Solutions Manual for Accounting and Auditing Research Tools and Strategies 9th Weirich

CHAPTER 2

CRITICAL THINKING and EFFECTIVE WRITING SKILLS FOR THE PROFESSIONAL ACCOUNTANT

Discussion Questions:

1. Critical thinking has many definitions. One definition is as follows: Critical thinking involves a process of (more deeply) understanding, evaluating, and judging the underlying issues under investigation.

2. The highest level of thinking according to Bloom’s taxonomy entails the "evaluation” of a statement (based upon definite criteria) for a given purpose.

3. In Bloom’s taxonomy, comprehension (or grasping the meaning of a statement) entails the ability of restating the item into the researcher’s own words without changing the statement's meaning--thereby entailing a higher order skill than merely paraphrasing it.

4. While critical thinking involves a process of (more deeply) understanding, evaluating and judging the underlying issues under investigation, professional skepticism entails an attitude of examining and recognizing emotional-laden, and explicit and hidden assumptions “behind” each question.

5. The qualities that lie behind rethinking include: a willingness to say that you don’t know the answer, an openness to alternatives, an interest in the ideas of others, thoughtfulness, a desire to discover what others have done and thought, an insistence on getting the best evidence, and an openness to one’s own intuition.

6. The three levels of thought by the Illinois Renewal Institute include: Recall--the lowest level, where one defines, describes, lists, recites or selects; Process--the second level, where one compares, contrasts, classifies, sorts, and analyzes; and Application--the highest level, where one evaluates, imagines, judges, and hypothesizes.

7. The AICPA’s list of effective writing characteristics include a coherent organization, conciseness, clarity, use of standard English, responsiveness to the requirements of the question, and appropriateness for the reader. The editing skills include conciseness, clarity, and the use of standard English. The composing skills include organization, responsiveness, and appropriateness.

8. Per SEC Rule # 33-7380, six principles of clear writing include using:
   a. Active voice;
   b. Short sentences;
   c. Everyday language;
   d. Tabular presentation of complex material;
   e. No legal jargon; and

f. No multiple negatives.

9. Plain English writing does **not** mean deleting complex information. Rather, it presents documents in an orderly and clear fashion so the reader can better understand it.

10. The elements of plain English include: Know your audience; know what material information needs to be disclosed; use clear writing techniques; and design and structure the document for ease of readability.

11. The active voice uses strong, direct verbs. The subject of the sentence performs the action described by the verb. An example: " I will respond to the client's memo." The passive voice is where the action is done to somebody or something by another agent. The passive voice often uses the words "be" or "been." An example: "No one has been authorized to respond to the client's memo."

12. Special concerns of using e-mails include the need to develop strong writing skills as one attempts to state his or her thoughts as concisely as possible; and strong technological skills in the security of the transmission of the communication.

13. The different types of client letters include: transmittal letters that merely transmit information; status update letters that reminds the client about a situation by providing an update to the issue; action request letter requests action; and an opinion letter summarizes the situation very briefly.

14. A memo to the file documents the reasoning for one's conclusion that might be related to a research issue. A client letter normally does not document the details of the research process.

15. A tax memo is often unique in that it usually includes the reasoning for the law or authorities used, as well as the application of the law or authorities to the client's set of facts. The memo would include the following areas: Facts, Issues, Conclusion, and Reasoning. Chapter 7 will provide greater details as to tax issues and memos.

16. In Bloom's Revised Taxonomy, Understanding includes "explaining ideas or concepts", interpreting, summarizing, paraphrasing, classifying, or explaining. Evaluating includes "Justifying decision or course of action" checking, hypothesizing, critiquing, experimenting, judging.

Exercises:

1. The solution to this logic problem is the following:

	House 1	House 2	House 3	House 4	House 5
Color	Yellow	Blue	Red	White	Green
Country	America	Russia	England	Spain	Japan
Sport	Football	Table Tennis	Hockey	Basketball	Baseball
Drink	Water	Tea	Milk	Orange Juice	Coffee
Pet	Fox	Horse	Hamster	Dog	Monkey

2. Allison is the eldest.
A= Allison, M= Mary, J= Jennifer, X=eldest
If M = 1/2 X, J= A +M +1/2 X

If A is eldest: A=X, J= X =1/2 X =3/2 X and Jennefer receives the highest points, and Mary as youngest receives the least points.

If J is the eldest: J=X, J=A +1/2 X, A= 1/2 X, Allison and Mary receive the same number of points. However, the youngest receives the least points, so J cannot be the eldest.

3. The eight elements of reasoning as to the question of when assets need to be classified as current assets are as follows:
   a. Purpose—the purpose is to respond to the client's request for information.
   b. Issue—the issue is to provide a specific response to the question, "When do assets need to be classified as current assets?"
   c. Information—the information for this issue would include the authoritative accounting literature.
   d. Concepts—the concepts would include the concepts (definition) of an asset, and the classification between current and long-term assets.
   e. Assumptions—the assumption to classify an asset as current is that it will be used up, or consumed within one year or the operating cycle, whichever is longer.
   f. Interpretations or inference—the interpretation requires one to determine from the evidence whether the asset will be used up or converted into cash.
   g. Implications or Consequences—If an asset is not properly classified, the analysis of the financial statements (i.e., current ratio) would be misleading.
   h. Solution—An asset should be classified as a current asset when it will be converted into cash, or consumed in operations within one year or the operating cycle, whichever is longer (ASC 210-45-3).

4. The eight elements of reasoning for the question of when a contingent liability should be booked are as follows:
   a. Purpose—the purpose is to respond to the client's request for information.
   b. Issue—the issue is to provide a specific response to the question, "When should a contingent liability be recorded?"
   c. Information—the information for this issue would include the authoritative accounting literature.
   d. Concepts—the concepts would include the concepts (definition) of a contingent liability, and when to record a liability.
   e. Assumptions—the assumption to record a contingent liability would be that the dollar amount can be estimated and the liability is probable in occurrence.
   f. Interpretations or inference—the interpretation requires one to evaluate the probability of occurrence and whether the amount can be reasonably estimated.
   g. Implications—If a contingent liability meeting the requirements of FASB No. 5 is not recorded, then the financial statements are misstated.
   h. Solution—a contingent liability should be recorded if it meets the two criteria of ASC 450-20-25-1—probable and the amount can be reasonably estimated.

5. Correct punctuation:
   a. A general ledger contains all the assets, liabilities, and owners' equity accounts.
   b. The purpose of a trial balance is to prove that debits equal credits, but this does not prove that all transactions have been recorded.
   c. The current assets section of the balance sheet contains items such as cash, accounts receivable, and prepaid expenses; and the current liabilities section contains items such as accounts payable, notes payable, and short-term debt.
   d. The auditing exam was to begin at 2:00 p.m., but the professor's car broke down, so we didn't begin until 2:30 p.m.
   e. Did William ask, " How can we finish the audit tonight because Linda said, 'We have twenty hours of work left to do'"?

6. Examples of the sentences rewritten:

   a. Original sentence;

   For good reasons, the secretary may grant extensions of time in 30-day increments for filing of the lease and all required bonds, provided that additional extensions requests are submitted and approved before the expiration of the original 30 days or the previously granted extension.

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rewritten:

We may extend the time you have to file the lease and required bonds. Each extension will be for a 30-day period. To get an extension, you must write us giving the reasons that you need more time. We must receive your extension request in time to approve it before your current deadline or extension expires.

b. Original sentence:

If the State agency finds that an individual has received a payment to which the individual was not entitled, whether or not the payment was due to the individual's fault or misrepresentation, the individual shall be liable to repay to the State the total sum of the payment to which the individual was not entitled.

rewritten:

If the State agency finds that you received a payment that you weren't entitled to, you must pay the entire sum back.

c. Original sentence:

Universities differ greatly in style, with some being located on out of town campuses in parkland, others having buildings scattered about parts of city centers and others being at various points between these two extremes.

rewritten:

Universities differ greatly in style. Some are located on out of town campuses in parkland. Others have buildings scattered about parts of city centers. Others are at various points between these two extremes.

7. Multiple Negatives sentence rewritten:

Original sentence:
No termination will be approved unless the administrator reviews the application and finds that it is not lacking any requisite materials.

Rewritten:
Termination will be approved if the administrator finds the application to contain all requisite materials.

8. Active Voice sentences rewritten:

a. Original sentence:
The fraud was reported by the employee.

Rewritten sentence:
The employee reported the fraud.

b. Original sentence:
The book was enjoyed by me because the seven fraud investigation techniques were described so well by the author.

Rewritten sentence:
I enjoyed the book because the author described the seven fraud investigation techniques so well.

9. By keeping $20, the bellboy changed the auditors' rate to $270 ($250 actual + $20 stolen). The $20 should have been subtracted from the $270 rather than added! The $300 is composed of the $250 cost, the $30 refund, and the $20 stolen.

10. This question involves critical thinking that will vary between students and therefore does not have a right answer. Keys issues has future value and owned by the entity.

11. Some potential answers to the given questions include:

An asset "stays" as an asset as long as it generates future cash inflows to the company. Thus, an obsolete machine that continually requires much labor and other maintenance costs to keep operating could well be considered a liability—especially if cheaper technologies have arisen.

While financial statements may not report certain assets and liabilities, such as human resources (employees), or the benefits of high employee morale, the more critical question is if the presented financial statements provide useful information to decision makers: i.e., can such decision makers make more informed decisions when they use such statements than they would have if these statements were unavailable? (Part 2) Similarly, financial statements that present assets at historical costs—rather than at fair market values—should provide more meaningful information than not reporting statements that follow GAAP. Moreover, the objectivity of assets reported at historical costs usually supersedes those presented at current value.

12. A liability should normally be first reported when the entity can reasonably measure the expected cash outflows associated with a financial transaction or event (and stop recognizing such liabilities when the entity can no longer meet these "reasonably measurable" criteria). For example, a firm experiencing potential environmental remediation liabilities should recognize such liabilities when it ascertains a reasonable value of the amount of such damages. SFAS No. 5 discusses this matter further.

13. A primary advantage of using a contra-accumulated depreciation—rather than as a direct reduction to the associated fixed asset account—includes keeping better track of the original cost of the acquired asset. Disclosing both the original and accumulated (depreciation) components of a fixed asset informs the financial statement reader of what part of such assets have "expired." Moreover, directly reducing the "used" portion of fixed assets will eventually bring such assets (i.e., at the end of their depreciable lives—unless some salvage value exists) to a 'zero value," while these assets actually exist.

14. a) The professor received his PhD from the University of Illinois, and he continued teaching there after he was finished with the program.

b) The general ledger does not balance. It must balance before we leave.

c) Did Robert say, "Can this item be classified as an asset?"

d) Susan's investigation didn't discover any fraud but there's new evidence that might keep the investigation going.

e) Dear Mr. Smith,

15. a) The auditor said, "We must have these work papers completed by tomorrow."

b) When do we have to file our taxes?

c) Is the conference in Dallas or Austin, Texas?