

A Classroom Project Developing Integrated Competencies: The Case of Jenlou, Inc.

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Abstract

This paper presents an integrated learning experience developing foundational, accounting, and management competencies in a realistic industry setting. Employing active learning with a fictional case involving a medium-size firm, the curricular innovation integrates three challenging intermediate accounting topics where students need to research issues, identify journal entries for the different financing options, and determine the financial reporting consequences of each option. The students must also consider a challenging ethical dilemma. Analyzing the impact on various stakeholders is a key component. The case takes place in the specialty food industry and echoes current challenging decisions facing management including unanticipated costs with updating equipment and facilities while still maintaining the ability to pivot quickly to take advantage of potential opportunity. This project is designed for an intermediate or advanced financial accounting class, but sections two and three can be used in finance or MBA courses with a financial analysis focus. A post-survey suggests students feel they benefitted from analyzing the different options and assessing the impact on the financials, analyzing the ethical dilemma, having both group and individual components and the real-life feel of the project.

Keywords: financial analysis, ratio analysis, financial decision making, long-term debt, factoring receivables, sale of stock, accounting for bonds, accounting ethics

Introduction

Background and Overview

JenLou Co. is a privately held, medium-sized firm that produces gourmet foods, specializing in high quality desserts and other confections.¹ During the past several years, the company has enjoyed record growth, fueled primarily by a new line of pies and cakes. Because of this new growth, the founders, Matt Jennison and Louis Martinez, were finally able to retire three years ago. When they did so, they hired a CEO to take care of day-to-day operations. However, they still own 100% of the company and are very much involved in the long-term decisions of the firm. In addition, they still make all of the salary and bonus decisions for the leadership team.

Under the direction of the new CEO, the company has begun to expand geographically. They have opened several new stores on the East Coast and in the South. Now they plan to expand their operations to Europe and South

¹ Though JenLou is a fictitious company, it bears similarity to existing companies in the specialty food industry, such as Magnolia Bakery. This private entity was started by two owners who are no longer associated with the bakery after a disagreement over expansion plans. The company eventually pursued expansion plans and recently, like many companies in the industry, has been facing unanticipated costs due to the pandemic.

America. To help them with these goals, Matt and Louis recently created an expansion fund to save money for their overseas growth in order to avoid excessive debt or the need for them to contribute more cash to the business.

Unfortunately, new federal regulations have been passed, requiring the firm to update the equipment in its primary plant. Since the equipment is highly specialized, the JenLou's management team has made arrangements to have the equipment made to order. The new equipment will cost in excess of \$2 million, a considerable amount for a firm of this size, especially when they already need a great deal of cash to continue their planned expansion.

Matt and Louis, pleased with the performance of the leadership team over the past year, have decided to let the CFO and his team handle this new challenge. They have asked the team to keep in mind their goals for the business, and reminded them that their bonuses this year and in the future will be based primarily on the company's net income and reported financial ratios.

The Problem

Josh sighed as he gathered his notes and headed down the hall. He normally enjoyed his job as controller for JenLou, Inc., but there were days when he almost wished he was back at the CPA firm where he had started his career. Today was probably going to be one of those days.

As usual, he was the first one to arrive in the conference room. After placing his notes on the table, he went to the window and looked out over the factory. Taking a deep breath, he tried to organize his thoughts before the meeting started. One week ago, Carrie Samuelson, the CFO, had met with him and Emily Thompson, the VP of Finance. The meeting had focused on the equipment upgrade that the company now needed, a result of new regulations. She had made it very clear that their decision on how to finance the new equipment would not only affect their bonuses for next year, but would also affect how business decisions would be made in the future. He hadn't understood that last part until he had found out that Matt and Louis, JenLou's owners, had decided to not to get involved with this decision. That was definitely a change in company policy. He knew that the new CEO, not to mention Ms. Samuelson, had been pushing for more autonomy, more ability to run the business like a normal corporation. This was their chance to demonstrate to the owners that the team was up to the task of managing the company.

The problem, of course, was that the regulations had come as a complete surprise. Normally the executive team, after consulting with the owners, carefully saved for upgrades and refits several years before they had to actually pay for them. This time, however, they didn't have time to save. Instead, they would have to find outside funding. During the last meeting the executive team had reviewed the estimates from the vendor who would be building the new machines, then the CEO had asked the Finance Committee to consider some alternative financing options and make a recommendation to the whole team. Each of the committee members had agreed to look into ways to find the needed funds without asking for more equity funding.

Josh sighed again. These meetings always ended the same way. They would talk about options, and then he would be asked to crunch the numbers on all of the options presented. Not that he minded crunching numbers, but next year's budget and estimated financial statements were due to the CEO and owners in less than a week. He really didn't have time for this right now.

Meeting of the Finance Committee

Before Josh could depress himself further, the door opened and Carrie Samuelson, the CFO, came in with Emily, the VP of Finance. "Oh, good," Carrie said, seeing Josh. "I'm glad you're already here. Let's go ahead and get started."

She and Emily sat down as Josh came back from the window and sat down. "Well," Carrie said when they were all settled. "Let's get right down to business. First of all, here is a detailed estimate of the payment schedule the construction company sent me for the new equipment. I thought it would be a good idea if each of us had the numbers. As you can see, the work will be done by December 31st, allowing us to be up and running by next year."

She handed Josh and Emily a piece of paper (see Exhibit A). “Now, what ideas do you have for making those payments?”

“Well,” Josh started after a minute. “I think our best option will be to take out a construction loan for the cost of the new equipment.”

“A construction loan?” Emily asked, her voice skeptical. “You’ve got to be kidding. Think of the interest, not to mention the 30 years of payments.”

“It doesn’t have to be a mortgage. I was going to recommend a note instead of a mortgage,” Josh said quickly. “We would make quarterly interest payments, but we would have the life of the loan to save up for the principal payment at the end of the contract. Besides if we take out a loan, we can capitalize some of the interest.”

“Those interest payments are going to cut into our profits, and they will definitely cut into our cash flow.” Carrie jumped in before Emily and Josh could continue arguing. “I think a long-term loan of some sort is going to be our only real option. My thought was to issue a long-term, semi-annual bond for more than the cost of the new equipment. That way we could not only spread out our interest payments, but we could also speed up some of our expansion plans with the extra funds. And if we use a lower interest rate, we wouldn’t have nearly the cash outflows.”

Josh shook his head a little bit. “That might be a little risky. Even cutting back to semi-annual payments would still leave us with a large cash drain this year. Although, if we issue a general bond, we would still be able to capitalize the interest like we could with a construction loan...”

Emily sighed loudly, cutting Josh off. “You guys are both nuts!” she said. “Either of those options will leave us with a lower net income, both this year and in the future, not to mention a serious cash drain.”

Carrie raised her eyebrows. “And I suppose you have a better idea?”

“Of course.” Emily said with a smile. “First, I recommend we factor some of our Accounts Receivable. That wouldn’t give us all the money we need,” she continued quickly before Josh could interrupt her, “but it would provide almost half of it. After all, we’ve got several hundred thousand tied up in our receivables right now. I’ve already talked to a local collection agency, and they are willing to take them, with recourse, with only a small discount and a minimal withholding percentage for discounts.”

“Emily,” Carrie began. “I hate to break this to you, but that not only leaves us with insufficient funds, but also drops our net income. I don’t see how that is better than the loans we’ve been talking about.”

“That’s because I’m not done yet,” Emily said quickly. “I propose that we get the rest of the funds by liquidating part of the expansion fund.”

“Liquidating the expansion fund?” Josh asked. “You’re kidding, right? The owners set up the expansion fund for foreign growth, not for redoing a current plant.”

“Look,” Emily said. “Matt and Louis are not here. They have given us the authority to handle this situation ourselves. If we liquidate part of the expansion fund now, we can recognize the gains on the stocks that we have been holding. That will not only offset the loss from factoring the receivables, but it should also provide a nice boost to net income. That means that we’ll actually increase our bonus for the year. Then, with the money we save using the more efficient machinery, we can rebuild the expansion fund. It will take a little while, but I think that we can get it all done before Matt and Louis notice that we’ve reduced the account.”

“The auditors are bound to notice.” Josh said.

“Not necessarily,” Carrie said quietly, a thoughtful look on her face. “They aren’t looking for how we make decisions. They are only looking for the accuracy of our records. As long as we really do liquidate the account, we really would be able to report the gain.”

“Sure,” Josh protested. “But how exactly are we going to hide that sale from Matt and Louis? They’ll see the gain in the income statement and know what we did. They have always been very careful to examine the books.”

“Perhaps,” Emily said. “But they are getting older, and we do sell available-for-sale securities when we get a good deal. What they don’t know won’t hurt them, and will only help us.”

“It’s something to consider,” Carrie said.

“I think it’s ridiculous,” Josh said. “If we try something like this, we’ll not only miss out on our bonus but we’ll get fired.”

“Let’s not get started again,” Carrie said quickly. “Josh, I want you to go ahead and run the numbers on all three ideas, keeping in mind that our internal rate of return is 6 percent. Once we’ve seen the numbers, then we can make a final decision. Do you have all the numbers you need?”

Josh sighed. “Well, I’ve got the information I need for my idea right here (see Exhibit B). Do you have some information about your ideas?”

Carrie and Emily both handed him summaries of their information (see Exhibit C and D). “Alright, get the numbers worked out and we’ll meet again next week.” With that, Carrie stood up and walked out.

Getting to Work

Josh walked slowly back to his office with the papers in his hand. He had known that it wasn’t going to be a good meeting, but he hadn’t expected it to be that bad. Crunching numbers, even when he was busy with the master budget, wasn’t really that big a deal. However, the ethical debates made him uncomfortable, especially when he felt like he was being maneuvered so that his only option violated his sense of right and wrong. Why did Emily have to be so pushy? And why did Carrie have to go along with her?

He sighed as he pulled out a set of summary numbers from his master budget (see Exhibit E). Well, he’d crunch the numbers first, then figure out how to handle the debate.

Formal Requirements

Context

The project requirements are comprised of three parts described below. The first two parts involve identifying the journal entries and determining the financial reporting consequences of each option. This represents the team portion of the project. The third part of the project is completed individually and involves the student’s analysis of the ethics scenario. In addition to being provided Parts 1-3 below, students are provided a one-page handout which provides the assignment purpose, information on forming teams and highlighting the individual portion of the project, critical communication with the instructor, and key formatting requirements. The handout is provided in Appendix A.

The Project**Part 1 – Calculating the Effects on JenLou’s Financial Statements**

For all questions in this section, round your answers to the nearest dollar. You should calculate the effects from question 1, then use the updated numbers from that question as your baseline in answering each of the remaining questions.

1. Recording the payments to the construction company.
 - a. Assume the equipment being replaced originally cost JenLou \$1,344,000 when the company was founded (at the beginning of Year 1). At that time management assumed that the equipment could be used for 13 years with no salvage value. Make the journal entry to record the abandonment of the old equipment on January 1st of Year 10 if JenLou uses straight line depreciation. If necessary, make an entry to record the tax effect of your entry. JenLou’s tax rate is 25%.
 - b. Make the journal entries for the payments to the construction company found in Exhibit A. All payments must be made in cash.
 - c. Based on the journal entries you just made (for parts a and b), update JenLou’s summary numbers (see Exhibit E for the original balances).
2. Estimating the effects of Josh’s idea.
 - a. In addition to the entries made in part 1, what journal entries would JenLou have to make if Josh’s idea was accepted? Use the information provided in Exhibit B to make the entries for the issuance of the mortgage note and any interest expense in the current year. Make one summary entry for the tax effects of these entries.
 - b. Make the journal entry to capitalize interest and to adjust income taxes for this adjustment to interest expense.²
 - c. Based on the journal entries you just made (in parts a and b), update JenLou’s summary numbers (use your adjusted numbers from question 1c as a starting point).
3. Estimating the effects of Emily’s idea.
 - a. In addition to the entries made in part 1, what journal entries would JenLou have to make if Emily’s idea was accepted? Use the information provided in Exhibit C to make the necessary entries for both the factoring of receivables and the sale of the expansion fund shares. Make one summary entry for the tax effects of these entries.
 - b. Based on the journal entries you just made (in part a), update JenLou’s summary numbers (use your adjusted numbers from question 1c as a starting point).³
4. Estimating the effects of Carrie’s idea.
 - a. In addition to the entries made in part 1, what journal entries would JenLou have to make if Carrie’s idea was accepted? Use the information provided in Exhibit D to make the entries for the issuance of the bond

² When calculating avoidable interest on this construction loan, don’t forget that you can’t begin capitalizing interest until the project has started (on February 1st). This means that you would calculate the weighted average expenditures for a maximum of 11 months (out of 12) and that your maximum avoidable interest would be 11/12 of the total interest accrued during the year.

³ Remember that the overall goal is to compare the three financing options, so for each financing option you should make your adjustments as if the other financing options were NOT used.

and any necessary entries to record the interest. Assume JenLou uses the Effective Interest Method for amortizing premiums or discounts. Make one summary entry for the tax effects of these entries. (HINT: Without a formal market rate, Josh will have to use JenLou's IRR for his time value estimates.)

- b. Make the journal entry to capitalize interest and to adjust income taxes for this adjustment to interest expense.⁴
- c. Based on the journal entries you just made (in part a), update JenLou's summary numbers (use your adjusted numbers from question 1c as a starting point).

Part 2 – Evaluating the Financing Options

Use your answers to part 1 in calculating your answers to the following questions. If you did not complete part 1, your instructor will provide you with the necessary numbers.

1. Evaluating JenLou's original financial position.
 - a. Calculate the following ratios using JenLou's original budget numbers (before any changes):
 - 1) ROA
 - 2) Profit Margin
 - 3) Asset Turnover
 - 4) ROE
 - 5) Debt to Equity Ratio
 - 6) Current Ratio
 - b. How would you describe JenLou's financial position prior to paying for the necessary upgrade? Use the ratios and summary financial numbers to support your answer.
2. Determining the effects of each financing option
 - a. Recalculate each of the six (6) ratios listed above for each of the three financing options.
 - b. What are the pros and cons of each of the three financing options? Write one paragraph for each option.
3. Evaluating each financing option.
 - a. Which of the three financing options do you think the members of the finance team (Carrie, Emily, and Josh) prefer? Explain.
 - b. Which of the three financing options do you think JenLou's owners would prefer? Explain.
 - c. Which of the three financing options do you think investors would prefer if JenLou was a publicly traded company instead of a privately held company? Explain.
 - d. Based on your knowledge of the owner's goals, the current financial implications of each financing option, the long-term implications of each option, and financial accounting, which financing option would you choose if your group were the management team?

Part 3 – Considering Ethical Issues

1. Josh (the controller) felt that Emily's option should be avoided because it was contrary to the owners' stated goals. Emily and Carrie felt that the option with the best income effect in the current period should be used, regardless of the owners' wishes. Using your knowledge of the principles of business ethics:
 - a. Write 1-2 paragraphs defending Josh's opinion.

⁴ When calculating avoidable interest on this construction loan, don't forget that you can't begin capitalizing interest until the project has started (on February 1st). This means that you would calculate the weighted average expenditures for a maximum of 11 months (out of 12) and that your maximum avoidable interest would be 11/12 of the total interest accrued during the year.

- b. Write 1-2 paragraphs defending Emily and Carrie's position.
- c. What business arguments could Josh use to convince Emily and Carrie not to choose Emily's financing option?
- d. What do you think the final decision will be? Do you agree with that decision? Why or why not?

Exhibit A

Estimated Schedule of Payments
to the Construction Company

Payment	
Date	Amount
1-Feb	\$120,000
15-Mar	\$900,000
30-Jul	\$840,000
15-Sep	\$270,000
1-Dec	\$240,000
	\$2,370,000

Exhibit B

Basic Information for Josh's Suggestion of a Construction Loan

Panel A: Construction Loan Details

Cash Received	\$2,370,000
Interest Rate:	6.5%
Years until Repayment	4

Panel B: Other Construction Loan Information

- The loan would be taken out on January 1st, Year 10.
- Payments would be made on March 31, June 30, September 30, and December 31, beginning in Year 10.

Panel C: Information about JenLou's Other Outstanding Debt

Long-term Liability	Principal	Interest Rate
Loan Payable	\$300,000	8.0%
Notes Payable	\$1,680,000	7.0%

Exhibit C

Basic Information for Emily's Suggestion of Factoring Receivables and Selling
Some of the Expansion Fund

Panel A: Factoring Information, with Recourse

Total Accounts Receivable	\$1,080,000
Allowance for Bad Debt	\$60,000
Finance Charge	2%
Withholding for Discounts	3%
Revised Estimate for Bad Debts	6%

Panel B: Summary of Expansion Fund

Company	Number of Shares	Original Pur. Price	Est. Price, Jan 1, Yr 10
XYZ Co.	12,000	\$30	\$32
Terry Co.	30,000	\$15	\$37
Frosty Co.	14,000	\$10	\$20

Only the shares of XYZ Co. and Terry Co. would be sold. The Frosty Co. shares would be saved to keep the expansion fund open.

Exhibit D

Basic Information for Carrie's Suggestion to Issue a
Bond

Panel A: Bond Details

Principal Amount	\$4,740,000
Stated interest Rate	5.5%
Years until Repayment	6
Payments per Year	2

Panel B: Other Bond Information

- The bond would be issued on February 1, Year 10.
- Payments would be made on July 31 and January 31 each year.

Exhibit E

Summary Numbers from JenLou's Financial Statements

	Year 10 (Est.)	Year 9
<i>Income Statement Subtotals</i>		
Net Sales	\$10,830,000	
Gross Profit	\$4,261,695	
Income from Continuing Operations before Taxes	\$1,325,338	
Net Income	\$994,003	
 <i>Balance Sheet Subtotals</i>		
Current Assets	\$3,180,000	\$3,300,000
Total Assets	\$10,080,000	\$7,680,000
Current Liabilities	\$1,975,997	\$1,230,000
Long-term Debt	\$1,980,000	\$1,320,000
Total Equity	\$6,124,003	\$5,130,000
 <i>Cash Flow Subtotals</i>		
Cash Flow from Operations	\$1,980,000	
Total Change in Cash	(\$120,000)	
Cash, Dec. 31, Year 9		\$480,000

TEACHING NOTE

Case Overview

This paper presents an integrated learning experience developing foundational, accounting and management competencies in a realistic industry context. The classroom project setting is the specialty food industry and mirrors current challenging decisions facing management, including unanticipated costs with updating equipment and facilities while still maintaining the ability to pivot quickly to take advantage of opportunity in an uncertain environment (Specialty Food Association, June 30, 2020). It is further designed, in a holistic fashion, to enhance students' understanding of several topics which typically represent learning challenges in upper-level financial accounting courses. Overall, the project is designed to introduce students to the complexities of real-world situations, where multiple incentives and goals can make it more difficult for business leaders to make effective decisions.

Employing active learning with a fictional case involving a medium-size firm, students gain practice in journal entries, grasp financial consequences, consider the impact of ethical consequences, and refine their ability to communicate and work in a team. Specifically, the learning objectives are to help students be able to do the following:

1. Demonstrate an understanding of the accounting issues involved in three different financing options: a construction loan, issuing bonds, and factoring receivables and part of a long-term investment portfolio.
2. Integrate and evaluate the pros and cons of each of the options from the perspective of various stakeholders and make a formal recommendation.
3. Analyze an ethical dilemma from the perspective of various stakeholders.
4. Utilize critical thinking and communication skills.

In their influential article providing recommendations to revise accounting curriculum to focus on the long-run careers of students, Lawson, et al. (2014) build on the work of the Pathways Commission, CPA Canada as well as selected European frameworks (i.e., the Association of Chartered Certified Accountants and the Institute of Chartered Accountants in England and Wales) to provide a comprehensive framework integrating specific desired competencies into accounting education. They identify these integrated competencies as:

- Foundational: Communication, Quantitative, Analytical Thinking and Problem-Solving, Interpersonal and Technological
- Accounting: External Reporting and Analysis, Planning Analysis and Control, Taxation, Information Systems, Assurance and Internal Control, and Professional Values
- Broad Management Competencies: Leadership, Ethics and Social Responsibility, Process Management and Improvement, Governance, Risk and Compliance and Additional Core Business Competencies

Lawson, et al. (2014, p. 296) further suggest accounting education needs to include “organizational settings beyond a focus on public accounting,” and demonstrate “how accountants add organizational value.” The authors highlight that accounting graduates will need to prepare for careers in a wide spectrum of organizational settings beyond public accounting and be able to successfully collaborate with other managers to improve organizational performance. They argue that accounting curricula should incorporate a strategic view of accounting’s value proposition “defined in terms of strategy formulation and analysis, planning, and execution” to develop individuals who can create quick and effective strategic responses to changes in the environment (Lawson, et al. 2014, p. 298).

The curricular innovation presented herein adopts the guidance of the Lawson et al. (2014) framework in several ways and further provides a current, realistic context which will be of interest to students. Assignment requirements help students develop the majority of the foundational competencies (communication, quantitative, analytical

thinking and problem-solving, and interpersonal) as well as several accounting competencies (planning, analysis and control, professional values) and broad management competencies (leadership, ethics and social responsibility, governance, risk and compliance). It integrates an industry and broad management context, includes analysis and strategy formulation, and incorporates how one might successfully collaborate with other managers to add value, to improve organizational performance in the face of a changing environment and an ethics challenge. The project also follows the guidance of the accounting standards of the Association to Advance Collegiate Schools of Business International (AACSB, 2018) which requires learning experiences in the accounting curriculum address critical thinking skills as it incorporates application, analysis, evaluation and synthesis as a guide to a decision (action).⁵ The remainder of this paper is divided into four major sections. The first section provides the case background and an overview of the major issues. This section is written for the students and can be provided to them as a handout, similar to a case. The second section details formal requirements. The third section provides detailed implementation guidance and teaching notes including several approaches to extend the project depending on instructor needs. The paper concludes with a discussion of project efficacy and limitations. Suggested solutions and excel templates are available from the authors upon request.

Intended Audience

This project is intended primarily for students in either an intermediate or advanced financial accounting course. In these courses students should have, or be developing, the financial accounting skills necessary to complete all components. However, the second and third section or component of the project can be run independently. Section two, the decision-making segment, has been successfully used as part of an accounting course in a Masters of Engineering Management. The course was the only accounting class included in the degree program and the second part of the project was used to provide these students with additional experience with ratio analysis and interpreting financial statement information. Thus, the project can also be used in finance, MBA, or similar decision-making courses by providing students with the solutions from segment one.⁶ Students could then use the template to calculate the necessary ratios and provide an overall recommendation regarding the best financing option for the company. Section three, the ethics segment, could be used in the classes already mentioned as well as an accounting or business ethics class.

Similarly, the project could be used in a managerial accounting or cost class to emphasize the important of decision making and the role of accounting in supporting decision making. While students in a cost accounting class should have the necessary skills to complete the financial calculations, especially if the instructor emphasizes that the financial statements are budgeted statements, instructors might want to provide the updated numbers so that the focus remains on decision making and recommendation and not on the financial accounting aspects of the case. Similarly, students in an introductory managerial class should receive the updated numbers, since they are not likely to have sufficient background in financial accounting for financing options or investments to complete that first part of the project.

If desired, the project could also be adapted for use in an auditing course with an emphasis on assessing risk. Students in these courses should again be provided with the completed numbers from part 1. They can then be asked to calculate the ratios and use them to formally assess the different risk levels inherent in the three different forms of

⁵ Critical thinking is defined as “the intellectually disciplined process of actively and skillfully conceptualizing, applying, analyzing, synthesizing, and/or evaluating information gathered from, or generated by, observation, experience, reflection, reasoning, or communication, as a guide to belief and action.” (The Foundation for Critical Thinking at <http://www.criticalthinking.org/pages/defining-critical-thinking/766>, accessed January 20, 2019)

⁶ One of the authors has used the project successfully in a finance course. He was asked to provide to be a guest lecturer on how to successfully use accounting information to make a finance decision. This case, already in use in his intermediate accounting course, was used as the basis for the discussion. While finance students had a hard time getting into the case, once they had calculated the ratios and fully understood the options, the results conversation was successful (based on a follow-up conversation the author had with the course instructor) in helping the students to understand how useful accounting was in providing the information necessary for making a financing decision.

financing. They could also be asked to address the ethical implications for the auditors if they find that the finance committee is not following the intentions of the owners.

Suggestions for Classroom Use

Preparing the Project

One significant challenge with any course project is reducing the likelihood of cheating. This can be addressed in several ways, including allowing students to work in class, allowing them to work with groups, and allowing them to check their work or ask questions of the instructor. However, none of these ways will reduce the possibility of students searching for solutions online or getting them from friends who completed the project in a previous semester. In order to address this concern, the instructor typically changes the values of the project each semester, along with other small details (e.g., using a discount instead of a premium for the bond option). This is one of the reasons why few numbers are provided in the project handout. Instead, they are provided to students in the exhibits, which are easy to change and upload into the Learning Management System for students to download along with the instructions. If desired, the few values that are in the handout can also be changed.⁷

Preparing Students for the Project

The project is provided to students after covering at least two of the three financing options: notes, bonds, and the sale of available-for-sale securities, but isn't due until after the final topic (typically the sale of securities) has been covered. Providing students with the instructions soon after completing the first topics allows them to begin practicing these topics while they are still fresh in students' minds and helps to motivate their interest in the final topic.

In addition to the discussion of the methods required to do the necessary journal entries, some class time should be dedicated to discussing the implications of journal entries on the financial statements or, as in this case, the summary numbers from the financial statements. Theoretically, the flow information from journal entries to the financial statements is included in the early discussion of the accounting cycle (Chapter 3 in most intermediate accounting textbooks), but students rarely have the opportunity to see this flow of information or to practice calculating these effects (see Porter, 2019). If students have not yet had this opportunity, then some examples or classroom discussion regarding how to make these adjustments can be very helpful to students and to faculty, who will not have to spend as much time working with students on these concepts during office hours. To highlight the impact of the financing options on the financial statements, students are asked to compute six common ratios. While any set of ratios could be used, we chose the current set to include the four main analysis areas of liquidity (current ratio), solvency (debt to equity), profitability (profit margin, return on assets and return on equity) and activity (asset turnover). These ratios are typically included within the first five chapters of intermediate accounting text and may benefit from a classroom discussion as to their use and how they help a manager assess risk.⁸

Introducing two questions to students significantly helps them practice this flow of information. The questions below are worded to focus on summary numbers, as in this project, but they can easily be reworded to focus on a full set of financial statements. Students should answer each question individually for each line item in a journal entry. Once students have answered each question, they can then make the necessary adjustments to the summary numbers.

4. Which summary numbers will this account affect? Keep in mind that it might affect multiple summary numbers (e.g., income from operations, net income, and total equity).
5. Will the adjustment from the journal entry increase or decrease the summary number?

⁷ A copy of an iterative Excel solution, which includes the pre-formatted tables, along with a Word version of the case for easy adaptation of the other numbers, is available from the authors upon request.

⁸ Instructors could expand the number and type of ratios calculated based on curricular needs.

Walking through these questions and the actual implications of journal entries on the financial statements or financial summary numbers can be done in two ways. First, it can be done chapter by chapter, choosing one of the problems already discussed in course lectures to demonstrate. Second, it can be done on one day with an example scenario, journal entry, and set of financial statements.⁹ As a final step to preparing students for the project, we organize the class into groups, typically of three students. Experience has shown that partnerships have a difficult time completing the project given the other course activities (e.g., new topics being covered, quizzes, traditional homework assignments, etc.) and that larger groups have a difficult time keeping everyone involved. Since students in the courses that used this project have already worked in partnerships and teams on other activities, it has been helpful to allow students to form their own groups if they wish. After a certain date, however, typically one week before the project is introduced, those students who have not formed a full group or who have not formed a group at all, are randomly assigned into groups of three. This format allows students who have already found others with whom they work well to continue working together and reduces the pushback from other students, since they have been provided with the opportunity to form their own groups.

Helping Students Complete the Assignment

Where possible, it is helpful to provide at least one day of class for students to work on the project, preferably on the date the project is introduced or shortly thereafter. Providing a day for students to work in class allows those who have been randomly assigned a group to meet their teammates and it helps all of the groups to get started on the project. Requiring them to start early in the time frame of the project reduces some of the procrastination.

During the class session dedicated to the case and afterwards, the instructor can act as a consultant to provide feedback and answer questions from the students. As the goal is student success, we typically answer specific questions, check students work, and provide guidance when their solutions are not quite right. Because of the small size of the groups, these conversations can quickly become powerful teaching tools, employing Socratic Method style questions to guide students to solutions instead of simply providing answers. This approach has also helped to clarify topics and processes for students, especially about the flow of information through the accounting system that students have never fully understood.

Assigning and Grading the Project

Students are provided with the project as well as a set of specific instructions for the course. These specific instructions address deadlines, formatting, submission, etc. (see Appendix A for an example. A copy of these instructions, formatted as handout, is available from the authors upon request). In addition, the instructor provides the exhibits as a separate set of figures, typically as a PDF. As previously mentioned, providing the exhibits separately supports the ability to change the numbers each semester or even for separate sections or individual students, as desired, to reduce the likelihood of cheating. All of these materials are provided through the Learning Management System.

Depending on the other course activities (number of tests, other projects, homework assignments, etc.), the exact number of points will vary. However, typically the project is worth about ten percent of the overall grade in the course. Because of the size of the project, and its significant impact of students' grades, it is useful to break the project into three pieces:

Part 1: Completing the Financial Analysis

The first two sections of the project focus on technical aspects: making the journal entries necessary for each financing option, updating the financial statements, and performing a ratio analysis. Students complete these two sections with their group and submit their answers as one file. This portion of the project is due about three weeks after the project is first introduced.

Since this portion of the project requires the majority of the work, 2/3 of the points are assigned to this submission (200/300). In order to expedite the grading process, an Excel-based rubric is employed to grade submissions. An

⁹ An example activity is available from the authors upon request.

example of this rubric is provided in Appendix B. The detailed rubric for grading this submission provides students with specific comments and feedback on their performance on the different calculations, ratios, and analyses required. In addition to the grading rubric, an Excel version of the solution assists with grading. To avoid “double jeopardy” in grading, the values in the journal entries are changed to match the students’ entries, and their values then flow into the ratio analysis. Typically, 20 minutes are needed to grade each submission when making these changes.

Part 2: Analyzing the Ethical Issues

The third set of questions in the project focuses on the ethical issues in the scenario, specifically the possibility of using the company’s expansion fund to pay for the needed upgrade without permission from the owners. Students complete this section of the project on their own. This format provides students with the opportunity to voice their own opinions regarding the ethical issues, allowing for individual feedback and obtaining supporting information for accreditation purposes (if desired). This portion of the project is due approximately one week after the group submission.

This portion of the project does not require nearly as much work as the first portion, thus only 40 points of 300 is assigned to this submission. This allocation of points also matches the grade on this ethics write-up with another assignment earlier in the semester. Submissions are graded using a standardized ethics rubric that was designed to evaluate students from freshman to graduate students within the accounting program (see Kraut and Porter, 2013). An example of this rubric is available in Appendix C. We expect students in an intermediate accounting course to be at the Proficient level.¹⁰ Those students who performed above expectations received, essentially, extra credit for their performance. Typically, 10 to 15 minutes are required to grade each submission using this rubric.

Part 3: Performing a Group Evaluation

To help reduce the likelihood of freeriding, students are required to evaluate the performance of all group members, including themselves. In our experience, providing students with a set number of points to allocate among the members of the group has provided the most effective way to encourage them to accurately complete the evaluation (instead of simply giving everyone in their group full points, regardless of effort). As part of the evaluation, students are required to identify a group leader and to reward that leader with additional points. The remaining points can then be allocated among the rest of the group. While students sometimes struggle with the process, experience has shown they are more likely to identify those members who have been shirking, using the points they might have given to the shirkers to reward the leaders. An example group evaluation form is provided in Appendix D.

Completing the evaluation does not require a lot of work, however 60 points are allocated for the evaluation, about 20% of the overall grade on the project. Using a significant number of points encourages students to actively participate with their groups and to complete the evaluation. Students’ overall score is the average number of points allocated to them by their group, including their own evaluation. Students who do not complete the evaluation form are assigned a “0” for themselves (no penalty is assigned to other group members), which significantly reduces their overall average. Typically, an hour is required to input the data from the students, compute the averages, and assign the grades to the students.¹¹ Some adjustments may have to be made in this process if the instructor has noticed that the groups has allocated too many points (i.e., more than the 180 points allowed for a group of three) or if the instructor has noticed that a group has not rewarded a leader or penalized a shirker.

Adjusting the Project for Classroom Needs

¹⁰ Since the rubric was originally designed for use across a full curriculum, the Accomplished levels are meant for senior and graduate students.

¹¹ This time commitment can be significantly reduced by using a Google Form or similar online system to collect the data and automatically input it into a spreadsheet.

While we have found the presented version of the project to be the most effective in our courses, we recognize that individual instructors will want to adapt the project to fit the needs of their courses and students. While there are many ways an instructor could adapt the course, we believe the following ideas will be helpful to many instructors.¹²

Requiring Adjustments to the Financial Statements

The presented version of the project was designed to focus students on key values and ratios from the financial statements. However, some instructors may find it beneficial to require the students to adjust the actual financial statements and not just the key values needed for the ratios. For this version of the project, we suggestion changing requirements 1c, 2c, 3b, and 4c of Part 1 as follows (keeping the parenthetical notes the same):

- c. Based on the journal entries you just made, update JenLou's financial state

Updating a full set of financial statements may be more challenging for students. To help them get started, we recommend walking through the initial adjustments (for the abandonment and sale) in class, then asking the students to continue on with the adjustments for each of the three financing options. We have found that it is typically also necessary to remind students that the financing options are mutually exclusive, so they need to make sure that they start each set of financial statements using the set after the initial adjustments, without using any of the updates from the other financing models.

As a final suggestion for this option, we would provide students with the template for the financial statements on the same day that we discuss the project in class, and would encourage students to adapt or update directly from the template to avoid differences in formatting that can making grading the updated financial statements more difficult.¹³ To speed up the grading process, we recommend looking for numbers within the financial statements (i.e., the same key values used in the original version of the project). Grading this way allows you to use the rubric provided. We believe sufficient points have been allocated to these key numbers that the rubric is still appropriate when extending the project to include the full financial statements.

Requiring Presentations to the executive Team

Another useful extension to this project is requiring students to formally present their conclusions. This can be done in a variety of ways: a formal presentation to the class, a video presentation made for the instructor, or a business memo written by a consulting team to the CEO. For those instructors who wish to add this addition requirements, we recommend adding the following requirements to Part 2 of the project:

4. Presenting your conclusion

The CEO has asked the finance team to formally present their plans to address JenLou's cash needs. As directed by your instructor, prepare one (1) of the following to present to the CEO and her team:

- a. Write a memo that explains, and defends, your recommendation from part 3d. Your memo should be no longer than 2 pages.
- b. Prepare a set of PowerPoint slides that explain and defend your recommendation. The slide should be formatted and edited so that they could be used in a formal presentation to the executive team. Your slide deck should include no more than 4 slides.
- c. Create a digital (i.e., video) presentation explaining and defending your position. Your video should be no longer than 8 minutes.
- d. Prepare a presentation defending your position. Your presentation should be no longer than 10 minutes and should include 2-3 minutes for Q&A from the instructor and your classmates. Your instructor will provide a specific date and time for your presentation.

¹² We are grateful to the reviewers for their helpful suggestions regarding this section.

¹³ A copy of the template and solutions files for this extension of the project are available upon request.

Overall, we recommend that this assignment replace the submission of the rest of Part 2. This can be done by requiring students to use the ratios and their analysis of the three options as part of their formal recommendation. To simplify the grading for this extension, we recommend using the rubric and solutions provided to assess their calculations and recommendations. However, instructors will probably also want to add a rubric for writing or presentation quality. Overall, we recommend that an additional 10 points be added for a writing quality (for options a or b) or an additional 15 points for presentation quality (for options c or d).

Incorporating Industry Research

Yet another useful extension to the case is requiring students to conduct industry research as support for their recommendation. As indicated previously, JenLou resides in the gourmet or specialty food industry and the current scenario is similar to what many real companies within the industry are going through due to new regulations and restrictions in the aftermath of 2020. Instructors could ask students to compare JenLou's ratios for each of the three options with industry standards or with two companies (such as Hershey or Cosan Limited) as benchmarks. Instructors choosing this option would need to address the differences between publicly and privately held businesses, including relative size of the businesses.

We view this extension as best suited to a graduate level course or a course that focuses on data analytics. The additional research and/or analyses could be tied to the presentation to the executive team as described above. For instructors who wish to include this additional requirement, we recommend adding the following to Part 4 prior to the descriptions in a. through d.:

4. Presenting your conclusion

The CEO has asked the finance team to formally present their plans to address JenLou's cash needs, balancing the unexpected expense and the desire to expand. As additional support for your recommendation, you will conduct research in the specialty food industry. Potential research topic areas include, but are not limited to:

- Trend analysis concerning specialty food consumer demand
- Investments made by companies to pivot to new opportunities and/or update older facilities to meet food safety requirements.
- Comparisons with other specialty foods producers, such as Hershey.
- Expansion success stories such as Magnolia Bakeries, a private entity with similarities to the case company (Passy 2018).

We recommend the 10 or 15 additional points noted above include reference to adequacy of research conducted. Instructors could also combine this requirement with the presentation requirements, inviting groups to share the results of their analysis with the class.

An alternate approach to incorporating an industry research component is to have a separate assignment prior to students completing Part I, employing the potential research topic areas listed above in a 10-point written assignment to help students better understand the industry incentives and problems before beginning work on the rest of the project.

Requiring the Use of a Professional Code of Ethics

A final useful extension to this project would be requiring students to consider the professional codes of ethics available from the AICPA and IMA in addressing Part 3 of the project. We recommend this adjustment when using the case in upper-division financial, cost, auditing, or ethics courses where students are already familiar with the codes and with the expectations of the professions. In an intermediate course, adding this additional requirement might make the case a bit overwhelming for students, so we suggest only adding it to these courses when the codes of ethics have already been introduced by the instructor.

To add this extension, we recommend changing the instructions for Part 3 as follows:

Josh (the controller) felt that Emily's option should be avoided because it was contrary to the owners' stated goals. Emily and Carrie felt that the option with the best income effect in the current period should be used, regardless of the owners' wishes. Using your knowledge of the principles of business ethics and the principles in the AICPA Code of Professional Conduct and/or the IMA Statement of Ethical Professional Practice:

The addition of this requirement should not cause any changes to the overall grading of this section, at least not in those classes where the ethical codes are introduced and discussed. Instructors who expect their students to research the codes on their own (i.e., upper divisions classes), on the other hand, should probably increase the number of points allocated to Part 3 of the case by nine to 15 points and should allocate those points equally to part 1a, 1b, and 1c of Part 3. We also recommend that instructors provide access to the codes to the students:¹⁴

AICPA: <https://pub.aicpa.org/codeofconduct/ethicsresources/et-cod.pdf>

IMA: <https://www.imanet.org/-/media/b6fbbeb74d964e6c9fe654c48456e61f.ashx>

Answers to Case Requirements

The following discussion provides the recommended answers for the JenLou case as presented here. An iterative excel sheet which allows faculty the opportunity to change values in subsequent semesters is available upon request.

Suggested Solutions to Part 1

Part 1 has the students calculate the effects on JenLou's financial statements of the various options in four sections (1-4).

Section 1.1

In section 1.1, the students record the journal entries for abandonment of the old equipment (1a), record the payments to the construction company (1b), and update JenLou's summary numbers in Figure 5 based on the journal entries made.

Question 1.1(a): Assume the equipment being replaced originally cost JenLou \$1,344,000 when the company was founded (at the beginning of Year 1). At that time management assumed that the equipment could be used for 13 years with no salvage value. Make the journal entry to record the abandonment of the old equipment on January 1st of Year 10 if JenLou uses straight line depreciation. If necessary, make an entry to record the tax effect of your entry. JenLou's tax rate is 25%.

Basic information:

Purchase Price	\$1,344,000
SV	\$0
Useful Life	13
Year's since purchase	9

Calculating accumulated depreciation:

$$\frac{\text{BK} - \text{SV}}{\text{useful life}} = \frac{\$1,344,000}{13} = \$103,385 \text{ per year}$$

\$103,385 per year * 9 years since purchase = Total Accumulated Depreciation of \$930,461

Journal entries for abandonment

¹⁴ These links were verified on 3/8/2021, but may have changed in the interim.

Accumulated Depr.	\$930,462	
Loss on abandonment	\$413,538	
Machine		\$1,344,000

To record abandonment of machine

Income Tax Payable	\$103,385	
Income Tax Expense		\$103,385

*To record income tax effect of abandonment. Loss on abandonment \$413,538 * 25%*

Question 1.1(b): Make the journal entries for the payments to the construction company found in Exhibit A. All payments must be made in cash.

1-Feb	Equipment	\$120,000	
	Cash		\$120,000

Payment to Construction company

15-Mar	Equipment	\$900,000	
	Cash		\$900,000

Payment to Construction company

30-Jul	Equipment	\$840,000	
	Cash		\$840,000

Payment to Construction company

15-Sep	Equipment	\$270,000	
	Cash		\$270,000

Payment to Construction company

1-Dec	Equipment	\$240,000	
	Cash		\$240,000

Payment to Construction company

Question 1.1(c): Based on the journal entries you just made (for parts a and b), update JenLou's summary numbers (see Exhibit E for the original balances).

	Before Changes	After Changes
<i>Income Statement Subtotals</i>		
Net Sales	\$10,830,000	\$10,830,000
Gross Profit	\$4,261,695	\$4,261,695
Income from Continuing Operations before Taxes	\$1,325,338	\$911,800
Net Income	\$994,003	\$683,850
<i>Balance Sheet Subtotals</i>		
Current Assets	\$3,180,000	\$810,000
Total Assets	\$10,080,000	\$9,666,462

Current Liabilities	\$1,975,997	\$1,872,612
Long-term Debt	\$1,980,000	\$1,980,000
Total Equity	\$6,124,003	\$5,813,850
<i>Cash Flow Subtotals</i>		
Cash Flow from Operations	\$1,980,000	\$1,980,000
Total Change in Cash	(\$120,000)	(\$2,490,000)
Cash, Dec. 31, Year 9	\$480,000	\$480,000

Section 1.2

In section 1.2, students analyze the effects of *Josh's idea*. Students record the additional journal entries that would be required if Josh's idea was accepted, including the tax effect (2a), make the journal entry to capitalize interest (2b), and update JenLou's summary numbers, using the adjusted numbers from question (1c) as a starting point (2c).

Question 1.2(a): In addition to the entries made in part 1, what journal entries would JenLou have to make if Josh's idea was accepted? Use the information provided in Exhibit B to make the entries for the issuance of the mortgage note and any interest expense in the current year. Make one summary entry for the tax effects of these entries.

1-Jan	Cash	\$2,370,000	
	Note Payable		\$2,370,000
	<i>Issuance of note</i>		
31-Mar	Interest Expense	\$38,513	
	Cash		\$38,513
	<i>First interest payment</i>		
30-Jun	Interest Expense	\$38,513	
	Cash		\$38,513
	<i>Second interest payment</i>		
30-Sep	Interest Expense	\$38,513	
	Cash		\$38,513
	<i>Third interest payment</i>		
31-Dec	Interest Expense	\$38,513	
	Cash		\$38,513
	<i>Fourth interest payment</i>		
31-Dec	Income Tax Payable	\$38,513	
	Income Tax Expense		\$38,513
	<i>To recognize income tax effect of the interest payments. Total interest expense (\$38,513 * 4) * 25%</i>		

Question 1.2(b): Make the journal entry to capitalize interest and to adjust income taxes for this adjustment to interest expense.

Calculating weighted average expenditures

Date	Payments	Ratio	WA Expenditures
1-Feb	\$120,000	11/12	\$110,000

15-Mar	\$900,000	9.5/12	\$712,500
30-Jul	\$840,000	5/12	\$350,000
15-Sep	\$270,000	3.5/12	\$78,750
1-Dec	<u>\$240,000</u>	1/12	<u>\$20,000</u>
	\$2,370,000		\$1,271,250

Calculating avoidable interest. In this case, the WA Expenditures are not larger than the construction loan, so only the interest rate on the construction loan is used.

\$1,271,250 in WA Expenditures * 6.5% interest on the construction loan = Avoidable Interest of \$82,631

Comparing avoidable interest with total interest accrued. The smaller of the two can be capitalized

<i>Debt Outstanding</i>	<i>Principal</i>	<i>Int. Rate</i>	<i>Total Interest</i>
<i>Loan Payable</i>	\$300,000	8.0%	\$24,000
<i>Notes Payable</i>	\$1,680,000	7.0%	\$117,600
<i>Construction Loan</i>	<u>\$2,370,000</u>	6.5%	<u>\$154,050</u>
	\$4,350,000		\$295,650

Since total interest accrued is much larger than the avoidable interest calculated in Step 2, the avoidable interest should be capitalized.

Making the journal entries to capitalize interest

31-Dec	Equipment	\$82,631	
	Interest Expense		\$82,631
	<i>To capitalize interest</i>		

31-Dec	Income Tax Expense	\$20,658	
	Income Tax Payable		\$20,658
	<i>To recognize income tax effect of capitalizing interest. Reduction in interest expense \$82,631 * 25%</i>		

Question 1.2(c): Based on the journal entries you just made (in parts a and b), update JenLou's summary numbers (use your adjusted numbers from question 1c as a starting point).

The Before Changes values for this section are the values after the abandonment of the old equipment and the construction of the new equipment, shown as the After Changes values in the solutions to Question 1.1(c).

	Before Changes	After Changes
<i>Income Statement Subtotals</i>		
Net Sales	\$10,830,000	\$10,830,000
Gross Profit	\$4,261,695	\$4,261,695
Income from Continuing Operations before Taxes	\$911,800	\$840,379
Net Income	\$683,850	\$630,284
<i>Balance Sheet Subtotals</i>		
Current Assets	\$810,000	\$3,025,948
Total Assets	\$9,666,462	\$11,965,041

Current Liabilities	\$1,872,612	\$1,854,757
Long-term Debt	\$1,980,000	\$4,350,000
Total Equity	\$5,813,850	\$5,760,284
<i>Cash Flow Subtotals</i>		
Cash Flow from Operations	\$1,980,000	\$1,908,579
Total Change in Cash	(\$2,490,000)	(\$274,052)
Cash, Dec. 31, Year 9	\$480,000	\$480,000

Section 1.3

In section 1.3, students analyze the effects of *Emily's idea*. Students record the additional journal entries that would be required if Emily's idea was accepted, including the tax effect (3a), and update JenLou's summary numbers, using the adjusted numbers from question (1c) as a starting point (3b).

Question 1.3(a): In addition to the entries made in part 1, what journal entries would JenLou have to make if Emily's idea was accepted? Use the information provided in Exhibit C to make the necessary entries for both the factoring of receivables and the sale of the expansion fund shares. Make one summary entry for the tax effects of these entries.

1-Jan	Cash	\$1,026,000	
	Due From Factor	\$32,400	
	Allow for Bad Debt	\$60,000	
	Loss on Sale of Accounts Receivable	\$26,400	
	Accounts Receivable		\$1,080,000
	Recourse Liability		\$64,800
	<i>Record the factoring of accounts receivable</i>		
1-Jan	Cash	\$1,494,000	
	Gain on Sale of Stock		\$684,000
	Expansion Fund		\$810,000
	<i>Record sale of shares from Expansion Fund</i>		
1-Jan	Income Tax Expense	\$164,400	
	Income Tax Payable		\$164,400
	<i>To recognize income tax effect of factoring and sale of stock. Loss on sale of accounts receivable (\$26,300) + Gain on sale of stock \$684,000 = \$657,600 * 25%</i>		

Question 1.3(b): Based on the journal entries you just made (in part a), update JenLou's summary numbers (use your adjusted numbers from question 1c as a starting point).

The Before Changes values for this section are the values after the abandonment of the old equipment and the construction of the new equipment, shown as the After Changes values in the solutions to Question 1.1(c). It does not include the values in section 2(c) because the financing options are mutually exclusive.

	Before Changes	After Changes
<i>Income Statement Subtotals</i>		
Net Sales	\$10,830,000	\$10,830,000
Gross Profit	\$4,261,695	\$4,261,695

Income from Continuing Operations before Taxes	\$911,800	\$1,569,400
Net Income	\$683,850	\$1,177,050

Balance Sheet Subtotals

Current Assets	\$810,000	\$2,342,400
Total Assets	\$9,666,462	\$10,388,862
Current Liabilities	\$1,872,612	\$2,101,812
Long-term Debt	\$1,980,000	\$1,980,000
Total Equity	\$5,813,850	\$6,307,050

Cash Flow Subtotals

Cash Flow from Operations	\$1,980,000	\$1,980,000
Total Change in Cash	(\$2,490,000)	\$30,000
Cash, Dec. 31, Year 9	\$480,000	\$480,000

Section 1.4

In section 1.4, students analyze the effects of *Carrie's idea*. Students record the additional journal entries that would be required if Carrie's idea was accepted, including the tax effect (4a), make the journal entry to capitalize interest (4b), and update JenLou's summary numbers, using the adjusted numbers from question (1c) as a starting point (4c).

Question 1.4(a): In addition to the entries made in part 1, what journal entries would JenLou have to make if Carrie's idea was accepted? Use the information provided in Exhibit D to make the entries for the issuance of the bond and any necessary entries to record the interest. Assume JenLou uses the Effective Interest Method for amortizing premiums or discounts. Make one summary entry for the tax effects of these entries. (HINT: Without a formal market rate, Josh will have to use JenLou's IRR for his time value estimates.)

Basic information:

Principal	\$4,740,000
Number of payments	12
Interest Payments	\$130,350
Market Rate	6.0%
Market Rate/payment	3.0%

Calculating present value of bond (calculated using the PV function in Excel): \$4,622,045

Making the journal entries for issuance of note and interest accrued during the year

1-Feb	Cash	\$4,622,045	
	Discount	\$117,955	
	Note Payable		\$4,740,000
	<i>Issuance of the note</i>		

31-Jul	Interest Expense	\$138,661	
	Discount		\$8,311
	Cash		\$130,350
	<i>First Interest Payment</i>		

31-Dec	Interest Expense	\$115,759	
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	Discount		\$7,134
	Interest Payable		\$108,625
	<i>First Interest Payment</i>		
31-Dec	Income Tax Payable	\$63,605	
	Income Tax Expense		\$63,605
	<i>To recognize income tax effect of the interest on the bond.</i>		
	$\$138,661 + \$115,759 = \$354,420 * 25\%$		

Question 1.4(b): Make the journal entry to capitalize interest and to adjust income taxes for this adjustment to interest expense.

Calculating weighted average expenditures. This table is the same as the one presented in 2(b), since the calculation of weighted average expenditures is not affected by the time of funding.

Date	Payments	Ratio	WA Expenditures
1-Feb	\$120,000	11/12	\$110,000
15-Mar	\$900,000	9.5/12	\$712,500
30-Jul	\$840,000	5/12	\$350,000
15-Sep	\$270,000	3.5/12	\$78,750
1-Dec	\$240,000	1/12	\$20,000
	<u>\$2,370,000</u>		<u>\$1,271,250</u>

Calculating avoidable interest. In this case, the bond exceeds the funds needed for construction, so it does not qualify as a construction loan. Thus, the weighted average interest rate is used.

<i>Debt Outstanding</i>	<i>Principal</i>	<i>Int. Rate</i>	<i>Total Interest</i>
<i>Loan Payable</i>	\$300,000	8.0%	\$24,000
<i>Notes Payable</i>	\$1,680,000	7.0%	\$117,600
<i>New Bond Payable</i>	\$4,740,000	5.5%	\$260,700
	<u>\$6,720,000</u>		<u>\$402,300</u>

$$\frac{\text{Total Interest}}{\text{Total Principle}} = \frac{\$420,300}{\$6,720,000} = 5.99\%$$

\$1,271,250 in WA Expenditures * 5.99% weighted average interest = Avoidable Interest of \$76,148

Comparing avoidable interest with total interest accrued. The smaller of the two can be capitalized

Since total interest accrued (shown in the table above) is much larger than the avoidable interest calculated in Step 2, the avoidable interest should be capitalized.

Making the journal entries to capitalize interest

31-Dec	Equipment	\$76,148	
	Interest Expense		\$76,148
	<i>To capitalize interest</i>		
31-Dec	Income Tax Expense	\$19,037	
	Income Tax Payable		\$19,037

To recognize income tax effect of capitalizing interest.
 $\$76,148 * 25\%$

Question 1.4(c): Based on the journal entries you just made (in part a), update JenLou's summary numbers (use your adjusted numbers from question 1c as a starting point).

Summary of financial statement information before and after changes. Note that the Before Changes for this section are the values after the abandonment of the old equipment and the construction of the new equipment, shown as the After Changes values in section 1(c). It does not include the values in sections 2(c) or 3(c) because the financing options are mutually exclusive.

	Before Changes	After Changes
<i>Income Statement Subtotals</i>		
Net Sales	\$10,830,000	\$10,830,000
Gross Profit	\$4,261,695	\$4,261,695
Income from Continuing Operations before Taxes	\$911,800	\$733,528
Net Income	\$683,850	\$550,146
<i>Balance Sheet Subtotals</i>		
Current Assets	\$810,000	\$5,301,695
Total Assets	\$9,666,462	\$14,234,305
Current Liabilities	\$1,872,612	\$1,936,669
Long-term Debt	\$1,980,000	\$6,617,490
Total Equity	\$5,813,850	\$5,680,146
<i>Cash Flow Subtotals</i>		
Cash Flow from Operations	\$1,980,000	\$1,925,798
Total Change in Cash	(\$2,490,000)	\$2,001,695
Cash, Dec. 31, Year 9	\$480,000	\$480,000

Suggested Solutions to Part 2

In Part 2 of the assignment, students evaluate the various financing options by comparing ratios in each option to JenLou's original budget numbers. The students are asked to comment on JenLou's financial position prior to paying for the necessary upgrade, using the ratios to support their answer. They then need to delineate the pros and cons of each of the options (the ideas of Josh, Emily and Carrie) and conduct a stakeholder analysis providing support for the option most favorable to the finance team, to the investors and to the owners.

Question 2.1: Evaluating JenLou's original financial position & Questions 2.2(a): Recalculate each of the six (6) ratios listed above for each of the three financing options

The following table presents the detailed calculation of the financial ratios for each question in part 1 of the project. As noted in the table, each of the three financial options include the effect of question 1, since all of the financing options require the abandonment of the equipment and the construction of the new equipment, but do not include any effects of the other two financing options.

	Original Numbers	After Question 1 Adjustments	After Questions 1 & 2 Adjustments	After Questions 1 & 3 Adjustments	After Questions 1 & 4 Adjustments
ROA					
Net Income	\$994,003	\$683,850	\$630,284	\$1,177,050	\$550,146
Average Total Assets	\$8,880,000	\$8,673,231	\$9,822,521	\$9,034,431	\$10,957,153
	0.112	0.079	0.064	0.130	0.050
Profit Margin					
Net Income	\$994,003	\$683,850	\$630,284	\$1,177,050	\$550,146
Net Sales	\$10,830,000	\$10,830,000	\$10,830,000	\$10,830,000	\$10,830,000
	0.092	0.063	0.058	0.109	0.051
Asset Turnover					
Net Sales	\$10,830,000	\$10,830,000	\$10,830,000	\$10,830,000	\$10,830,000
Average Total Assets	\$8,880,000	\$8,673,231	\$9,822,521	\$9,034,431	\$10,957,153
	1.220	1.249	1.103	1.199	0.988
ROE					
Net Income	\$994,003	\$683,850	\$630,284	\$1,177,050	\$550,146
Average Total Equity	\$5,627,002	\$5,471,925	\$5,445,142	\$5,718,525	\$5,405,073
	0.177	0.125	0.116	0.206	0.102
Debt to Equity					
Total Liabilities	\$3,955,997	\$3,852,612	\$6,204,757	\$4,081,812	\$8,554,159
Total Equity	\$6,124,003	\$5,813,850	\$5,760,284	\$6,307,050	\$5,680,146
	0.646	0.663	1.077	0.647	1.506
Current Ratio					
Current Assets	\$3,180,000	\$810,000	\$3,025,948	\$2,342,400	\$5,301,695
Current Liabilities	\$1,975,997	\$1,872,612	\$1,854,757	\$2,101,812	\$1,936,669
	1.609	0.433	1.631	1.114	2.738

Question 2.2(b): What are the pros and cons of each of the three financing options?

Comparison of ratios for the three financing options, relative to the ratios values for JenLou's original, pre-adjustment values. These values are formatted using conditional formatting. Ratios that improve because of the changes are shown in green and those that worsen are shown in red.

In addition to the general observations about the financial statement impact of each of the three financing options, students may discuss the ethical and long-term implications of each option. For example, Financing Option 2 provides the best financial results, but violates the owners' wishes and could lead to long-term negative consequences when JenLou doesn't have sufficient funds for its expansion goals.

Original Values	Financing Option 1	Financing Option 2	Financing Option 3
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ROA	0.112	0.064	0.130	0.050
Profit Margin	0.092	0.058	0.109	0.051
Asset Turnover	1.220	1.103	1.199	0.988
ROE	0.177	0.116	0.206	0.102
Debt to Equity	0.646	1.077	0.647	1.506
Current Ratio	1.609	1.631	1.114	2.738

Student evaluation of the three financing options will vary based on personal beliefs, background in financial analysis, and understanding of the case scenario. Thus, the responses provided below emphasize the key points that students should raise rather than providing a “right” answer.

Question 2.3(a): Which of the three financing options do you think the members of the finance team (Carrie, Emily, and Josh) prefer? Explain.

Students should emphasize that Emily’s option, Financing Option 2, looks the best. It results in a gain, which improves net income and EPS and also increases ROA, profit margin, and ROE. It is also the most likely to get the finance team their bonus, which is tied to the overall performance of the business. Despite a drop in asset turnover and the current ratio, and an increase in debt to equity, this option will be preferable to the finance team.

Question 2.3(b): Which of the three financing options do you think JenLou’s owners would prefer? Explain.

JenLou’s owners have stated that they are saving the investment fund for growth in future years. Thus, they will most likely not want to liquidate the fund to deal with regulatory requirements. Of course, that preference is based on the owners’ instructions to the team, not in response to any questions the team has asked them about the current situation.

Based on the owners’ stated preference, students should eliminate Option 2 and focus on Josh (Option 1) and Carrie’s (Option 3) options instead. Of those two, Josh’s is preferable for a number of reasons. First, it does not drop the reported financial ratios as much as Carrie’s option. Second, it does not drop EPS as much, since it results in much less interest than Carrie’s option. Third, it does not lock the company into long-term payments on the debt, since Josh’s option will be repaid relatively quickly, especially when compared with Carrie’s option. Fourth, it does not result in excess cash that the company is not prepared to invest.

Question 2.3(c): Which of the three financing options do you think investors would prefer if JenLou was a publicly traded company instead of a privately held company? Explain

If JenLou was publicly traded, investors would most likely focus on short term improvements to EPS, making Emily’s option (Option 2) the preferable option. Students might also discuss again the ratios that the finance team preferred for this option and should also discuss how the owner’s goals of keeping the investment portfolio would not be as pressing if the company was publicly traded and focused on satisfying a broader group of investors.

Question 2.3(d): Based on your knowledge of the owner’s goals, the current financial implications of each financing option, the long-term implications of each option, and financial accounting, which financing option would you choose if your group were the management team?

Most students focus on either Emily’s option, because it results in better ratios, or Josh’s option, because it better satisfies company goals and owner preferences. The best answers, however typically suggest a compromise, such as factoring the receivables and taking out a smaller loan or in talking with the owners to get approval for using the investment portfolio to avoid additional debt.

Suggested Solutions to Part 3

In Part 3 of the assignment, students consider the ethical dilemma facing the finance team. As noted earlier, this is the individual portion of the project. Responses to these four questions vary even more widely than student answers to the financial analysis questions. Since our focus is on helping the students to think more deeply and carefully about ethical situations, we are not typically looking for specific answers as much as we are looking for logical responses that show the students have carefully thought through the ethical issues in the scenario. Thus, the answers below highlight key ideas that we have seen in the best student answers.

Question 3.1(a): Write 1-2 paragraphs defending Josh’s opinion.

Josh believes that using the expansion fund without approval from the owners is unethical. Arguments in favor of this opinion include the following:

- the owner’s stated goals and wishes for their expansion fund.
- the trust the owners have shown in this management team after years of running the business themselves.
- recognizing that this is not a publicly traded company with a focus on profit but a privately held, family business with a focus on long-term stability to support the family.
- the desire to be honest when communicating with the owners.
- feeling that a bonus should be earned through their hard work and not through an accounting opportunity.

Question 3.1(b): Write 1-2 paragraphs defending Emily and Carrie’s position.

Carrie and Emily believe that using the expansion fund is justified in the current situation, especially since it will give them the biggest bonus. Arguments in favor of this opinion include the following:

- the move away from a family-controlled business to a more traditional business run by an outside executive team.
- the trust the owners have shown in this management team provides them with the authority to make changes to the plan.
- the benefits to the owners and their business of not taking out large amount of debt.
- recognizing that the company will likely be better off in the long-run if they can quickly and cheaply deal with the regulatory requirements.
- feeling that the bonus is justified by making a decision for the good of the company, even if it isn’t exactly what the owners have stated.
- recognizing that the owners’ goals were set before knowing about what the FDA would require.

Question 3.1(c): What business arguments could Josh use to convince Emily and Carrie not to choose Emily’s financing option?

This question is intended to follow the *Giving Voice to Values* style (Gentile, 2010), encouraging the students to think about how to argue in support of their chosen ethical position. Successful answers should include several of the following, although students have often surprised us with their insight and creativity in coming with ideas that we have never thought of.

- They might get fired if the owners find out.
- Owners might take back their control.
- They might not be able to build the portfolio back up again in time for the owners’ expansion goals.

- They would be setting a bad precedent for the rest of the company.
- They might lose their credentials if their breach is considered sufficiently unethical.
- The company might have trouble growing in the future, affecting future bonuses.
- They might be setting up unrealistic expectations for future performance, affecting future bonuses and future employment.

Question 3.1(d): What do you think the final decision will be? Do you agree with that decision? Why or why not?

Students' answers to this question vary. Many believe that the team will make the decision to sell the portfolio and earn the bigger bonus, while others believe that Josh will be able to make a compelling argument or appeal to the owners to stop the sale and to use one of the alternative methods. Others believe that a compromise will be reached, with the team presenting the options to the owners and asking for their approval before selling off the portfolio.

Most students agree with the decision if they have proposed that Josh's plan will be followed or a compromise be used. Those who suggest that Emily's plan will be used typically say that they don't agree with the decision, but that's how business is. That last group is, perhaps, the most concerning, since we don't want our students to believe that unethical decisions are inevitable.

Suggested Solutions to Project Adjustments

The paper provides several ideas for extending the project to best meet the needs of individual courses and instructors. While complete solutions to these extensions will depend on the choices made by instructors, the following discussion provides ideas to help faculty quickly create the solutions for their adaptations.

Requiring adjustments to the financial statements

The iterative solution, available from the authors upon request, contains both the summary solutions discussed above as well as fully adjusted financial statements.

Requiring presentations to the executive team

The solutions provided above for evaluating each option summarize the key points that students are likely to make in their presentations. We would expect an acceptable presentation to include a discussion of the changes to the financial statements, with emphasis on the effects of those changes on the financial ratios, a discussion of incentives, with emphasis on the incentives most important to the executive team, and a formal recommendation, which is often replaced by a simple summary of the options. A presentation that exceeds expectations should include each of the above elements along with a direct discussion of company goals and the owner's incentives, since the executive team should be making decisions for the good of the owners.

Incorporating industry research

The solution to this section will vary depending on the companies and/or industries the instructor chooses to use with the assignment. Thus, we don't provide specific numbers. However, we would expect an acceptable submission to include basic analysis of ratios and trends, along with a discussion of how that analysis applies to the decision being made by JenLou's finance and executive teams. We would expect a submission or presentation that exceeds expectations to include more in depth analysis of current market trends, effective comparisons with other businesses, and a unifying story that pulls together the options available with estimates of current and future benefits of the options.

Requiring the use of a professional code of ethics

Students' work when using professional codes will typically match extensively with the discussions of these codes within the classroom, especially with students at the intermediate level. Thus, student answers will likely focus on whatever elements the instructor has already incorporated into the course. In graduate or senior-level ethics courses, answers will be more effective and incorporate more elements of the professional standards. Overall, we recommend

keeping expectations of this analysis realistic and in keeping with the focus of the class. Thus, if ethics has been a passing discussion in the course, students are likely to spend most of their time and effort on the quantitative elements of the project with only a passing discussion of the ethical issues.

That said, we believe that the following references would provide appropriate support for the recommended answers to the ethics portion of the case:

Josh believes that using the expansion fund without approval from the owners is unethical.

- The principle of Serving the Public Interest, especially employers who expect their goals and guiding principles to be followed, which requires objectivity and insight from CPAs (AICPA 2014).
- The principle of Integrity and Due Care (or Confidentiality from the IMA), specifically the need to ensure that service comes before personal gain and the need to follow the spirit of the rules (in this case, the expectations of the owners) (AICPA 2014 and IMA 2015).
- The principle of Objectivity, specifically being impartial in the decisions and recommendations made (AICPA 2014).

Carrie and Emily believe that using the expansion fund is justified in the current situation, especially since it will give them the biggest bonus. While there is no justification in the codes for improving one's bonus, student could use the following arguments to support the use of the expansion fund:

- The principle of Providing Self-Governance (or Competence from the IMA), especially making decisions that have been entrusted to their care by the owners (AICPA 2014 and IMA 2015).
- The principle of Serving the Public Interest, especially credit grantors who expect their borrowers to maintain sufficient cash flows and to keep credit risk low (AICPA 2014).

Many students will also argue that the team should talk with their owners about the options and the benefits of using the expansion fund. This argument is supported by the AICPA principles of Integrity, and Due Care (AICPA 2014) and with the IMA principles of Competence, Confidentiality, and Credibility (IMA 2015).

Project Efficacy and Limitations

The objective of the project is to provide the students with an integrated learning experience developing key competencies, identified in the literature, in a realistic industry setting. Limited data has been collected which appears to support this objective. The project was implemented in intermediate financial accounting at two public universities in the north central and north western United States by the same instructor over a total of eight semesters. A total of 168 students completed the project and the subsequent evaluation at one institution and 194 at the other (362 in all). The subjects are accounting or finance majors and double majors (where one of the majors is accounting or finance). The instructor obtained IRB approval at both institutions.

After the students completed the assignment, they were asked to evaluate a series of statements on the project using a five-point Likert scale (1=Strongly Agree, 2=Agree, 3=Neither Agree or Disagree, 4=Disagree, 5=Strongly Disagree). Table 1 provides the statements, means of the responses by institution, and the percentage of students who selected "Strongly Agree" and "Agree" (n=362 across both institutions). A mean comparison of the two institutions indicates no significant differences between them on any item.

The lower scores (1-2 range) reflect stronger agreement with each statement indicating that the students responded positively to the components as well as overall project. This is also supported by the high percentage of students who selected "Strongly Agree" or "Agree." Very few responses indicated "Disagree" or "Strongly Disagree" with the highest number associated with the statement concerning working with a group. Many students felt positive about having a portion of the assignment be groupwork, however, variation in group dynamics appears to have led to a difference in perspectives about teamwork.

The feedback provides support that students perceived the project helped them achieve the learning objectives of the course and develop key competencies. Students felt they were better able to: understand the accounting issues involved in the different financing options (questions 1-6 and 9); integrate and evaluate the various stakeholder perspectives on the options (questions 7-8); and analyze an ethical dilemma from the perspective of various stakeholders (question 10 and 11). The integration and evaluation of stakeholder perspectives on both the options and the ethical dilemma, the writing component and group work developed students' critical thinking abilities and communication skills.

The students were also given an opportunity to provide comments, in two open-ended questions, about what they liked about the project and ways in which they would like to change or improve it. As evidenced by the following sample responses, students felt they benefitted from analyzing the different options and assessing the impact on the financials, analyzing the ethical dilemma, having both group and individual components and the real-life feel of the assignment:

- I liked that it presented different options for financing the same situation, which allowed me to see how different decisions can affect the financial statements
- [I liked] The varied options for financing the construction of the machine, the real life look at situations that can occur in a business setting.
- I liked the ethical dilemma and the requirement to view how each option affects a decision. The ethical dilemma is something that every professional will face at least once in their career, and I enjoy practicing those. I also enjoy the analysis for each option, as that is often a skill that I use that I have found most people and students my age lack the patience to weigh each option objectively.
- It gave me the opportunity to relate everything to a real-life situation, and to tie-in everything we have learned this year
- [I liked] That it showed how the class material would be applied to a real-life situation, and group aspect that allowed for discussion and cooperation and how the ethics part was done lone wolf

In addition, students noted that practicing journal entries was very helpful.

In terms of improving the project, many students noted they would not change any aspect of the case ("there is really nothing that I would change about it"; "I cannot think of any way to improve the case"). From a logistic perspective, several students commented that they felt the project would be better done in a partnership, rather than three individuals, which could also account, in part, for the lower group question result indicated in Table 1. A few students wished the full financials were included however others preferred the clarity of the summary format. A limited number of students suggested the project was too time-consuming. The students were asked how much time they spent individually on the group portion of the project, how much time they worked in the group on the group portion of the project, and how much time they spent on the individual ethics assignment. The vast majority of students indicated they completed all three of these categories in 5-6 hours or less (i.e., 92% individual in group portion; 91% group in group portion; and 99% as individual in ethics portion). Thus, the assignment was completed in 15 to 18 hours total or less, comprised of both individual and group work, which we suggest is appropriate for a two-part integrated project involving financial analysis, weighing of options, making a recommendation and conducting an ethical analysis.

As noted earlier, the project has been implemented at two institutions across multiple semesters involving over 350 students. Generalizations of the benefits, however, may be limited by the number of professors who have employed the project. As such, benefits could be confirmed if additional professors incorporated the classroom activity in several different classes, such as Intermediate I and II, Advanced Financial and a MBA Financial course.

Anecdotally, one of the most rewarding aspects of this case, as an instructor, was the opportunity to work with individual teams, answering their questions and pushing them to thinking through the concepts involved. Most of these questions, understandably, revolve around the adjustments to the financial statement information. After the project has been completed, there is a marked difference in the classroom discussions about how other accounting methods affect the financial statements. Those students who have put in the time to successfully complete the project speak with confidence and answer the questions quickly and easily, even if they aren't always exactly right in their answers. Those who have not put in the time and effort continue to struggle in those discussions. Finally, many students have informally commented on the usefulness of this project because of its real-life application. This is true of both the calculations and the ethics segments of the project. While students typically start any discussion about the project with "it was a lot of work" they typically go on to thank the instructor for providing them with a real-life example.

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- The Foundation for Critical Thinking at Available at <http://www.criticalthinking.org/pages/defining-critical-thinking/766>

Appendix A

Introduction

There are two main objectives of financial accounting. The first is to record business transactions. The second is to report the effects of those transactions to our stakeholders. During this course, we have spent a great deal of time working with individual transactions, and that has been the primary focus of our exams. The purpose of this project is to give you practice with this essential part of financial reporting.

In addition, this project is intended to give you a feel for the pressures that accountants and other executives are under to manipulate their numbers or their business decisions. My hope for this part of the exercise is to help you find and set your own 'line in the sand' that you will not cross, no matter what pressures you are facing. As we discussed previously, it is much easier to make that decision now than to try and make it in the heat of the moment. Please note that we will have a class discussion about this part of the project after you have turned it in.

This project has two parts described below. The first part involves identifying the journal entries that would have to be made for different financing options the company is considering. After making the entries, you will then need to determine the financial reporting consequences of each option. This part of the project (questions 1-5 and all subsections) should be completed with your chosen comprehensive project group. The second part of the project involves thinking about the ethics of the scenario. This part of the project (question 6 and all subsections) **must** be completed **individually**.

Groups should consist of **three (3)** members. You must email me the members of your group by the due date given in the course schedule or you will lose points. As part of this project, you will have the opportunity to evaluate your teammates. This is to ensure that each of you contributes fairly throughout the semester.

Formatting

Your answers should be presented in order and clearly labeled. You may answer more than one part of a question on a page, but each individual topic should be on a separate page. For example, 1a, 1b, and 1c could all be on one page, but 2a would need to be on a new page. All of your adjustments should be to the line items presented in Exhibit E. Because of SEC and IRS requirements, accountants must be careful to provide the information required, not the information they might like to include. To help practice this skill, do not add extra line items to the financial information! If you would like to make additional calculations (for example, to ensure that the balance sheet numbers really balance) you may do so, but do not include those values in your final submission.

Your project should have a traditional font size, margins, and page layout (i.e. not landscape). The team portion of the project (all of Part 1 and questions 1 – 3 or Part 2) must be submitted as one file (Word or PDF, NOT Excel). Your file should include a title page that clearly identifies the course, my name, the date, the project title, and the names of all group members. The individual portion of the project should have a similar title page but should give only your name. Each portion of the project should be carefully set up to print nicely for grading. Finally, you should take time to edit your writing so that it is easy to understand.

Appendix B

Student Name	JenLou Case - Grading Rubric		Semester		
	<u>Points Possible</u>	<u>Points Missed</u>		<u>Points Possible</u>	<u>Points Missed</u>
<i>Part 1: Calculating the Effects on JenLou's Financial Statements</i>					
<u>Problem 1: Part a</u>			<u>Problem 2: Part a</u>		
Calculating depreciation	1.0	<input type="text"/>	Entry to issue the debt		
Entry for abandonment			Debit to Cash	0.5	<input type="text"/>
Account titles	1.5	<input type="text"/>	Credit to Note Payable	0.5	<input type="text"/>
Amounts	1.5	<input type="text"/>	Amounts	1.0	<input type="text"/>
description	0.5	<input type="text"/>	Description	0.5	<input type="text"/>
Entry for taxes			Entry for interest expense		
Account titles	1.0	<input type="text"/>	Debits to interest expense	2.0	<input type="text"/>
Amounts	1.5	<input type="text"/>	Credits to Cash	2.0	<input type="text"/>
description	0.5	<input type="text"/>	Amounts	2.0	<input type="text"/>
<u>Total</u>	7.5	0.0	Description	2.0	<input type="text"/>
<u>Problem 1: Part b</u>			<u>Problem 2: Part b</u>		
Debits to Equipment or PPE	1.0	<input type="text"/>	Entry for taxes		
Credits to Cash	1.0	<input type="text"/>	Account titles	1.0	<input type="text"/>
Amounts	1.0	<input type="text"/>	Amounts	1.5	<input type="text"/>
Descriptions	0.5	<input type="text"/>	Description	0.5	<input type="text"/>
<u>Total</u>	3.5	0.0	<u>Total</u>	13.5	0.0
<u>Problem 1: Part c</u>			<u>Problem 2: Part b</u>		
Change to Income from Operations	1.0	<input type="text"/>	Calculating WA Expenditures	2.5	<input type="text"/>
Change to NI	2.0	<input type="text"/>	Calculating Avoidable Interest	0.5	<input type="text"/>
Change to Current Assets	2.0	<input type="text"/>	Entry to Capitalize Interest		
Change to Total Assets	2.0	<input type="text"/>	Account titles	1.0	<input type="text"/>
Change to Current Liabilities	1.0	<input type="text"/>	Amounts	1.0	<input type="text"/>
Change to Total Equity	2.0	<input type="text"/>	Description	0.5	<input type="text"/>
Change to Total Change in Cash	2.0	<input type="text"/>	Entry for taxes		
<u>Total</u>	12.0	0.0	Account titles	1.0	<input type="text"/>
			Amounts	1.5	<input type="text"/>
			Description	0.5	<input type="text"/>
			<u>Total</u>	8.5	0.0
			<u>Problem 2: Part c</u>		
			Change to Income from Operations	2.0	<input type="text"/>
			Change to NI	4.0	<input type="text"/>
			Change to Current Assets	2.0	<input type="text"/>
			Change to Total Assets	3.0	<input type="text"/>
			Change to Current Liabilities	2.0	<input type="text"/>
			Change to Long-term Liabilities	1.0	<input type="text"/>
			Change to Total Equity	4.0	<input type="text"/>
			Change to CFO	2.0	<input type="text"/>
			Change to Total Change in Cash	2.0	<input type="text"/>
			<u>Total</u>	22.0	0.0

Problem 3: Part a

Entry to Factor A/R		
Account titles	3.0	<input type="text"/>
Total Cash received	1.0	<input type="text"/>
Total Due from Factor amount	1.0	<input type="text"/>
Other Amounts	2.0	<input type="text"/>
Description	0.5	<input type="text"/>
Entry for Selling Securities		
Account titles	1.5	<input type="text"/>
Amounts	2.0	<input type="text"/>
Description	0.5	<input type="text"/>
Entry for taxes		
Account titles	1.0	<input type="text"/>
Amounts	1.5	<input type="text"/>
Description	0.5	<input type="text"/>
Total	14.5	0.0

Problem 3: Part b

Change to Income from Operations	2.0	<input type="text"/>
Change to NI	3.0	<input type="text"/>
Change to Current Assets	5.0	<input type="text"/>
Change to Total Assets	5.0	<input type="text"/>
Change to Current Liabilities	2.0	<input type="text"/>
Change to Total Equity	3.0	<input type="text"/>
Change to Total Change in Cash	2.0	<input type="text"/>
Total	22.0	0.0

Problem 4: Part a

Calculation of Bond's Present Value	2.0	<input type="text"/>
Entry to Record Issuance of the Bond		
Account titles	1.5	<input type="text"/>
Amounts	1.5	<input type="text"/>
Description	0.5	<input type="text"/>
Entry for Interest Payment		
Account titles	1.5	<input type="text"/>
Amounts	2.0	<input type="text"/>
Description	0.5	<input type="text"/>
Entry for Interest Accrual (from 8/31 - 21/31)		
Account titles	1.5	<input type="text"/>
Amounts	2.0	<input type="text"/>
Description	0.5	<input type="text"/>
Entry for taxes		
Account titles	1.0	<input type="text"/>
Amounts	1.5	<input type="text"/>
Description	0.5	<input type="text"/>
Total	16.5	0.0

Problem 4: Part b

Calculating WA Expenditures	2.0	<input type="text"/>
Calculating WA Interest Rate	2.0	<input type="text"/>
Calculating Avoidable Interest	0.5	<input type="text"/>
Entry to Capitalize Interest		
Account titles	1.0	<input type="text"/>
Amounts	1.0	<input type="text"/>
Description	0.5	<input type="text"/>
Entry for taxes		
Account titles	1.0	<input type="text"/>
Amounts	1.5	<input type="text"/>
Description	0.5	<input type="text"/>
Total	10.0	0.0

Problem 4: Part c

Change to Income from Operations	2.0	<input type="text"/>
Change to NI	3.0	<input type="text"/>
Change to Current Assets	2.0	<input type="text"/>
Change to Total Assets	2.0	<input type="text"/>
Change to Current Liabilities	2.0	<input type="text"/>
Change to Long-term Liabilities	2.0	<input type="text"/>
Change to Total Equity	3.0	<input type="text"/>
Change to CFO	1.0	<input type="text"/>
Change to Total Change in Cash	2.0	<input type="text"/>
Total	19.0	0.0

Part 2: Evaluating the Financing Options

Problem 1:

ROA	1.0	
Profit Margin	1.0	
Asset Turnover	1.0	
ROE	1.0	
Debt to Equity Ratio	1.0	
Current Ratio	1.0	
Discussion of original position	5.0	
<u>Total</u>	11.0	0.0

Problem 2:

ROA	2.5	
Profit Margin	2.5	
Asset Turnover	2.5	
ROE	2.5	
Debt to Equity Ratio	2.5	
Current Ratio	2.5	
Discussion of pros and cons	15.0	
<u>Total</u>	30.0	0.0

Problem 3

Discussion of each idea	6.5	
Preference of finance team	5.0	
Preference of owners	5.0	
Preference of stockholders (if any)	5.0	
Final recommendation	5.0	
<u>Total</u>	26.5	0.0

Formatting and Total Score

<u>Formatting Errors</u>	<u>Points per Page</u>	<u>Bonus for Early Submission (if any)</u>	<input type="text"/>
Handwritten Work	NA	<u>Penalty for Late Work (if any)</u>	<input type="text"/>
Missing Title Page	NA		
Small font	(2.0)		
Abnormal Margins or page layout	(5.0)		
Not using a new page for each question	(5.0)		
Grammar	(5.0)		
<u>Total Penalty for Formatting Errors</u>			
	0.0		
		<u>Total Points Possible</u>	200.0
		<u>Final Score</u>	200.0
		<u>Final Percentage</u>	100%

Appendix C

Student: _____
 Course: _____

Date: _____
 Assessed by: _____

Score:

Component	Developing	Proficient	Accomplished
Identifies & summarizes ethical issues	- Has a vague idea of what the dilemma is. - Is uncertain about what decision needs to be made.	- Correctly identifies the dilemma, including some pertinent facts. - Identifies, but does not explain, the decision that needs to be made.	- Correctly identifies the dilemma, including most of the pertinent facts. - Clearly explains the decision that needs to be made.
	2	4	6
			8
			10
			12
Considers stakeholders	- Is unsure who will be affected by the decision.	- Correctly identifies some of the individuals and groups who will be affected by the decision.	- Correctly identifies the individuals and groups who will be affected by the decision and why they will be affected.
	2	4	6
			8
			10
			12
Analyzes alternatives and options	- Does not address important facts, details, or concepts. - Identifies one possible alternative solution or option.	- Includes most of the important facts, details, and concepts. - Clearly explains at least two alternative courses of action.	- Includes important facts, details, and concepts. - Clearly explains a number of alternative courses of action.
	2	4	6
			8
			10
			12
Identifies implications & consequences	- Fails to identify implications and/or consequences of alternatives. - Fails to identify the legal, contractual, and professional duties and obligations or how they affect their proposed	- Identifies and discusses some implications and/or consequences. - Identifies and discusses some aspects of how alternatives address legal, contractual, and professional duties and	- Clearly identifies multiple implications and/or consequences of conclusion or recommendation. - Clearly identifies how alternatives meet or violate legal, contractual, and professional duties and obligations.
	2	4	6
			8
			10
			12
Recommends an appropriate course of action	- Has difficulty identifying an appropriate course of action. - Lacks an objective evaluation of alternatives.	- Suggests a specific course of action. - Shows some effort to objectively evaluate alternatives; weighing of factors is unclear.	- Suggests a specific course of action. - Clarifies values used and trade-offs made in reaching the recommendation.
	2	4	6
			8
			10
			12

Appendix D

Comprehensive Project Group Evaluation
Acct XXX

Name: _____
Date: _____

As described in the project instructions, your final grade on the Comprehensive Project will be a composite of the grade that your team earned, the grade on the individual ethics portion, and the grade your team assigns each member for his or her participation. This evaluation, completed by each member of your groups, will provide the final portion of everyone’s grade. This is your opportunity to reward members of the team that did more than their share and to report anyone that ‘shirked.’ Please be honest and fair in evaluating your teammates, as you hope they will be when they evaluate you.

In order to get credit, you **must** fill out the following form **completely**. If you do not fill in the form completely or fail to turn in the form, **you will get a “0” on the group evaluation**. If you have any questions or concerns, please come and visit with me.

This form must be turned in **as a hard copy AT THE BEGINNING OF CLASS** on the day the Individual Portion of the Comprehensive Project is due (please see the course schedule in the syllabus for the exact date this semester).

1. List each member of the group in **alphabetical order by last name**:

1.	
2.	
3.	
4.	

2. Calculate the total group evaluations points. This will typically be 225 points (3 * 75), but if you were assigned to a 2 or 4 person team you will need to calculate the total number of points yourself:

Number of Group members: * 75 points =

3. Who was your group leader? Explain that person’s contribution to your project. This could be the person that organized the group meetings, that served as your liaison with the professor, or that did the bulk of the work on the project.¹⁵
4. How many points do you feel the group leader should get for his or her extra effort? Why do you feel this is a fair grade adjustment for his or her extra contribution?

¹⁵ You **must** choose one group member as your team leader. I will not accept an answer like “we all participated equally.” I have never seen a group that didn’t have a leader of some sort. That person’s contribution might not have been very different from the other team members, but someone must have stepped forward to take charge.

5. How many points should each member of the group receive? Please list your group members in the same order you used in question #1. *Make sure that you give the extra points from question #4 to your group leader. Also, make sure that the total points awarded **do not** exceed the total points you calculated in question #2. You may allocate the points evenly or unevenly, but if you choose to allocate the points unevenly please explain why in the space below the table or on a separate piece of paper.*

	Name	Points
1.		
2.		
3.		
4.		
	Total Points Awarded	

Table 1: Student Perceptions of the Case Assignment

Survey Item	Institution 1		Institution 2	
	Mean	Mean	% of students who selected "Strongly Agree" or "Agree"	% of students who selected "Strongly Agree" or "Agree"
Scale 1 = Strongly Agree; 5 = Strongly Disagree	n=168	n=194	n=168	n=194
The case increased my understanding of how to record payment for the construction of an asset.	1.85	1.97	92%	85%
The case increased my understanding of how to record the issuance of construction loans and the payment of interest on those loans.	1.92	1.94	87%	87%
The case increased my understanding of how to record the sale or factoring of accounts receivable.	1.93	2.05	84%	80%
The case increased my understanding of how to record the sale of available-for-sale securities.	1.96	2.12	85%	77%
The case increased my understanding of how to record the issuance and interest payment of a bond.	1.89	2.03	88%	80%
The case increased my understanding of capitalizing interest.	2.01	1.99	77%	82%
Overall, the case helped me to gain a better understanding of the accounting system.	1.92	2.04	81%	79%
Overall, the case increased my understanding of how adjusting entries affect key financial number (current assets, net income, etc.).	1.83	2.09	87%	80%
Overall, the case increased my understanding of how individual transactions affect financial ratios.	1.78	1.96	90%	84%
The ethical write-up helped me to think about both sides of the argument between the CFO, the Director of Finance, and the controller.	1.83	1.94	85%	84%
The ethical discussion in the case and the write-up helped me to think about what types of situations I might face and how I will deal with them.	1.84	1.93	84%	84%
Overall, I felt the case was helpful.	1.90	2.07	82%	80%