Bond Repurchases: A Teaching Case

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Companies can buy back and retire their own bonds before maturity, resulting in a possible gain or loss on the extinguishment of debt. What would happen if a company repurchased its own bonds before maturity but did not retire them, potentially holding them for resale later before the bonds mature? This case gives students an opportunity to explore how the repurchase of bonds held for resale should be accounted for, including the repurchase transaction, the disposition of any gain or loss, and the possible transaction to resell the bonds later.

Keywords: bond repurchases, bond retirement, holding repurchased bonds

INTRODUCTION

Companies can buy back and retire their own bonds before the bonds mature. Because bonds are a liability, the early retirement of bonds can result in a gain or loss. What would happen if a company repurchased its own bonds before maturity but did not retire them, potentially holding them for resale later before the bonds mature? How would the gain/loss be treated at the time of repurchase? How would this transaction be reflected in the balance sheet? How would the resale of these bonds be recorded? This case provides a conceptual exploration of bonds repurchased before maturity by the issuing company without a corresponding early retirement of those bonds. It gives students the opportunity to think about an issue beyond what is typically presented in an intermediate accounting class.

This case could be used in an intermediate accounting class after the chapter on bonds is covered. Alternatively, it could be used in a graduate-level financial accounting class with the objective of increasing critical thinking and skills related to research in the accounting codification standards.

BACKGROUND

Intermediate accounting textbooks briefly cover the early retirement of debt, typically in a few short paragraphs, perhaps with an example to illustrate the journal entry (Hanlon, et.al., 2020; Kieso, et.al., 2019; Spiceland, et.al., 2020; Stice & Stice, 2014). However, these books do not discuss or illustrate the repurchase of debt before maturity without a corresponding retirement. What if a company repurchased its own bonds but held them for possible resale prior to maturity, especially if the maturity date is still many years in the future?

A company may want to retire some or all its bonds before they mature. Although the bonds may initially have been issued for 20, 30, 40, or more years, the company's economic situation may have changed over time, and early retirement may now be advantageous. A company can retire its bonds early either by paying the call price for callable bonds or by purchasing its own bonds in the open market at the current market price.

Several possible reasons may lead to a company wanting to retire its own bonds before maturity. If these reasons have not been discussed previously in the curriculum, a short discussion of these reasons may be appropriate before the case is used in class. The case will then ask the students to think about reasons a company might want to repurchase its own bonds, but instead of retiring them, holding them for future possible resale.

This case was written with the intent to hand it out to teams of students in a class and have them read through it. Then have them, within their teams, discuss their initial thoughts on the issues. It is anticipated that these students will have been introduced to the accounting for bonds in intermediate accounting and understand the concepts surrounding transactions with bonds. After their team discussions and, perhaps, an overall class discussion, they could be given the homework described in Part B and then return to a later class to either present their research or to have a class discussion about the results of their research. It might be interesting to have them do Part C as they are doing Part B and report on those ideas as well.

Consider sending an email to the students about halfway through the time they'll be researching the case (when the students are working on Part B) with information such as, "The CFO emails you a day or two after the meeting and tells you he had a thought while trying to get to sleep the night before, which was hard because he's so excited about this and can't keep it off his mind. He asks if the treatment of this bond buy-back for later resale would be similar to buying back stock into treasury. Would it be some kind of "treasury bond" (though different from U.S. Treasury Bonds, of course) and would the accounting be similar? Or is this entirely different?

CASE MATERIAL

Quantum Galaxies, Inc. (QGI) was founded in 1997 by three electrical engineering professors to commercialize their research into products that would significantly reduce the size of electronic tools and toys. Due to their teaching and publishing demands, it took them several years to really get the company up and moving. Once the research on the products was complete, they decided to go public in order to raise funds to complete the development. On May 15, 2004, they commenced a public offering. Public markets were strong for technology companies at that time, so they were able to raise $15 million. They used that money to develop physical product prototypes from their previous research.

Once the research was complete and the products were ready for market, the company issued bonds to help it finance production, marketing, and distribution, and to acquire the buildings and equipment it needed. The markets were recovering from the burst of the "dot com bubble" several years earlier. So, investors and creditors were again very interested in financing technology companies. Because of that, the company was able to issue 10,000 bonds with a face value of $1,000 each, for a total face value of $10 million, dated July 1, 2005. The bonds are 30-year bonds with a stated rate of 5.97%. They pay interest semiannually on December 31 and June 30. The market rate at the time the bonds were issued had dropped to 5.75% (net of issuance costs) so there was a premium on the bonds. They brought in cash of $10,312,759.

The product introduction was very successful and QGI made good money for many years. In fact, QGI was able to purchase some investments to help fund future growth. But, in the last few years, competitors began to enter the market and the popularity of QGI's products began a steep decline. At the end of 2019, QGI had about $6 million in cash and decided to use about $2 million of that to reignite a new R&D effort. But, for now, revenues are low, the company has been losing money, and the stock price has been dropping. In addition, many of the investment assets saved for future growth have been liquidated to pay for ongoing expenses which exceed the revenues generated. Related to the decline in value of the company, QGI's bonds were trading at only about 40% of face value. Apparently, the public doubted QGI's ability to fulfill the bond obligation when it comes due. In fact, several analysts expressed concern about the company's ability to continue as a going concern.

What nobody in public markets knows is that the company's research team recently made a significant breakthrough. QGI now plans to introduce a new suite of products by the end of the year that it is certain will be very successful.

The CEO, Jessica Frewkin, felt this was a fantastic opportunity for the company to improve its cash flows. She called a special meeting of the Board of Directors and management to describe her "brilliant" idea. They like the idea and the benefits it could bring to the company and its shareholders, but they are concerned about the legal aspects and the proper accounting for the proposed transaction. They assigned Ms. Frewkin to get legal counsel's input and they assigned the CFO, Bart Mellodin, to get professional accounting advice. Mr. Mellodin set up an appointment for your team to meet him in his office on June 3, 2020. You are a senior manager in a public accounting firm, and QGI has been a consulting client of your firm for the last three years. Although your firm does not perform QGI's audit, QGI managers often call you in for assistance with complex accounting issues before presenting them to their auditors.

When you arrive at Mr. Mellodin's office, he greets you all cheerfully and warmly. In fact, you don't remember ever seeing him this happy. He tells you they have a wonderful idea that he believes will make a significant difference for the company. He actually has the entire team sign non-disclosure agreements before he will begin the discussion, even though he knows you are subject to client confidentiality (though not client privilege) rules.

Mr. Mellodin then proceeds to describe AGI's plan. "As you know," he begins, "we currently have $10 million in 30-year bonds that are now 15 years old. We have enough money left, from our profitable years, to buy back three quarters of those bonds for $3 million, based on current market prices, which we don't expect to change by June 30, 2020, which is when we expect to make the bond repurchase effective. That'll save us $4.5 million from face value. But the next part is even better! We expect our new suite of products to be ready for market introduction early next year, which will be a signal to the market that our revenues will increase substantially. Not only will this increase our stock price, but it will also decrease the risk on our bonds. By reducing this risk and restoring confidence for creditors, our bond price will go back up. So, instead of retiring the bonds we repurchase, like companies usually do, we plan to hold them and expect to resell them in the market at full face value! That'll bring in $7.5 million, for an increase in cash of $4.5 million in excess of the amount we will pay to buy them back! Isn't that great? We can use that excess cash to get the products through production and out to the market with an incredible marketing campaign! This will also save us substantial offering costs we would have incurred if we had retired the old bonds and had to go through the process of issuing new bonds."

He further explains that they know there are risks of claims of insider trading or non-compliance with tender offer rules. QGI is having its legal team look into that to try to find a way to make this happen. He wants you to move forward assuming they will be able to conduct this transaction in compliance with all applicable laws.

Part A

Mr. Mellodin says he knows you will need to do some research to tie things down but would like you to hold a discussion now and give him your "off-the-top-of-your-head" ideas of what accounting might be done. Specifically, what journal entries are usually made when a company repurchases bonds and retires them; as well as the comparative journal entries they should make when they repurchase bonds with the intent to reissue them. Would the entries be any different? Finally, what would the entries be when the bonds are reissued?

Your team brought the prior December audited financial statements with you to the meeting. Summarized information from those financial statements is provided below. Take time with your team to review the financial information, share with the class whatever ideas you come up with in your team.

Quantum Galaxies, Inc.
Statements of Operations
For the Years Ended December 31, 2019, 2018, and 2017

	2019	2018	2017
	(in thousands)		
Revenue	$ 2,654	$ 4,789	$ 7,895
Costs of goods sold	1,805	3,257	5,369
Gross profit	849	1,532	2,526
Selling, general & administrative expenses	5,545	6,145	5,531
Net income (loss) from operations	(4,696)	(4,613)	(3,005)
Interest expense	(588)	(589)	(589)
Net income (loss) before taxes	(5,284)	(5,202)	(3,594)
Income tax (expense) benefit	1,374	1,353	1,402
Net income (loss)	$ (3,910)	$ (3,849)	$ (2,192)

Quantum Galaxies, Inc.
Balance Sheets
As of December 31, 2019, 2018, and 2017

	2019	2018	2017
	(in thousands)		
ASSETS			
Cash	$ 5,911	$ 4,003	$ 4,187
Accounts receivable	243	335	398
Inventories	1,231	1,489	1,894
Prepaids	29	78	79
Total current assets	7,414	5,905	6,558
Investments	1,320	6,423	9,362
PP&E, net	11,880	12,150	12,410
Total noncurrent assets	13,200	18,573	21,772
Total assets	$ 20,614	$ 24,478	$ 28,330

LIABILITIES			
Accounts payable	$ 426	$ 347	$ 359
Accrued expenses	265	290	272
Total current liabilities	691	637	631
Bonds, net	10,224	10,232	10,241
Total liabilities	10,915	10,869	10,872
EQUITY			
Stock, $2.00 par; 6 million shares authorized; 4.5 million issued and outstanding	9,000	9,000	9,000
Additional paid-in capital	6,000	6,000	6,000
Retained earnings (deficit)	(5,301)	(1,391)	2,458
Total equity	9,699	13,609	17,458
Total liabilities and equity	$ 20,614	$ 24,478	$ 28,330

Part B

After the discussion, Mr. Mellodin said he would now like you to go do research and get back to him in the next few days with a more researched opinion. You'll now go and do research to identify guidance in FASB's Accounting Standards Codification (ASC) and on the internet or other non-authoritative sources to get ideas. Remember, however, that non-authoritative guidance can only help point you in a direction and cannot be used to support your final conclusion. Is your final conclusion consistent with your preliminary discussion? Or different? He would also like to see any examples you might be able to find of any companies buying back their own bonds and holding them for resale. At a minimum, you should be ready to present your findings, including the proper journal entries you would recommend.

Part C

As you do your research, identify any suggestions you might make to FASB for additional guidance in this area. Do you agree with the guidance that is already there? Is there anything you would change? Anything you would suggest they add?

TEACHERS' NOTES

Part A

Responses from the initial discussion are expected to be that, when bonds are retired, the bonds would be derecognized upon repurchase, including the write-off of any unamortized discount or premium, with a gain or loss recognized for the difference between the net book value of the bonds and any amount paid for the repurchase.

As stated in the case, QGI's bonds are now trading at 40% of face value. This is because the financial situation for QGI is precarious, leading to the extreme perceived risk for QGI's bonds, which now have a market rate above 17%. Thus, the journal entry to repurchase three-fourths of these bonds on June 30, 2020 would be as follows.

Bonds payable	7,500,000
Bonds premium	164,348
Cash	3,000,000
Gain on buyback	4,664,348

Students would need to prepare an amortization schedule for the bonds or otherwise calculate the unamortized premium on the bonds as of the purchase date to make this journal entry. The entry prepared here is consistent with the numbers given in the financial statements, which reflect the use of the effective interest method to amortize the bond premium. If the students also learned the straight-line method for amortizing bond premiums, they may have been tempted to prepare this journal entry under that assumption. However, that would be inconsistent with the interest expense amounts in the comparative statements of operations and the net bond liabilities presented in the balance sheets.

The tax implications of the bond repurchase are not a specific focus of this case (leading to a suggestion for further research later in the paper). However, some students may raise the issue about the taxability of the gain and whether or not QGI can really increase its cash flows by a full $4.5 million as proposed.

Students are likely aware of no difference in the accounting of bonds repurchased with the intent to later resell, so we expect most of them to suggest the journal entry given above. However, it is possible that some students may question whether the gain should be immediately recognized if the bonds are held for resale rather than being retired.

The journal entry for the resale of the bonds would be similar to the entry made for the initial bond issuance, with a discount or premium recognized for any difference between the face value and the issuance price. The issuance price would be based on the market rate at the date the bonds are resold. If QGI is correct in assuming the bonds could be resold at full face value after the new suite of products is introduced, thus reducing the risk of QGI's bonds, this assumption implies that the market rate drops far enough to equal the stated rate on the bonds, 5.97%. In this case, the journal entry would be straightforward, as the bonds would sell at face value.

Cash	7,500,000	
Bonds payable		7,500,000

Of course, it is very unlikely that the market rate will drop to exactly the stated rate, so even if the assumptions made by QGI are close to correct, there will likely be some small premium or discount recorded when the bonds are resold.

Part B

The students should be able to confirm, from Accounting Standards Codification (ASC) Topics 405 and 470, the answers they presented in the previous discussion. Further, they can verify that the bonds can be taken off the books, or "derecognized," if and only if they have been extinguished, in accordance with ASC 405.20.40-1. This extinguishment includes "Reacquisition by the debtor of its outstanding debt securities *whether the securities are cancelled or held as so-called treasury bonds*." (italics added) This guidance indicates the bonds should be removed from the books whether immediately retired or held for later resale. This is consistent with earlier proposed entries. However, ASC 405 is somewhat ambiguous, as the codification has no other reference to "treasury bonds" except references to U.S. Treasury bonds.

There is no specific guidance on reissuance of bonds previously bought back. It can be assumed, therefore, that the accounting for such bonds is equivalent to the accounting at original issuance.

It is virtually impossible to find examples of companies that claim to have repurchased bonds to be held for resale. Therefore, we doubt students will be very successful in this endeavor. However, if any students do find examples and cite them, it will be a great addition to the class discussion as to how the companies accounted for and disclosed this information.

Part C

As presented above, FASB requires the derecognition of bonds repurchased before maturity, regardless of whether the bonds are retired or held for resale. An argument for this treatment is that the bonds are no longer outstanding and, thus, they should not appear on the balance sheet.

Students may recommend that accounting standards be improved to provide more clear, complete information related to the repurchase of bonds to be held for potential resale. For example, students may argue that, at a minimum, bonds repurchased and held for resale should be disclosed in the financial statement footnotes. This requirement would be consistent with the treatment for an unused line of credit. Since both bonds held for resale and an unused line of credit can lead to future cash availability, they would both be relevant to financial statement users.

Students might also present arguments for alternate accounting treatment for repurchased bonds held for resale. Perhaps they should not be treated the same as bonds to be immediately retired. An analogy can be found in the treatment of treasury stock. Many of the same rules could be applied. In fact, the ASC tantalizingly refers to "so-called treasury bonds" with no definition nor any other reference to such an instrument. Perhaps bonds held for resale should be included in a contra liability account just as treasury stock is held in a contra equity account. This would recognize that the bonds are not outstanding but that they could be resold later. It would also present a difference between retired bonds and bonds held for resale. A potential problem with this presentation would be the possible confusion of treasury bonds with U.S. Treasury bonds, so perhaps a different account title such as "bonds held for resale" could be used.

It is also possible that students might suggest that the repurchased bonds be included in the balance sheet as an investment asset. However, it is difficult to argue that you can hold your own bonds as an asset. It would not make sense for a company to show both a liability owed to itself with a corresponding investment asset in that liability. When a parent purchases bonds of its own subsidiary, the consolidated entity has to eliminate the effects of any intercompany bonds during the consolidation process. The consolidated financial statements cannot show both the bonds issued by one affiliate and the investment in those bonds by another affiliate. For the same reason, it would not make sense for a single company to owe itself money, and it certainly would not pay itself interest. Such treatment might also cause problems in calculating financial ratios that involve assets or liabilities. Another argument against showing these bonds as an asset comes from historical evolution of accounting principles. Previously, deferred bond issuance costs used to be shown as an asset. However, this is no longer the case; these costs are netted against the bond proceeds in recording the bond issuance. Since bond issuance costs can no longer be shown as an asset, it probably follows that the bonds themselves could not be presented as an asset.

Some students might suggest that the gain or loss recognized at the time the bonds are repurchased should be reversed out if the bonds are resold later before maturity. However, we see no satisfactory way to account for the reversal. If the gain or loss was reversed at the time of bond reissuance, it seems that the reversal would need to be an adjustment to the discount or premium at the time of reissuance. However, that would then change the market rate at reissuance, perhaps significantly, such that the rate implicit in the bond reissuance would have no relationship to the actual market rate on that date.

Alternatively, if the accounting for bonds repurchased with the intent to hold them for possible resale is changed to be more similar to treasury stock, where the bond might be left on the books and in the financials with an offsetting "treasury bond" amount, one might wonder if recognition of the gain or loss on the repurchase should be deferred. However, recording a deferred gain (liability) or a deferred loss (asset) does not seem to make sense. On the other hand, unrealized holding gains or losses on available-for-sale security investments are deferred from the income statement until the actual sale of the security. These amounts go to other comprehensive income and are reported in accumulated other comprehensive income on the balance sheet until the security is sold, at which time the gain or loss is realized and moved to the income statement.

Perhaps the gain or loss on the bond repurchase for bonds held for resale could also be deferred as an unrealized gain or loss in accumulated other comprehensive income until later disposition of the bonds at the point of reissuance, retirement, or maturity. Such deferral may better represent the intent of the company to hold the bonds for resale or later retirement, so the final disposition of the gain or loss more closely matches the final disposition of the instrument. One potential drawback of this option is that a company could arbitrarily choose when to declare the bonds retired, thus allowing earnings management in recognizing the gain or loss on the income statement. A second way to move this “unrealized” gain or loss from accumulated other comprehensive income to the income statement might be to recognize it systematically over the remaining original life of the bonds. Of course, if the bonds are then truly retired before they would have matured, the remaining gain or loss would need to be recognized in the income statement, as the future life of the bonds would have no meaning if the bonds were truly retired.

Discussion

Additional related topics may come up from the students or may be raised by the teacher for further discussion. These topics may include issues related to this specific case or more general issues for bond repurchases that are not necessarily tied to the QGI case.

For example, if there is no difference in accounting for bonds repurchased and retired versus those that are repurchased and held for resale, why would any company actually retire its bonds early, unless they were purchased a very short time before maturity with no possibility of resale? Even companies that have no intention of reselling their bonds might consider holding them for resale if conditions could possibly change, making resale a good option.

Another extension of the discussion could involve market rates based on economy-wide risk verses company-specific risk. Initially, nothing was said about QGI’s company-specific risk when its bonds were issued in 2005, so students may assume that the market rate for QGI’s bonds when they were issued would have been similar to the market rate for other bonds in the economy. However, it became apparent that QGI’s company-specific risk increased substantially between 2005 and 2020, leading to the market price for QGI’s bonds at 40% of face value. Once QGI announces its new suite of products and expects its risk to drop substantially, the market rate is expected to drop down to the stated rate. However, by the end of 2019, bond market rates in the general economy seem to have declined from what they were in 2005. Therefore, even though QGI managers expect to resell the bonds at 100% of face value, this is not necessarily an indication that the QGI bond market rates have come down to the general bond rates in the economy. Bond rates in the economy may still be lower than the stated rate on QGI’s bonds, but QGI still has a market rate that is higher because its risk is still above that of other companies in the economy.

As mentioned earlier in the case and as admitted in the further research section below, a teacher who feels adequately prepared could also consider the potential insider trading or tender offer implications of this case. As this issue is not the intended focus of this case, we have chosen not to look at this information as a specific discussion point.

QGI perceived risk will be reduced once the new suite of products is introduced, indicating the ability for QGI to greatly increase revenues in the future. Assuming investors are convinced this will help alleviate the deficit in retained earnings, the stock price should be able to rebound somewhat. In addition, when QGI is able to buy back and retire three-fourths of its bonds, it will greatly reduce its leverage. As the stock becomes less leveraged, the stock price may also increase for that reason. If QGI has demonstrated success with the new products by the time it resells the bonds, the increased leverage at that point may be seen as a positive rather than a negative, indicating that the increased return on assets will more than compensate for the increased interest requirements on the bonds.

Students may also raise the following issue. QGI is confident that it can buy back three-fourths of its bonds at 40% of face value then then resell them later at face value. If this is the case, why not try to find another $1,000,000 in cash now so it can repurchase all the bonds at a large discount and sell them later at face value? This would increase the extra cash even more.

Since the authors have already admitted it is virtually impossible to identify a firm that has repurchased its bonds to hold for resale, why would any accounting teacher want to use this case? Is it too far removed from reality to be relevant? It is likely that any case requiring students to review bonds (calculations, issuance, amortization of discounts/premiums, repayment at maturity, early extinguishment) will be helpful. The bond chapter tends to be a difficult chapter for most intermediate accounting students. Even those who understand the chapter originally need a review. Those who did not fully understand bonds the first time they were introduced may be benefitted by relearning some of the relevant concepts. This case requires some review of those concepts even if the underlying repurchase of bonds held for resale is uncommon. This type of transaction is certainly a possibility for a company to consider or there would be no reason for the ASC to refer to bonds "held as so-called treasury bonds." In addition, this case gives students the opportunity to research the ASC for an issue that is unusual and unexpected. It also gives students a chance to see that U.S. GAAP does not necessarily address 100% of financial statement presentation issues, which is a factor in FASB's ongoing standard-setting efforts.

CLASSROOM VALIDATION AND FEEDBACK

Institutional Review Board approval was received to use this case in class for research purposes in four sections (three different courses) during Spring Semester 2020. However, classes moved to an online modality for the last portion of that semester because of the pandemic, making it infeasible to appropriately discuss these cases in a face-to-face classroom situation. Therefore, use of the cases in three of these sections, including for research purposes, was postponed to Fall Semester 2021. However, the case has also been used successfully in an Accounting Theory and Research (graduate level) class two different times. Because research protocols were not in place for the use of the case in this class in an on-line format, results reported will only include feedback from three class sections, all in undergraduate classes: Intermediate Accounting II (junior level—two sections) and Advanced Financial Accounting (senior level—one section).

The case was discussed in the Intermediate Accounting classes immediately following the coverage of the chapter on bonds, which included the concept, with an example illustration, of bonds repurchased and retired before maturity. In the Advanced Financial Accounting class, the case was discussed during chapters on consolidations but before any discussion of intercompany bonds, so these students were further removed timewise from their original introduction to bonds being retired before maturity.

The case was used over two consecutive 75-minute class periods. The case used the full first period and part of the second period. During the first period, a brief review of bonds, the amortization of premiums or discounts, and how bonds might be repurchased and retired before maturity at a gain or loss, depending on how market interest rates had changed since the initial bond issuance, was presented. The case, including Part A, was then handed out to the students to read. Other than the topic of the case, the students were not given any materials in advance of this first period relative to the case.

After the students had a chance to read the case, they formed self-selected groups, mostly by proximity in the classroom, and spent 25-30 minutes discussing their initial thoughts. The researchers, both present in all sections for both class periods, circulated to provide clarification, inquire about thoughts, and stimulate continued discussion and thinking. The amount of discussion among these groups was impressive for the entire time, and they seemed to be talking about the case rather than the prior weekend's rivalry football game. One of the researchers then led a class discussion to see what ideas the groups had come up with prior to doing any specific research on the topic. This discussion was robust.

At the end of that class period, Parts B and C of the case were handed out with instructions for the students to do both individual research and have further group discussion prior to the following class period to determine how the accounting standards codification (ASC) either supported or varied from their original thoughts on the case. A short review of accessing the ASC, including the student login information, was also provided. A copy of the specific graded class assignment related to the case was also distributed.

During the second class period, students were first given a few minutes to finalize their group decisions after being told that each group should choose a spokesperson to report back to the class. Another 30-35 minutes was then used for groups to report back and for teacher-led discussion on the responses received. The feedback survey was then administered. The last part of the class period was used to cover additional material from the regular class content.

The form used to gather student feedback about the benefits of the case is provided in Appendix A. Students were given an informed consent document indicating that the completion of this form was voluntary. In addition, the researchers were not present in the room when the form was completed, and responses were anonymous, so there was no motivation for students to respond in a biased manner. Although there was a graded class assignment related to this case, neither that assignment nor its grade was tied to providing the voluntary feedback. The survey included several items rated on a Likert-type scale and two open-ended items for comments. The Likert-type items were rated by the students from strongly agree (5) to strongly disagree (1). Average ratings for these items are provided in Table 1.

TABLE 1
STUDENT FEEDBACK ON CASE—STRONGLY AGREE (5) TO STRONGLY DISAGREE (1)

Item	N	Mean
This case helped me to learn new information.	89	4.79
This case caused me to think critically about the issues presented.	89	4.83
The case presented a topic that was worthwhile to discuss.	89	4.42
The case content was interesting to me.	89	4.21
The instructions and background information in the case were clear.	89	4.40
This case was a positive learning experience.	89	4.66
The case requirements were appropriate for the material presented in the case.	89	4.65
Class discussion of this case improved my understanding of the case content.	89	4.74
Class discussion of this case caused additional critical thinking.	89	4.79

The results are reported for the three sections combined. Statistical tests did not indicate any difference in mean responses between the two sections of Intermediate Accounting. Further statistical tests compared the mean responses between the Intermediate Accounting students and the Advanced Financial Accounting students. These means were also not significantly different except for the third item, “The case presented a topic that was worthwhile to discuss.” For this item, the mean response from the advanced students (4.83, n=18) was significantly higher than the mean response from the intermediate students (4.31, n=71). We do not know if this difference is a result of accounting maturity in the curriculum or some other reason.

All means are above 4.0, several of them well above that mark, indicating a broad general agreement with these statements. The lowest mean (4.21) was on the item about the case being interesting to the students. We surmise this could be a result of students who were less engaged in the case, the case research, and their group discussions, perhaps because they did not fully understand the topic well enough to feel comfortable with it.

The first two and last two items in Table 1 had the highest means. These items indicated that the case, including the class discussion, helped the students learn new information and think critically about the issues in the case.

On the open-ended items in the survey, feedback indicated that some students would have felt more comfortable if more journal entries were presented to help them visualize the concepts focused on in the discussion. Perhaps an illustration of these journal entries with the associated effects on the income statement and balance sheet would have helped some students solidify the concepts better. A few students also indicated they needed more time for research in between the two class periods devoted to this case. The case was first used in class on Tuesday, followed by the second period the following Thursday. Some students may have also been helped with a requirement to verify the bond book values and interest expense amounts presented in the balance sheet and income statement. Had the students been required to prepare an amortization schedule for these bonds to verify those amounts, they may have had an easier time thinking about these specific bonds that were repurchased and held for resale.

Anecdotally, the group discussions in class were robust, although a few students were less engaged, perhaps from lack of understanding. Most of the students seemed engaged in the class discussions, and many of the students had obviously thought a lot about the issues presented. The researchers were pleased with the discussion, the support provided from the ASC, and the level of critical thinking among the individual students and within their groups.

FURTHER RESEARCH

This case has not covered the tax implications of repurchased bonds held for resale. An extension of the case would be to investigate these tax implications. How should the gains/losses be treated for tax purposes if the bonds are held for resale rather than being retired?

While the main objective of the case was for the students to investigate and consider the appropriate accounting for repurchased bonds held for resale, the case also implies that there might be legal implications for this type of transaction. An extension of the case would allow the students to investigate these legal issues as well. These issues can include insider trading and tender offer rules.

Another possible extension to this research might be to have the students consider the same topic assuming the company was buying back its bonds at a loss but holding them for future resale prior to maturity. In this case, the reason for the repurchase could be to avoid paying interest for a time until the money was needed again, at which time the bonds could be resold. We wonder if students would come up with different answers in the situation with a loss versus their answers with the gain situation described in the original case.

CONCLUSION

Companies may not frequently repurchase and retire their own bonds before maturity, but if they do, the concept of how to account for this early extinguishment is typically covered in intermediate accounting textbooks. However, these same textbooks do not discuss the treatment for bonds repurchased before maturity that are held for possible resale rather than being retired. Perhaps this type of transaction takes place so infrequently as to be unimportant to an already full topical coverage in the intermediate accounting sequence.

Because intermediate accounting textbooks do not cover this type of treasury bond, the case provided is a relevant extension of what is covered, allowing students to think critically about how repurchased bonds held for resale, along with the associated gain/loss from repurchase, would be presented in the financial statements. Although the Accounting Standards Codification (ASC) seems to have a fairly definitive answer to this type of transaction, the case allows students to agree or disagree with the current standards, perhaps presenting alternative presentation methods that might provide more useful accounting disclosure.

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APPENDIX

Case Feedback
Bond Repurchase Case

Likert Scale Items
Please indicate your agreement/disagreement with each of the following statements about the case (5=strongly agree; 1= strongly disagree).

	Strongly Agree				Strongly Disagree
This case helped me to learn new information.	5	4	3	2	1
This case caused me to think critically about the issues presented.	5	4	3	2	1
This case presented a topic that was worthwhile to discuss.	5	4	3	2	1
The case content was interesting to me.	5	4	3	2	1
The instructions and background information in the case were clear.	5	4	3	2	1
This case was a positive learning experience.	5	4	3	2	1
The case requirements were appropriate for the material presented in the case.	5	4	3	2	1
Class discussion of this case improved my understanding of the case content.	5	4	3	2	1
Class discussion of this case caused additional critical thinking.	5	4	3	2	1

Open Ended Questions
Please provide specific comments about how the case could be improved or clarified.

What additional material do you think should have been provided with the case or what material should have been left out of the case?