBETWEEN(65,90))&CHAR(RANDBETWEEN(65,90))&", Inc."

=CHAR uses the ANSI character set in a windows operating environment, so the upper case A is character number 65, and the upper case Z is character number 90.

The problem's dates are incremented each year using the =NOW() function, which generates the serial number for the current date and time. Embedding =NOW() into the date function causes Excel to return the prior two years' December 31s for the reporting dates. The formula is: =DATE(YEAR(NOW())-1,12,31).

The formula for the opening paragraph in the problem narrative reads:

="Trial Balances'!B1&" presents the preliminary trial balance at "&TEXT('Trial Balances'!K4,"mm/dd/yy")&" and the related information set out below. Entries for the related information have not been recorded, but routine transactions for operation of the company during the year have been recorded. Accordingly, there is an unadjusted trial balance at "&TEXT('Trial Balances'!K4,"mm/dd/yy")&". The trial balance for "&TEXT('Trial Balances'!M4,"mm/dd/yy")&", also called the prior year trial balance, is a post-closing trial balance. The following information, for which no adjustment has been made, is available:"

The name of the company is in cell B1 in the Trial Balances tab. The current year reporting date is in cell K4 of Trial Balances, and cell M4 contains the prior year's reporting date. The string format for 12/31/09 is mm/dd/yy.

Excel is limited to 255 characters in a formula string. Exceeding the string length limitation results in an error message which indicate that in formulae, text values are limited to 255 characters, and that users should use the concatenate function or embed the concatenation operator &.

This is error message is avoided by breaking up the text strings and concatenating them with "&"- as shown in the following example:

="12. The company leases its main offices for $3,500 per month. On its face, the lease expires December 31, "&TEXT(L51,"yyyy")&", but there is an option to extend for an additional 5 years at $4,500 per month. The space was built out by the lessor, to suit the lessee, prior to occupancy, and there have been no "&"significant improvements to the space since. The company also rents its electronics parts storage warehouse for

$1,000 per month. That lease, which expires 12/31/"&TEXT(M51,"yyyy")&", has an automatic rent escalation of 10% per year for every year in which the Consumer Price Index increases. All rent payments for "&TEXT(M51,"yyyy")&" have been made and the payments have been appropriately recorded."

As the longest text string in the example is 346 characters; it should be broken into two strings, with the use of the concatenation operator &.

CONCLUSION

Capstone courses in accounting programs have proven useful in bringing students experiences integrating their knowledge of discipline curriculum (University of Washington, 2005). Financial accounting students may take the principles courses, intermediate accounting, and advanced accounting, perhaps without preparing a complete set of financial statements. The course ACCT 6350 is the capstone course for students in the Master of Science in Accounting.

The course incorporates a comprehensive problem that requires students to review and analyze data, determine a course of action, and then to synthesize or integrate their knowledge of financial accounting to produce a complete set of financial statements, including appropriate disclosures. The basis for the capstone problem is an unadjusted trial balance, presented to the students with the prior year's post closing adjusted trial balance, together with a narrative set of events and conditions, for which the students develop solutions and prepare appropriate entries. The problem is created by using the functional ability of Excel to generate random numbers (between zero and one) that are used as decimal fraction multipliers, with the values in a master trial balance as multiplicands. The products of this multiplication are the values in the individually unique trial balances, and narrative, prepared for each student. The master solution for the problem, including worksheet solutions to each event or condition in the story, journal entries, trial balance worksheet, and the completed financial statements are completely articulated and linked from the narrative and original unadjusted trial balances, through the financial statements. This allows the production of worksheet solutions and financial statements for use as grading keys, for each of the unique student versions of the problem.

APPENDIX A: THE TRIAL BALANCES

ABC, Inc.	Copy this trial balance to your own Excel file on your computer.	
Unadjusted trial balances	Do not use this file as a starter file.	
	12/31/2009	12/31/2008
Cash	1,312,000	1,053,000
Investment in trading securities	80,000	80,000
Accounts receivable	52,000	246,000
Interest receivable	-	-
Inventory	79,000	112,000
Current portion of notes receivable	-	-
Prepaid expenses	5,000	5,000
Investment in securities held for sale	33,000	33,000
Allowance for change in fair value of securities	(3,000)	(3,000)
Term portion of note receivable	-	-
Investment in DEF Corp.	-	-
Machine A	131,000	131,000
Machine B	125,000	125,000
Building	1,230,000	1,230,000
Other depreciable assets	1,804,000	1,804,000
Machine D	164,000	164,000
Outdoor rigging	525,000	525,000
Accumulated depreciation	(2,362,000)	(2,362,000)
Deferred pension expense	-	-
Patent	-	-
Goodwill -- DEF Corp.	230,000	230,000
Accounts payable	(328,000)	(1,853,000)
Taxes payable	(66,000)	(66,000)
Accrued expenses	(49,000)	-
Preferred dividends payable	-	-
Pension liability	-	-
Bonds payable, 6%, due 2024	(656,000)	(656,000)
suspense	1,968,000	-
Preferred non-cumulative, 6%, $500 par, 6,560 shares outstanding	(3,280,000)	(3,280,000)
Common stock, $10 par, 65,600 shares outstanding	(656,000)	(656,000)
Paid in capital in excess of par, common	(492,000)	(492,000)
Accumulated other comprehensive income	-	-
Treasury stock	-	-
Retained earnings	3,630,000	3,630,000
Sales	(9,839,000)	-
Cost of goods sold	5,740,000	-
Selling, general and administrative expense	623,000	-
Interest income	-	-
Interest expense	-	-
Depreciation expense	-	-
Federal income tax expense	-	-
Results from discontinued operations	-	-
Extraordinary gains or losses	-	-
	-	-
Balances at 12/31/08 are needed for the cash flow worksheet.		
Balances at 12/31/09 are the ending balances for 2009 before your adjustments.		
Get your worksheet beginning balances from the student beginning balances worksheet page.		
Use this page for prior year balances for cash flow calculations.		

APPENDIX B: THE STORY

ABC, Inc. presents the preliminary trial balance at 12/31/09 and the related information set out below. Entries for the related information have not been recorded, but routine transactions for operation of the company during the year have been recorded. Accordingly, you have an unadjusted trial balance at 12/31/09 . The trial balance for 12/31/08 , also called the prior year trial balance, is a post-closing trial balance. The following information, for which no adjustment has been made, is available:

1. The unadjusted 2009 trial balance is in an Excel file, together with the prior year trial balance.

2. On June 30, 2009, ABC sold plant equipment (asset D) for $131,000. The equipment was purchased January 1, 2006 for 164,000. ABC used the 150% declining balance method for this asset, over an estimated useful life of 7 years, with salvage value set at $20,000. Payment received included $16,000 cash and the buyer's note for the balance. The note requires equal annual principal payments over 5 years from date, together with interest at 8%. Additionally, depreciation expense for 2009 of $180,000, related to other depreciable assets of $1,804,000 is appropriate and has not been recorded.

3. ABC's book tax rates are 15% on the first $50,000 of income and 35% on the excess over $50,000.

4. During the year, an unusual event occurred when a big wind caused a boom to collapse, completely destroying the outdoor rigging and electronic gear that had just been installed. While this kind of accident has occurred before, it has not happened often.

5. The company invests in trading securities. Year end market prices were :

Security	Price per share
Security X	6
Security Y	12
Security Z	27

ABC held 4,000 shares of X, 2,000 shares of Y and 1,500 shares of Z at 12/31/09

6. The company owns 1,000 shares of HAL Corp., which are held for sale as an investment. At the end of 2009, HAL was priced at $49 per share. ABC bought this investment in 2008 at $33 per share. At year end 2008 , HAL was trading at $30.

7. The actuaries have indicated the following information for the company's pension cost and other data for 2009 as follows:

a. The plan was adopted January 1, 2008.
b. Unrecognized prior service cost is $1.0 million, to be amortized over 15 years.
c. Expected return on plan assets is 12%.
d. 2008 service cost is $400,000; 2009 is $430,000.
e. $15,000 is to be paid to retirees each year, beginning in 2009.
f. The discount rate to apply as interest on the PBO is 10%.
g. The PBO for 2008 is $400,000; for 2009, $840,000 plus prior service cost.
h. Funding (already paid and booked) for 2008 was $385,000.
i. For 2009, the contribution was $400,000 (not yet recorded).
j. For 2010, the company expects to fund $415,000.
k. There are no unrealized gains or losses on the plan's investments.
l. Unrecognized additional pension liability (obligation in excess of plan assets) for 2009 is $10,000.

8. ABC owns DFE Co., which they bought for $787,000 several years ago. It is fully consolidated and the correct consolidation entries have already been recorded in the ABC trial balance. Due to changing technology, ABC determined to examine the investment to see if it was impaired. The identifiable assets originally appraised at $558,000. The new appraisal, at December 31, 2009, puts the total fair value for DEF at $656,000, with identifiable assets at $525,000.

9. ABC has an amount of $1,968,000 in a suspense account on its trial balance. The details of this amount are:

Legal & administrative cost of obtaining patent	$328,000
Cost of development of product patented	$984,000
Cost of defense of 2009 law suit challenging the	$656,000

10. Other than any assets discussed above, the company has plant and equipment with cost, acquisition dates, etc., as shown:

Acquired		Life	Cost	Salvage
1/1/2006	Machine A	5 years	$131,000	10%
1/1/2007	Machine B	7 years	$12,000	None
1/1/2000	Building	35 years	$1,230,000	None

All are depreciated by the straight line method. 2009 depreciation has not been recorded. On 01-01-09, the company changed its estimate for the life of Machine B to 10 years from 7 years.

	11. Capitalization:
	a. ABC began 2009 with 65,600 shares of $10 par common stock that were initially issued for $17.50 per share.
	b. There is one issue of non-cumulative 6% $500 par preferred stock. There are 6,560 shares issued and outstanding and the dividend was declared during 2009, payable January 15 2010, to holders of record December 31, 2009.
	c. On May 1, 2009, the company sold as additional 150 bonds with warrants attached. The bonds, which mature in 2024, had a face value of $1,000 each, with 6% annual rate interest coupon interest due June 1 and December 1. Each bond carries 10 warrants to buy one share of the common stock of the company at $15.00 per share. The bonds were sold to a private investor at 103 (priced to yield 8%), plus accrued interest. By comparison to other similar securities, the company has determined that the day after the sale the fair value of the bonds without the warrants was 98, and that the warrants would be expected to trade at 14. On December 31, 2009, 750 warrants (with the appropriate amount of cash) were tendered to the company to exchange for common stock. The average price of the common stock during 2009 was $110 per share.
	d. On September 1, 2009, the company purchased 5,000 shares of its common stock for $3.50 per share.
	e. Lucky you, there are no outstanding stock options remaining in the company's employee stock incentive plan.
	12. The company leases its main offices for $3,500 per month. On its face, the lease expires December 31, 2012, but there is an option to extend for an additional 5 years at $4,500 per month. The space was built out by the lessor, to suit the lessee, prior to occupancy, and there have been no significant improvements to the space since. The company also rents its electronics parts storage warehouse for $1,000 per month. That lease, which expires 12/31/2009, has an automatic rent escalation of 10% per year for every year in which the Consumer Price Index increases. All rent payments for 2009 have been made and the payments have been appropriately recorded.

Required: You are the Controller and Chief Financial Officer for ABC. Prepare a complete (on paper) set of financial statements, including all appropriate disclosures, for ABC, Inc. for 2009. Attach paper copies of all supporting calculations, journal entries, worksheet, etc., and an electronic file of this information.

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