Texas A&M University-Corpus Christi
College of Business
Course Syllabus for ACCT 5341: Advanced Audit & Assurance Services

Course number: ACCT 5341  Instructor: Donald R. Deis, Ph.D., CPA, CFE
Semester: Fall 1 2020  Office: OCNR 387
7 weeks: 8/19 to 10/07/2020  Office hours: TW: 10:00-12:00 (CST) or by
Office telephone: 361-825-2826  appointment
Mobile: 361-658-1925  Email: donald.deis@tamucc.edu

Course Description
This course is designed as a discussion-based seminar and case analysis to provide graduate
students with an understanding of auditing theory, practice, and research methods. This course
continues from Auditing Principles and Procedures (ACCT 4311) by implementing the auditing
principles, standards, procedures, and practices learned in that course and applying them in case
analysis. Topics include research of professional accounting and auditing standards, technical
memo writing, professional ethics, professional judgment, sampling, forensic examinations,
integrated audits, quality control reviews, assurance services, and other contemporary issues in
auditing. Prerequisites: accounting foundation courses or their equivalent.

Prerequisites: Accounting Foundation Courses or their equivalent – it is particularly
important to have completed Auditing Principles and Procedures, ACCT 4311, or
equivalent, covering AICPA auditing standards.

Learning Objectives:
By the end of this course, students will be able to:
1. Improve analysis, problem-solving, research, and decision-making skills.
2. Create professional technical memos that integrate research of professional standards
   with analysis of fact-based scenarios commonly found in accounting practice (MAcc
   Learning Goal G.1.0.1).
3. Understand and appreciate the role of the economic, regulatory, and technology
   environment in auditors’ decision making (i.e., seeing the big picture).
4. Learn to find and use resources (reference materials, data, and information sources) to
   solve problems (MAcc Learning Goal G.3.0.1).
5. Develop abilities and skills in working with others as a team.
6. Develop skills in the exercise of professional judgment (MAcc Learning Goal G.4.0.2).
7. Developing ethical principles to guide ethical decision making ((MAcc Learning Goal
   G.4.0.1).
8. Analyze and critically evaluate ideas, arguments, and points of view (MAcc Learning
   Goal G.3.0.2).
9. Discuss the latest trends in auditing and assurance services
10. Conduct and evaluate auditing research at the basic level (MAcc Learning Goal
    G.3.0.1)
Required Books & Materials:

TAMUCC Bookstore: https://www.bkstr.com/texasamcorpuschrististore

   Pearson Publishing has digital eBook ($29.99) and rentals ($34.99):
   https://www.pearson.com/us/higher-education/program/Beasley-Auditing-Cases-An-

   Armond Dalton Publishers. (armonddalton.com) Arens, Elder, Borsum. REQUIRED:
   suggested price ($95) do not rent or buy used. Only purchase if the scratch-off code on
   cover of book 1 or 2 is not revealed. Student resources to download:
   armonddaltonresources.com.

3. Checkpoint® electronic online search engine: AICPA, FASB, and GASB literature
   (through TAMUCC Library business databases)

4. FASB Accounting Standards Codification (ASC) electronic online search engine

5. Blackboard (Bb) – see login information provided in Blackboard (Bb). Auditing case
   studies that require research of professional accounting and auditing standards and
   writing professional memos are available in the course Bb site.

Recommended:

- A recent edition of an auditing textbook such as Louwers et al., or Arens et al., as a
  reference. Ask the Don if you are not sure about the textbook.
  May. Pearson/Prentice-Hall publisher.

Websites Used:

- Blackboard: https://bb9.tamucc.edu/
- PCAOB Auditing Standards for issuing firms:
  http://pcaobus.org/Standards/Auditing/Pages/ReorgStandards.aspx

Other useful websites:

- Professional Standards
- AICPA Clarified Auditing Standards:
- AICPA Code of Professional Conduct:
  http://www.aicpa.org/Research/Standards/CodeofConduct/Pages/default.aspx
- IAASB International Auditing Standards:
  https://www.ifac.org/auditing-assurance/clarity-center/clarified-standards
- GAO Government Auditing Standards 2018 Revision:
  http://www.gao.gov/yellowbook/overview

Relationship to Other Coursework. Effective auditing involves developing an understanding
of the client's business and industry, evaluating internal control, using judgment, and obtaining
and evaluating evidence as a basis for the audit report. Auditing is an interdisciplinary field and
has its foundations in other disciplines including ethics, marketing, economics, business law,
statistics, accounting, and information systems. A background in these subjects provides the
student with the tools to better understand the material covered in the course.
**Instructional Methodology.** Lecture, student lead class discussion, in-class group or Blackboard discussion and analyses of cases, writing assignments, research of professional accounting and auditing literature, research using financial and audit databases used in the practice of accounting.

**Course Policies:**

1. **Bb introductory blog (1%)**
2. **Syllabus quiz (1%)**
3. **Weekly quiz (4% each – 28% total)** – unlimited attempts are allowed within the week associated with the quiz. Your goal should be to get 100% of the quiz correct. No late quizzes will be accepted.
4. **Case analysis (15% of course grade)** - submit a case analysis attaching your work in the Blackboard assignment. Follow the case write-up instructions in Blackboard concerning format of the memo. Key thoughts in preparing the final case write-up:
   a) Read the Writing Tips in the “Accounting Info” menu section of the Blackboard menu
   b) Review the Case Write-up Instructions in the “Instructions” menu section of the Bb menu for format instructions for memos
   c) Look at the assignment in Bb for possible additional instructions, such as which case questions to answer, and for possible supplemental files such as an excel spreadsheet
   d) For AICPA auditing standards cite only AU-C standards never AU standards
   e) Determine the relevant facts and main issues in the case
   f) Answer case questions listed in the Blackboard assignment instructions.
   g) Research these issues in the auditing and professional standards literature (primarily using Checkpoint through the TAMUCC library website)
   h) State conclusions, with **citation of authoritative support** for those conclusions
   i) If appropriate, indicate areas of controversy or concern
   j) Grades and feedback is provided in the grading rubrics
5. **Data analytics for auditing using ACL (35%)**:
   a) Chapters 1 & 2 (5%)
   b) Chapters 3 & 4 (5%)
   c) Chapters 5, 6, & 7 (5%)
   d) Chapter 8 case (5%)
   e) Chapter 9 case (5%)
   f) Chapter 10 case (5%)
   g) Chapter 11 case & chapter 12 (5%)
6. **Capstone Case (Final Exam – 10% of course grade)**: Prepare analysis of the capstone case. *Please note that the capstone case is used as part of the evaluation of the MAcc program’s assurance of learning as required by our AACSB Accounting Accreditation.*
7. **Assignment due dates and Grading.** Because this course is at an accelerated pace over 7 weeks it is necessary to have firm due dates in order to finish the material in a timely fashion. Therefore, all module assignments are due **11:59 PM each Tuesday.** The final
exam is due 11:59 PM October 7. See course schedule for a list of assignments and their due dates. Normally, module assignments will be graded by 11:59 PM two days after the due date. The final exam will be graded by 11:59 PM October 12. Course grades are due October 12.

(8) **Assignment Feedback.** Feedback on assignments are provided in the comment area of the grade matrix (rubric) used for each assignment. You can view this information within “My Grades.”

(9) **Late work.** Due to the nature of the assignments and the 7 week “accelerated” semester, late work will only be accepted without penalty if extenuating circumstances arise and some form of official documentation is provided. Extenuating circumstances do NOT include forgetting, running out of time, or technical difficulties. The following are considered extenuating circumstances: military deployment, medical emergency, physical injury, hospitalization, or death of an immediate family member. **Late work without extenuating circumstances will be penalized 25% if up to one day late, 50% if two days late, 75% if three days late, no credit if four days late. Weekly quizzes will not be accepted for grading after the assigned week.**

(10) **Course Communications:** You are expected to review announcements in Blackboard on a daily basis and also your @islander.tamucc.edu email on a daily basis for communications about this course.

(11) **Electronic Device Usage** – computers or tablets are required to complete this course. To have a successful accounting career you must be able to research professional standard databases and apply the proper standard to the fact situation. The CPA exam also requires you to research electronic databases in answering “task-based” questions. We will use two internet–based research tools to develop informed answers to auditing issues in this course:

**RIAA Checkpoint:** electronic database of accounting and auditing standards: TAMUCC Library. [http://rattler.tamucc.edu](http://rattler.tamucc.edu) under “Find” select “Databases” click “Business and Economics” then select “Checkpoint (RIA)” – up to 35 concurrent users. NOTE: The new “clarified” AU-C AICPA auditing standards became effective for financial statement periods ending on or after December 15, 2012. The clarified standards were issued to converge U.S. auditing standards with international auditing standards and to provide a consistent structure within the standards themselves. To distinguish the clarified standards from the “old” standards, each standard contains an “AU-C” identifier instead of “AU.” **In this course we will use the AU-C clarified standards. PCOAB auditing standards can be accessed from PCOAB’s website: [www.pcaobus.org](http://www.pcaobus.org) (under the “Standards” tab).**

Although we will primarily use the auditing standards in Checkpoint (RIA), there may be instances where the FASB and GASB standards may be needed. FASB standards can be
accessed through Checkpoint (RIA) or Academic Accounting Access to FASB Accounting Standards Codification: [http://aaahq.org/ascLogin.cfm](http://aaahq.org/ascLogin.cfm)

Username: AAA51324  
Password: 5DX5vgK  
Access period: July 15, 2020 – August 2021

**Grading.** Student performance will be evaluated based upon the following:

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
<th>%</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Bb introductory blog entry and comments on other student blog entries</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>Syllabus review and quiz</td>
<td>1</td>
</tr>
<tr>
<td>3</td>
<td>Weekly quizzes (7 @ 4% each)</td>
<td>28</td>
</tr>
<tr>
<td>4</td>
<td>Average of case memo assignments: 6 drop lowest grade (5 count)</td>
<td>25</td>
</tr>
<tr>
<td>5</td>
<td>Data analytics using ACL (7 assignments @ 5% each)</td>
<td>35</td>
</tr>
<tr>
<td>6</td>
<td>Final Capstone Case analysis – as final exam</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
<td>100</td>
</tr>
</tbody>
</table>

A letter grade will be determined based on the percentage earned of total points possible as follows: A: 90% and above; B: 80 to 89.99%; C: 70-79.99%; D: 60-69.99%; F: <60%. **No curves.**

**Academic Integrity/Plagiarism**

University students are expected to conduct themselves in accordance with the highest standards of academic honesty. Academic misconduct for which a student is subject to penalty includes all forms of cheating, such as illicit possession of examinations or examination materials, falsification, forgery, complicity or plagiarism. (Plagiarism is the presentation of the work of another as one’s own work.) In this class, academic misconduct or complicity in an act of academic misconduct on an assignment or test will result in a zero the first time and failing the course for any additional offence.

**Dropping a Class**

I hope that you never find it necessary to drop this or any other class. However, events can sometimes occur that make dropping a course necessary or wise. Please consult with me before you decide to drop to be sure it is the best thing to do. Should dropping the course be the best course of action, you must initiate the process to drop the course by going to the Student Services Center and filling out a course drop form. Just stopping attendance and participation **WILL NOT automatically result in your being dropped from the class. September 15 is the last day to drop a class** with an automatic grade of “W” this term.

**Preferred methods of scholarly citations and professional standards – Scholarly citations:** APA style is the only accepted method used for citations and referencing during this class. All work should be paraphrased rather than copied directly. Material used from sources other than the text should use APA style citations and references. **Professional standards:** For this course, assume the reader of your paper/memo is familiar with professional accounting and auditing
standards. Use parentheses ( ) within the text itself to cite professional standards. What goes into the parentheses depends on the kind of source being used. Also note that citations should be “precise,” for example:

(FASB, ASC, par. 210-10-45-01) is a “precise” citation that refers to FASB codification topic (210), subtopic (10), section (45) and paragraph (01). (ASC, par. 210) is an example of a citation that is not “precise.”

(AICPA, AU-C 210.06) refers to AICPA codified auditing standards section (210) and paragraph (.06). (AU-C 210) is an example of a citation that is not “precise.”

Classroom/professional behavior
Texas A&M University-Corpus Christi, as an academic community, requires that each individual respect the needs of others to study and learn in a peaceful atmosphere. Under Article III of the Student Code of Conduct, classroom behavior that interferes with either (a) the instructor’s ability to conduct the class or (b) the ability of other students to profit from the instructional program may be considered a breach of the peace and is subject to disciplinary sanction outlined in article VII of the Student Code of Conduct. Students engaging in unacceptable behavior may be instructed to leave the classroom. This prohibition applies to all instructional forums, including classrooms, electronic classrooms, labs, discussion groups, field trips, etc.

Grade Appeals
As stated in University Procedure 13.02.99.C2.01, Student Grade Appeal Procedures, a student who believes that he or she has not been held to appropriate academic standards as outlined in the class syllabus, equitable evaluation procedures, or appropriate grading, may appeal the final grade given in the course. The burden of proof is upon the student to demonstrate the appropriateness of the appeal. A student with a complaint about a grade is encouraged to first discuss the matter with the instructor. For complete details, including the responsibilities of the parties involved in the process and the number of days allowed for completing the steps in the process, see University Procedure 13.02.99.C2.01, Student Grade Appeal Procedures. These documents are accessible through the University Rules Web site at http://www.tamucc.edu/provost/university_rules/index.html. For assistance and/or guidance in the grade appeal process, students may contact the Dean’s office in the college in which the course is taught or the Office of the Provost.

Disabilities Accommodations
The Americans with Disabilities Act (ADA) is a federal anti-discrimination statute that provides comprehensive civil rights protection for persons with disabilities. Among other things, this legislation requires that all students with disabilities be guaranteed a learning environment that provides for reasonable accommodation of their disabilities. If you believe you have a disability requiring an accommodation, please call or visit Disability Services at (361) 825-5816 in Corpus Christi Hall 116.

If you are a returning veteran and are experiencing cognitive and/or physical access issues in the classroom or on campus, please contact the Disability Services office for assistance at (361) 825-5816.
**Civil Rights Statement**

Texas A&M University-Corpus Christi is committed to fostering a culture of caring and respect that is free from discrimination, relationship violence and sexual misconduct, and ensuring that all affected students have access to services. For information on reporting Civil Rights complaints and support resources, (including pregnancy support accommodations) or university policies and procedures, please contact the University Title IX Coordinator, Sam Ramirez (Samuel.Ramirez@tamucc.edu) or Deputy Title IX Coordinator, Rosie Ruiz (Rosie.Ruiz@tamucc.edu) at (361) 825-5826 or visit the TAMUCC website at [http://edcs.tamucc.edu/titleIX/](http://edcs.tamucc.edu/titleIX/).

**Limits to Confidentiality.** Essays, journals and other materials submitted for this class are generally considered confidential pursuant to the University’s student record policies. However, students should be aware that University employees, including instructors, are not able to maintain confidentiality when it conflicts with their responsibility to report alleged or suspected civil rights discrimination that is observed by or made known to an employee in the course and scope of their employment. As the course instructor, I must report allegations of civil rights discrimination, including sexual assault, relationship violence, stalking, or sexual harassment to the Title IX Coordinator if you share it with me.

These reports will trigger contact with you from the Civil Rights/Title IX Compliance office who will inform you of your options and resources regarding the incident that you have shared. If you would like to talk about these incidents in a confidential setting, you are encouraged to make an appointment with counselors at the University Counseling Center ([https://counseling.tamucc.edu/](https://counseling.tamucc.edu/)).

**Statement of Academic Continuity**

In the event of an unforeseen adverse event, such as a major hurricane and classes could not be held on the campus of Texas A&M University–Corpus Christi; this course would continue through the use of Blackboard and/or email. In addition, the syllabus and class activities may be modified to allow continuation of the course. Ideally, University facilities (i.e., emails, web sites, and Blackboard) will be operational within two days of the closing of the physical campus. However, students need to make certain that the course instructor has a primary and a secondary means of contacting each student.

**Statement of Civility (can be in place of classroom/professional behavior)**

Texas A&M University-Corpus Christi has a diverse student population that represents the population of the state. Our goal is to provide you with a high quality educational experience that is free from repression. You are responsible for following the rules of the University, city, state and federal government. We expect that you will behave in a manner that is dignified, respectful and courteous to all people, regardless of sex, ethnic/racial origin, religious background, sexual orientation or disability. Behaviors that infringe on the rights of another individual will not be tolerated.

**College of Business Code of Ethics**

This course, and all other courses offered by the College of Business (COB), requires all of its students to abide by the COB Student Code of Ethics (available online at [www.cob.tamucc.edu](http://www.cob.tamucc.edu)). Provisions and stipulations in the code are applicable to all students taking College of Business courses regardless of whether or not they are pursuing a degree awarded by the COB.
Islander Email Accounts
GO to http://newuser.tamucc.edu you will be asked for you student ID number (not your SSN). If you do not know your student ID, go to S.A.I.L. on TAMUCC homepage and follow instructions. For more info call 825-5618.

Other Helpful University Services
Islander Help Center: http://tamucc.edu/islanderhelp/
University Counseling Center, 825-2703, Driftwood 107
University Health Center, 825-2601, Sandpiper Building

Summary of Topical Coverage:

<table>
<thead>
<tr>
<th>Topic</th>
<th>Hours</th>
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<tbody>
<tr>
<td>Professional Roles</td>
<td>3</td>
</tr>
<tr>
<td>Corporate Governance and Audit Committees</td>
<td>3</td>
</tr>
<tr>
<td>Regulations: Sarbanes-Oxley Act of 2002</td>
<td>3</td>
</tr>
<tr>
<td>Fraudian Financial Statements</td>
<td>3</td>
</tr>
<tr>
<td>Professional Ethics and Responsibility</td>
<td>3</td>
</tr>
<tr>
<td>Fraud</td>
<td>6</td>
</tr>
<tr>
<td>Earnings Management and Auditor Objectivity</td>
<td>3</td>
</tr>
<tr>
<td>Risk Assessment</td>
<td>3</td>
</tr>
<tr>
<td>Client Acceptance and Materiality</td>
<td>3</td>
</tr>
<tr>
<td>Internal Controls</td>
<td>6</td>
</tr>
<tr>
<td>Audit Evidence</td>
<td>3</td>
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<tr>
<td>Audit Practice Case</td>
<td>3</td>
</tr>
<tr>
<td>Final Exam Period Group Presentations</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
</tr>
</tbody>
</table>

COURSE SUBJECT TO CHANGE AT INSTRUCTOR’S DISCRETION
<table>
<thead>
<tr>
<th>Module # (Due date)</th>
<th>Module Topic</th>
<th>Assignments:</th>
</tr>
</thead>
</table>
| 1 (8/19-8/25) | Professional Judgment & Ethics | **Bb:** Personal introductory blog entry  
**Q0:** syllabus quiz  
**C#0** - Read “Professional Judgment Introduction”  
**Q1:** Weekly quiz  
**C #1** – “3.5 Hollinger International”  
**ACL:** Chapters 1-2 |
| 2 (8/26-9/01) | Audit Planning Materiality & Risk Assessment | **C#2** – “1.1 Ocean Manufacturing”  
**ACL:** Chapters 3-4  
**Q2:** Weekly quiz |
| 3 (9/02-9/08) | Audit Evidence & Audit Documentation | **C#3** – “4.7 Satyam Computer Services”  
**ACL** Chapter 5-6 & Chapter 7 pages 7-1 to 7-10  
**Q3:** Weekly quiz |
| 4 (9/09-9/15) | Audit Sampling | **C#4** – “9.6 Hooplah Inc.”  
**ACL** Chapter 8 Case #2 & Chapter 9 Case #1  
**Q4:** Weekly quiz |
| 5 (9/16-9/22) | Substantive Audit Evidence & Auditing Estimates | **C#5** – “9.7 Redpack Beer Company”  
**ACL** Chapter 10 Case #1  
**Q5:** Weekly quiz |
| 6 (9/23-9/29) | Fraud & Legal Liability | PBS Frontline Video in Bb “[How to Steal $500 Million](#)”  
**C#6:** Graded BbDF related to PBS video & Phar-Mor  
**ACL** Chapter 11 Case #4; Chapter 12  
**Q6:** Weekly quiz |
| 7 (9/30-10/07) | Final Capstone Case | **Final exam memo case** – “12.4 Surfer Dude Duds, Inc.”  
**Q7:** Weekly quiz |
ACCT 5341
Instructions for case memo write-ups

Heading Proper business memo header:

To: Memorandum to the File (if it is part of the audit documentation)
Prepared by: (Your name) Date:
Reviewed by: ________ Date:
Client Name (careful this normally is the company that was audited, not the accounting firm, not the course instructor)
Re: (what is it about)

Four required sections (should be labeled as such)

Facts
Brief – one paragraph

Issues—LIST THE CASE QUESTION NUMBERS ASSIGNED. YOU DO NOT NEED TO RE-TYPE THE QUESTION. DO NOT RENUMBER THE ASSIGNED QUESTIONS. IF QUESTIONS 2b, 4, AND 7 ARE ASSIGNED - TYPE THAT, example:
Issues Question 2b, 4, 7.
Do not renumber, for example: 1, 2, 3 or A, B, C. Do not do that! Please note that in practice (where you work) you would write-out the issues. In our course we are just listing the case question numbers to save time.

Discussion, Research Citations, and Analysis
i) Research issues in the auditing and professional standards literature – provide precise cites to professional standards (good example AU-C 311.20; bad example AU-C311 (the entire codification on the consideration of fraud in a financial statement audit is not precise). Note: cite only the new “clarified audit standards – AU-C – instead of the “old” AU standards. Link research to question numbers.
ii) DO NOT COPY AND PASTE THE STANDARD INTO THE MEMO – major points off for this
iii) Depending on the case, identify alternative solutions and arguments for and against each alternative

Conclusion (based on citation of authoritative support not merely your opinion or hunch)

Tone: write in a professional tone, do not write in a personal tone (like a letter a friend).

Regular case grading (100 % see grading rubric accompanying the Bb assignment for more details on grading)
Heading, tone, format, grammar, spacing 15 %
Facts 10 %
Issues 10 %
Research – appropriate specific standards cited 25 %
Discussion & analysis (ability to apply research to fact situation) 25 %
Overall (complete, self-contained, conclusion) 15 %
Total 100 %

Note: Final Exam Case may have a different grade structure
MAC Users: save your file as pdf and submit in Bb
# Grading Rubric for Memo Assignments

<table>
<thead>
<tr>
<th>Criterion/Possible Points</th>
<th>Category 4 “Partner” 100%</th>
<th>Category 3 “Manager” 85%</th>
<th>Category 2 “Senior staff” 70%</th>
<th>Category 1 “Junior staff” 50%</th>
<th>Grade %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Organization</strong></td>
<td>Appears neat &amp; organized; logical; no spelling or grammar errors; uses active voice; guides the reader through the case; gets to the point.</td>
<td>Generally logical but occasionally skips around; few lapses in grammar or spelling; generally guides the reader.</td>
<td>Skips around, but addresses all the points; occasional lapses in grammar and or spelling; reader must work to follow the train of thought</td>
<td>Haphazard; difficult to follow; several grammar and or spelling errors; generally sloppy in appearance</td>
<td>15</td>
</tr>
<tr>
<td><strong>Facts</strong></td>
<td>Summarizes the facts completely; key facts identified; distinguishes between facts and assumptions</td>
<td>Demonstrates an understanding of most facts and generally recognizes those facts that must be challenged</td>
<td>Generally understands the facts; does not distinguish between facts and assumptions; recognizes some items that should be challenged</td>
<td>Does not recognize the facts of the case and does not demonstrate an understanding of them; challenges nothing</td>
<td>10</td>
</tr>
<tr>
<td><strong>Issues</strong></td>
<td>Identifies the appropriate key issues; identifies any implied issues; goes beyond the minimums asked in the case</td>
<td>Identifies most key issues and some implied issues; handles the minimum requirements well and recognizes some issues beyond them</td>
<td>Identifies some key issues but does not recognize implied issues; does not go beyond the minimum requirements of the case</td>
<td>Does not recognize the key issues of the case; does not understand the questions being asked and/or the accounting questions being posed</td>
<td>10</td>
</tr>
<tr>
<td>Applicable Literature</td>
<td>Identifies all applicable literature; does not include extraneous material; demonstrates the relationship between the selected literature and the issues at hand; recognizes nuances and subtle relationships between literature and issues</td>
<td>Identifies most of the applicable literature; includes some extraneous material; generally connects the issues to the literature identified but misses the subtle points</td>
<td>Identifies some of the appropriate literature but includes much that is not on point; does not connect appropriate literature to all the identified issues</td>
<td>Appears to be reaching for anything no matter how remotely related; clips large sections of material and pastes it into the memo in hope that the reader may find some connection; references included are generally irrelevant</td>
<td>25</td>
</tr>
<tr>
<td>Discussion &amp; Analysis</td>
<td>Presents an insightful and thorough analysis of all issues; presents persuasive arguments directly relating the facts to the issues and clearly tying them to the identified literature</td>
<td>Generally analyzes all the issues in light of the literature identified, but does not connect in some areas; arguments are not always persuasive and leave some work to the reader to connect the dots</td>
<td>Analysis is superficial; treats some issues as &quot;given&quot; when a challenging analysis is required; arguments are not well supported; arguments are one-sided and do not address alternatives</td>
<td>Appears lost; does not understand the issues sufficiently to be able to connect them to the literature and evaluate them; does not understand the case</td>
<td>25</td>
</tr>
<tr>
<td>Conclusion</td>
<td>Conclusion follows clearly from the analysis; it is logical and supported; there is no hedging and no part of the conclusion is unsupported</td>
<td>Conclusions generally follow from the analysis but support is not fully integrated into the conclusion; leaves some work to the reader; offers some unsupported conclusions</td>
<td>Some conclusions follow from the analysis, but not clearly; conclusions are &quot;hedged&quot; with new issues or alternatives not previously discussed</td>
<td>Conclusions are unsupported; they do not follow logically from the analysis;</td>
<td>15</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td></td>
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<td>100</td>
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</table>
SAMPLE ACCOUNTING ISSUES MEMO #1

Following is a simple accounting issues memo describing the analysis of whether a bonding agent (aka, glue!) applied to conveyor belts should be classified as an asset or as an expense.

DRAFT – For Discussion Purposes Only

Memorandum
To: Distributor Co. Accounting Files
From: Student Name
Date: 1/1/20X1
Re: Accounting for bonding agent (asset versus expense)

Facts (Background)
Distributor Co. provides distribution services for a large online retailer. In providing these services, Distributor Co. extensively uses conveyor belts to move shipping boxes and their contents throughout Distributor Co.’s warehouse. The seams in the company’s conveyor belts are experiencing periodic jams, at times bringing the belts to a stop. The company has invested $100,000 to apply a special bonding agent to the belts’ seams to correct the issue and prevent future jams. By applying this bonding agent, Distributor Co. anticipates that it can avoid replacing the belts to fix this jamming issue. There is also a chance that this bonding agent will result in a moderate extension of the belts’ useful lives.

Issue(s):

1. Should the cost of the bonding agent be recorded as an asset or expense?

Analysis

FASB Concepts Statement No. 6, Elements of Financial Statements (CON 6) provides guidance on the definition and essential characteristics of assets. CON 6 defines assets as: "probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events" (par. 25). An asset is described as having three essential characteristics:

"(a) it embodies a probable future benefit that involves a capacity, singly or in combination with other assets, to contribute directly or indirectly to future net cash inflows,

(b) a particular entity can obtain the benefit and control others’ access to it, and

(c) the transaction or other event giving rise to the entity’s right to or control of the benefit has already occurred." (par. 26)

Distributor Co. has concluded that conditions (b) and (c) are met. That is, Distributor Co. has control over the bonding agent, and the bonding agent was acquired through a past transaction. More judgment is required to evaluate condition (a) - "probable future benefit."

Probable future benefit can generally be evidenced in one of three ways. Per par. 172 of CON 6:
"An asset has the capacity to serve the entity by being exchanged for something else of value to the entity, by being used to produce something of value to the entity, or by being used to settle its liabilities."

In this case, we could possibly assert that the bonding agent is being used to produce something of value to the entity, albeit indirectly.

Par. 175 of CON 6 further describes that, despite management's intent to obtain future benefits through purchase of goods or incurrence of costs, the actual ability to obtain those future economic benefits is often uncertain:

The kinds of items that may be recognized as expenses or losses rather than as assets because of uncertainty are some in which management’s intent in taking certain steps or initiating certain transactions is clearly to acquire or enhance future economic benefits available to the entity. For example, business enterprises engage in research and development activities, advertise, develop markets, open new branches or divisions, and the like, and spend significant funds to do so. The uncertainty is not about the intent to increase future economic benefits but about whether and, if so, to what extent they succeeded in doing so.

Because the bonding agent is so uncertain of producing future economic benefits to the company, it appears that this cost does not meet the "probable future benefit" characteristic of an asset. Rather, the cost appears to be restoring an asset to its existing capacity.

While the Facts state that the agent could possibly extend the useful lives of the conveyor belts, the bonding agent's ability to do so is (at this time) unproven, causing this potential future benefit to be highly uncertain. As a result of this uncertainty, the cost does not appear to embody a probable future economic benefit.

**Conclusion**

Distributor Co. has concluded that the cost of the bonding agent shall be charged to expense, given that this cost does not meet the definition of an asset. In particular, the cost does not embody a probable future economic benefit (condition a), which is one of three essential characteristics of an asset. While Distributor Co. does have (b) control over the agent, and (c) the purchase of the bonding agent has already occurred, all three of these characteristics must be present for a cost to meet the definition of an asset.

**Financial Statement and Disclosure Impacts**

Distributor Co. will record the cost of the bonding agent as:

- Dr. Expense
- Cr. Cash

No specialized disclosures of this purchase are required.