

FINANCIAL ACCOUNTING EXAM 1.1 SOLUTION

Question 1

Check your work carefully, no partial credit.

(1 point each, for a total of 4 points)

Part 1(a)

Record a journal entry for the following:

On December 1, 2012, CC's Music Store paid \$350 for insurance that will provide future benefits. The cost will be expensed when the benefits are realized in the future.

Prepay expenses with cash		
	Debit	Credit
Prepaid expenses	\$350	
Cash		\$350

Part 1(b)

Record a journal entry for the following:

During December 2012, CC's Music Store sold products to customers for \$1,700 of which \$1,100 was collected at the time of the sale and the remainder was fully expected to be collected within the next 30 days.

Recognize products revenue		
	Debit	Credit
Cash	\$1,100	
Accounts receivable	\$600	
Products revenues		\$1,700

Part 1(c)

Record a journal entry for the following:

During December 2012, the products sold cost \$500.

Recognize cost of sold products		
	Debit	Credit
Cost of sales	\$500	
Inventories		\$500

Part 1(d)

Record a journal entry for the following:

During December 2012, CC's Music Store recognized \$325 of selling, general, and administrative expense. \$200 was recognized when the company received invoices from its suppliers. The remaining expense was recognized when the company paid its suppliers.

Recognize SG&A expense (period)		
	Debit	Credit
Sales, general & administrative	\$325	
Cash		\$125
Accounts payable		\$200

Question 2

(1 point for each statement, for a total of 2 points)

Part 2(a)

Charlene's Quilts		
Balance Sheets		
Assets	31-Jan-12	01-Jan-12
Current		
Cash	\$755	\$0
Accounts receivable	100	0
Short-term investments	1,500	0
Inventories	600	0
Total current assets	2,955	0
Non-current	0	0
Total assets	\$2,955	\$0
Liabilities and Stockholders' Equity		
Liabilities		
Current		
Accounts payable	\$800	\$0
Accrued compensation and benefits	100	0
Income taxes payable	22	0
Total current liabilities	922	0
Non-current	0	0
Total liabilities	922	0
Stockholders' equity		
Common stock	2,000	0
Retained earnings	33	0
Total stockholders' equity	2,033	0
Total liabilities and stockholders' equity	\$2,955	\$0

Part 2(b)

Charlene's Quilts	
Comprehensive Income Statement	
January 1 - January 31, 2012	
(In Thousands)	
Operating profit	
Revenues	\$800
Cost of sales	(400)
Marketing general and administrative	(350)
Income from operations	50
Non-operating profit	
Interest income	5
Profit before taxes	55
Income tax expense	(22)
Net profit	33
Other comprehensive income	0
Comprehensive income	\$33

Question 3

You MUST CIRCLE the letter associated with the best response to receive credit.

(1/2 point each for a total of 1 point)

Question 3(i)

CIRCLE the letter associated with the best response.

Based on the available information in the exam and exam supplement, it is reasonable to conclude:

- (a) As of February 2, 2013, Dillards expected to collect \$31,519 thousand from its customers (or possibly others) during the next year.
- (b) Dillards didn't buy any inventories during the year ended February 2, 2013 because the merchandise inventories balance decreased from \$1,304,124 thousand to \$1,294,581 thousand. *(It's not reasonable to assume that only one event affects a balance.)*
- (c) Dillards spent \$1,671,526 thousand of cash on selling, general and administrative expenses during the year ended February 2, 2013. *(It's not reasonable to assume that all expenses were cash.)*
- (d) (a) and (b)
- (e) (a) and (c)

Question 3(ii)

CIRCLE the letter associated with the best response.

Based on the assumptions and available information in the exam and supplement, it is reasonable to conclude:

- (a) Dillards received more contributions from owners than it distributed to owners in dividends and stock repurchases during the year ended February 2, 2013.
- (b) Dillards other comprehensive income was positive during the year ended February 2, 2013 and negative during the year ended January 28, 2012 (representing a loss).
- (c) Dillards other comprehensive income during the year ended February 2, 2013 equals its comprehensive income less net income recognized during the year ended February 2, 2013.
- (d) (a) and (c)
- (e) (b) and (c)

Question 4

Part 4(a)

Record a single journal entry that summarizes the entries Dillards recorded during the year ended February 2, 2013 to declare dividends and the entries Dillards recorded to pay dividends (as indicated in the exam note) to all shareholders who have claims on the net assets controlled by Dillards.

(1 point)

	Debit	Credit
Retained earnings	\$249,844	
Dividends payable	\$2,497	
Cash		\$252,341

Part 4(b)

Determine the direct effect(s) on the following Dillards metrics for fiscal 2012, everything else equal, for the entry in Part 4(a) [that summarizes the entries Dillards recorded to declare dividends and the entries Dillards recorded to pay dividends during the year ended February 2, 2013]. Ignore taxes.

(1/4 point per ratio, for a total of 1 point.)

	Increases	Decreases	No Effect
Working capital (current assets - current liabilities)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Asset turnover (revenues / average assets)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Profit margin (pretax profit / revenues)	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Return on equity (ROE) (net profit / average owners' equity)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Question 5

Record a single journal entry that summarizes the entries Dillards recorded during the year ended February 2, 2013 for its purchase of treasury stock with cash.

(1 point)

	Debit	Credit
Treasury stock (contra owners' equity)	\$185,536	
Cash		\$185,536

Question 6

Part 6(a)

Record a journal entry that recognizes Dillard's advertising expense during the year ended February 2, 2013 (fiscal 2012), given the above assumptions.

	Debit	Credit
Sales, general & administrative	\$77	
Cash		\$14
Prepaid expenses		\$25
Accrued liabilities		\$38

Source: Exam Advertising disclosure excerpt and assumptions

Part 6(b)

Identify the Dillard's financial statement line items that would have been directly affected (and the direction of the effects) if Dillard's had recorded the journal entry in Part 6(a) for advertising expense during the year ended February 2, 2013, given the assumptions in 6(a).

(1/2 point per statement, for a total of 2 points.)

Balance Sheet			Statement of Stockholders' Equity		
Line Items	Increases	Decreases	Line Items	Increases	Decreases
Cash and cash equivalents	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Net income	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other assets	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Trade accounts payable and accrued expenses	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Retained earnings	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Income Statement					
Line Items	Increases	Decreases			
Selling, general and administrative expenses	<input checked="" type="checkbox"/>	<input type="checkbox"/>			
	<input type="checkbox"/>	<input type="checkbox"/>			
	<input type="checkbox"/>	<input type="checkbox"/>			

Question 7

YOU MUST WRITE CLEARLY WITHIN THE GIVEN EXAM SPACE TO RECEIVE CREDIT.

If, in our sole judgment, we can not read your response you will not receive full credit.

(total of 10 points)

While there aren't correct responses to this portion of the exam, some are definitely better than others.

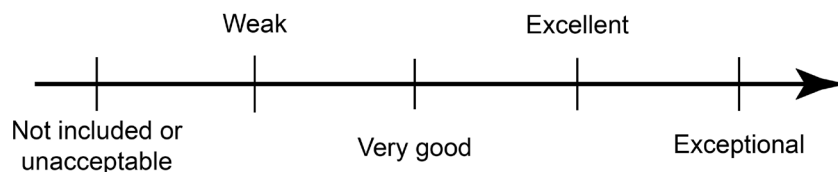
Below is a feedback form students received, along with their score out of 10 points.

Feedback Form

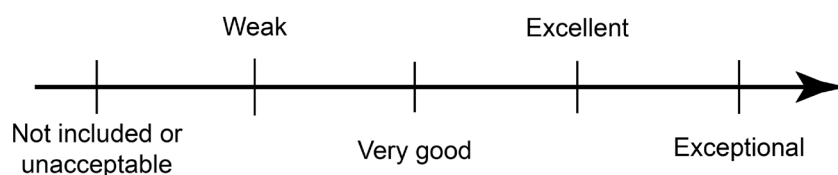
Question 7 asked you to make and defend a claim related to the following question: Which company appears to have the better future prospects at the most recent balance sheet dates, taking into consideration expected future ROEs and risks. Based on the information in the case and concepts covered thus far, there are excellent arguments on both sides. Hence, your responses were scored based on their overall merit and on the ratings below. You scored higher to the extent your analyses integrated business issues with patterns in the tabular data and your topic sentences were concise arguments (versus facts) substantiated with evidence, facts and/or logic.

The “X” on the scales below indicates how we rated this aspect of your response.

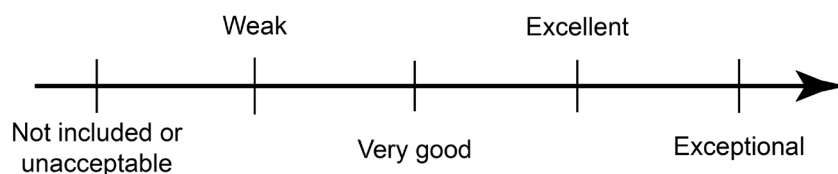
- **Expected future ROEs:**



- **Expected future risk:**



- **Other factors:** You rated higher on the scale below to the extent you raised other points that bolstered your position and we found them compelling.



- **Writing:** You rated higher on the scale below to the extent your response was well organized and written clearly, concisely, and persuasively.

