

## DryShips, Inc.

### Comment Letter Exercise for Intermediate Accounting I and II

As explained in the presentation, please obtain the following documents for DryShips, Inc. from the SEC's homepage. Read each document carefully and discuss in your group the answers to each one of the following questions. You will have 30 minutes to find the information and develop your answers. Please designate someone from your group/table to present the "consensus" answer and any disagreements.

#### **Document 1: Comment Letter dated May 29, 2008 from the SEC**

Read cover page of the SEC's Comment Letter dated May 29, 2008 written to Mr. George Economou, CEO and Interim CFO of DryShips, Inc. to answer the following questions:

1. What is the year end of the financial statements for which the SEC Staff has written this comment letter?
2. Which SEC Form was used by DryShips, Inc. to file its annual financial statements and why?

Read the first comment on page 2 under "Deferred Drydock Costs" to answer the following questions.

3. What is the company's policy to account for the drydock costs that it incurs?
4. Does the SEC staff agree with the Company's accounting policy? If not, why not?

#### **Document 2: Obtain the Form 20-F for the year ending December 31, 2007 to answer the following questions**

5. What is the business of DryShips, Inc?
6. What are drydock costs? What are the two components of the drydock costs that the company is capitalizing? What is the ending balance in the deferred charges account at the end of 2006 and 2007? Ignoring amounts, what journal entry might the company have prepared to defer drydock charges for each of these years? Explain how the accounting equation remained balanced as a result of the entry.
7. Over what period, does the company amortize the capitalized drydock costs? What authoritative accounting guidance does the company cite to support its decision to capitalize these costs?
8. As a result of following its policy of capitalization, how much did the company capitalize and amortized each year for the three years ending 2005, 2006, and 2007? Show journal entries for 2006 for the capitalization, amortization and sale of vessels.
9. Ignoring the opening balance in the Deferred Charges account and income taxes, calculate the impact on company's income statement due to its policy of capitalizing the drydocking costs for each of the three years ending 2005, 2006, and 2007.

**Comment [CD1]:** Delete underline since other section titles do not have an underline.

**Document 3: Obtain Company's response to the SEC dated June 18, 2008 to answer the following questions:**

10. How many vessels did the company dry-dock in 2005, 2006 and 2007? What were the components of the total cost that the company incurred as part of its dry-docking costs that it capitalized? From reading a description of these from the registrant's response is there any question whether these costs were repairs and maintenance or not?

11. Going forward, how is the Company proposing to account for the costs in question?

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**Document 4: Obtain the company's 20-F for the year ending December 31, 2008 to answer the following questions:**

12. Which, if any, external auditor reports discuss the change in accounting principle implemented retroactively by the company?

13. Review Deloitte's March 27, 2009 Report on the Company's internal controls issued under S-OX 404(b). In light of the accounting changes implemented by the company, what is the external auditor's conclusion on the effectiveness of DryShip's ICFR? Explain, why you agree or disagree with their conclusion.

14. Why is the retained earnings statement as of December 31, 2005 the only one adjusted retroactively for \$3,781 as a result of the change in accounting principle for accounting for dry-dock costs?

15. Which accounts are adjusted as a result of implementing this change in accounting principle for the 2007 year end?

16. If the company would have continued with its capitalization policy, by how much would its assets have increased for the year end December 31, 2008?

17. Would the retroactive application of FAS 154, (ASC 250) lead the company to report higher or lower vessel operating expenses during each one of the three preceding years: 2006, 2007, and 2008? If so, by how much?

18. By how much has the EPS of the company declined for 2006, 2007, and 2008 due to this change in accounting principle?