Financial Accounting Exam 1.2

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- The exam packet is comprised of :

  1. This 25-page exam document, which contains the questions you are to answer, and excerpts from VF Corporation's footnotes. **Write all of your answers in this document, put your name on each page, and submit this document for grading.**
  2. The exam supplement, which contains a chart of accounts for **all** exam entries, BSE matrix for a fictitious company, and financial statements from VF Corporation's fiscal 2011 annual report.
     - VF Corporation's (VF) fiscal 2011 year ended on December 31, 2011.
     - VF is a U.S. based global apparel and footwear company that designs and manufactures or sources a variety of products, including jeanswear, outerwear, footwear, packs, luggage, sportswear, occupational and performance apparel. Products are marketed globally primarily under VF-owned brand names including *Timberland®, Vans®, Reef®, Kipling®, Napapijri®, 7 For All Mankind®, lucy®, Splendid® and Ella Moss.®* (2011 annual report)
  3. Scrap paper. Additional scrap paper is available at the front of the room.
- There are 20 possible points on the exam that can be applied to your course grade. Except for the essay portion of the exam, partial credit will not be awarded, so check your answers carefully.
- The exam is closed book and closed notes.
- You cannot use a laptop, tablet, cell phone, or other communication or mobile device.
- You may bring a calculator for your individual use (not to be shared with others), but your calculator must not contain course related information. We reserve the right to inspect your calculator and, in our sole judgment, deem it inappropriate for use during the exam. We will have basic calculators available for you to borrow.
- You may bring a hardcopy dictionary and/or a hardcopy grammar/style book for your individual use (not to be shared with others), but it must not contain course related information, either as handwritten notes or attached/inserted notes. No electronic dictionaries or grammar/style books allowed. We reserve the right to inspect your dictionary and grammar/style book before the exam and randomly during the exam. As a result, we may, in our sole judgment, deem it inappropriate for use during the exam.
- You are required to TURN IN ALL MATERIALS when you have finished the exam, including the exam document, the exam supplement, and all scrap paper (provided). Moreover, once the exam starts, you may not take any materials from the room, including the above and your dictionary or grammar/style book, if you brought them.
- If, in our sole judgment, we cannot read your responses to question 7, you will not receive full credit. If it's determined we cannot read your responses, you will be contacted and given an opportunity to type up your responses EXACTLY as written in your exam by a given time. No content changes are allowed. In this case, you will be penalized 1 point for not writing clearly.
- Regardless of one's intent, staring at classmates' exams is inappropriate. If you wish to take a break from staring at your exam, stare directly ahead or to either side without looking down.

Question 1

For parts (a) - (d) you are to record journal entries for M&E Professional Services Store.
(1) Write your journal entry in the space provided below each question. (2) Use the *most* appropriate accounts from the chart of accounts in the exam supplement (it contains some accounts that are not appropriate).
(1/2 point each, for a total of 2 points)

Part 1(a)

Record a journal entry for the following:

On January 1, 2013, M&E Professional Services purchased $150 of office supplies with cash. The company's policy is to recognize selling, general, and administrative expense for office supplies at the time of the purchase.

Note: Four rows have been provided, but you may not need them all.

	Debit	Credit

Part 1(b)

Record a journal entry for the following:

On January 1, 2013, M&E Professional Services collected $5,000 cash for services to be delivered during the next twelve months. The company's policy is to recognize service revenues evenly over the subsequent twelve months, starting at the end of the month fees are collected.

Note: Four rows have been provided, but you may not need them all.

	Debit	Credit

Part 1(c)

Record a journal entry for the following:

On January 31, 2013, M&E Professional Services recognized $400 of selling, general, and administrative expense for employee compensation that was earned, but not yet paid by the end of the month.

Note: Four rows have been provided, but you may not need them all.

	Debit	Credit

Part 1(d)

Record a journal entry for the following:

On January 31, 2013, M&E Professional Services received $4 thousand cash when it sold computer equipment with $10 thousand of historical cost and $5 thousand of accumulated depreciation. Consistent with U.S. GAAP, M&E Professional Services does not recognize unrealized gains associated with PP&E.

Note: Four rows have been provided, but you may not need them all.

	Debit	Credit

Question 2

For parts (a) - (b) you are to create a balance sheet and comprehensive income statement for Gordon's Sports Car Auto Parts Company after you complete the closing entries in the **BSE matrix in the separate exam supplement**. You will not receive credit for completing the BSE matrix.
(1/2 point for each statement, for a total of 1 point)

Part 2(a)

Complete the following balance sheet Gordon's Sports Car Auto Parts Company:

Gordon's Sports Car Auto Parts Company
Balance Sheets

Assets	**31-Dec-12**	**01-Dec-12**
Current		
Cash	______	$0
Accounts receivable	______	0
Short-term investments	______	0
Inventories	______	0
Total current assets	______	**0**
Non-current	______	0
Total assets	______	**$0**
Liabilities and Stockholders' Equity		
Liabilities		
Current		
Accounts payable	______	$0
Accrued compensation and benefits	______	0
Income taxes payable	______	0
Total current liabilities	______	**0**
Non-current	______	0
Total liabilities	______	0
Stockholders' equity		
Common stock	______	0
Retained earnings	______	0
Total stockholders' equity	______	0
Total liabilities and stockholders' equity	______	**$0**

Part 2(b)

Complete the following comprehensive income statement for Gordon's Sports Car Auto Parts Company:

Gordon's Sports Car Auto Parts Company
Comprehensive Income Statement

December 1 - December 31, 2012	
Operating profit	
Revenues	
Cost of sales	
Marketing general and administrative	
Profit from operations	
Non-operating profit	
Interest income	
Profit before taxes	
Tax expense	
Net profit	
Other comprehensive income	0
Comprehensive income	

Question 3

RELEVANT INFORMATION for QUESTION 3
The format for parts (i)-(ii) of question 3 is the same as the format for clicker questions discussed during class. **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) VF collected $9,365,477 thousand cash from customers during fiscal 2011.

(b) VF spent $382,951 thousand cash on inventories during fiscal 2011. ($1,453,645 - $1,070,694)

(c) VF customers owe the company $1,174,256 thousand at the end of fiscal 2011. ($1,120,246 + $54,010).

(d) (a) and (b)

(e) (a), (b) and (c)

Question 3(ii)

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) VF's Consolidated Balance Sheets report 100% of the assets and liabilities of at least one entity for which VF owns less than 100% of the equity claims.

(b) VF's cumulative earnings for all years prior to and including fiscal 2011 is $2,520,804 thousand.

(c) VF's total comprehensive income is $737,281 thousand for fiscal 2011.

(d) (a) and (c)

(e) (b) and (c)

Question 4

RELEVANT INFORMATION for QUESTION 4

Base your responses to parts (a)-(c) on VF's financial statements in the exam supplement and the following excerpts from VF's footnotes. (Note: footnote is in millions and the table is in thousands.)

Marketing, Administrative and General Expenses includes costs of product development, selling, marketing and advertising, VF-operated retail stores, warehousing, shipping and handling, licensing and administration. Advertising costs are expensed as incurred and totaled $539.9 million in 2011, $426.8 million in 2010 and $327.3 million in 2009.

VF Corporation 2011 10-K, page F13

Note J — Accrued Liabilities

	2011	2010
	In thousands	
Compensation	$ 187,053	$155,563
Deferred compensation (Note M)	25,613	23,000
Income taxes	17,284	10,499
Deferred income taxes (Note P)	9,740	6,897
Other taxes	94,893	72,013
Advertising	38,880	31,461
Customer discounts and allowances	35,725	30,412
Interest	17,360	10,451
Unrealized losses on hedging contracts (Note U)	19,326	25,440
Insurance	21,118	23,215
Product warranty claims (Note L)	13,791	12,334
Pension liabilities (Note M)	7,965	5,873
Freight, duties, and postage	40,220	16,956
Construction obligation (Note E)	22,648	—
Other	192,870	135,050
Accrued liabilities	$ 744,486	$559,164

VF Corporation 2011 10-K, page F23

Part 4(a)

Record a journal entry for the total amount (in thousands) of advertising expense VF recognized during fiscal 2011. For the purposes of this question, assume the advertising obligation at the end of fiscal 2011 was all associated with the fiscal 2011 expense and the remainder paid in cash. (1 point)

(1) Write your journal entry in the space provided below. (2) Use the *most* appropriate accounts from the chart of accounts in the exam supplement (it contains some accounts that are not appropriate).

Note: Four rows have been provided, but you may not need them all.

	Debit	Credit

Part 4(b)

Identify the VF financial statement line items that would have been directly affected (and the direction of the effects) if VF had recorded the journal entry in Part 4(a) for advertising expense during the year ended December 31, 2011.
(1/2 point per statement, for a total of 1 1/2 points.)

If an incorrect entry in part 4(a) leads to errors here, you won't receive credit here. Thus, check your part 4(a) entry carefully.

Guidance:

(1) Determine the appropriate line item(s) affected using VF's statements. For example, write "cash and equivalents" rather than "cash" because this is on VF's balance sheet.

(2) Include line item(s) directly affected, including the effect(s) of closing entries for events affecting income. Ignore taxes.

(3) Don't include totals or sub-totals indirectly affected by the entry. For example, don't report "net income" on the income statement. However, net income is NOT a total on the statement of stockholders' equity.

(4) Three lines were included below for each statement, but you may need none or more than one line. **For full credit, write "NONE" if no line item is effected on the statement.**

(5) Indicate if the effect(s) of the entry associated with the above event increased or decreased the line item. Put an X in the appropriate column if the above event increases or decreases that line item. For full credit, be sure to mark only one box in each statement's row. **NOTE: If a reported negative number changes from -2 to -3, it decreases; if it changes from - 2 to - 1, it increases.**

(6) You won't receive credit for a statement if you list line items not affected by the entry: don't guess!

Balance Sheets

Line Items	Increases	Decreases
______________________	☐	☐
______________________	☐	☐
______________________	☐	☐

Statements of Stockholders' Equity

Line Items	Increases	Decreases
______________________	☐	☐
______________________	☐	☐
______________________	☐	☐

Statements of Income

Line Items	Increases	Decreases
______________________	☐	☐
______________________	☐	☐
______________________	☐	☐

Part 4(c)

Determine the direct effect(s) on the following VF metrics for fiscal 2011, everything else equal if VF had recorded the journal entry in Part 4(a) for advertising expense during the year ended December 31, 2011. Ignore taxes.
(1/2 point per ratio, for a total of 1 1/2 points.)

If an incorrect entry in part 4(a) leads to errors here, you won't receive credit here. Thus, check your part 4(a) entry carefully.

Guidance:
Include the direct affects, including the effect(s) of closing entries for events affecting income.

You must put an "X" in the appropriate box to receive credit. You will not receive credit if you put an X in more than one box per metric.

	Increases	Decreases	No Effect
Working capital (current assets - current liabilities)	☐	☐	☐
Gross margin ((revenues - cost of sales) / revenues)	☐	☐	☐
Profit margin (pretax profit / revenues)	☐	☐	☐

Question 5

RELEVANT INFORMATION for QUESTION 5

Base your responses to part (a) on VF's financial statements in the exam supplement and the following excerpts from VF's footnotes.

> Licensing arrangements relate to a broad range of VF brands... Each licensee pays royalties to VF based on its sales of licensed products, with most agreements providing for a minimum royalty requirement.
> *VF Corporation 2011 10-K, page 9*
>
> Royalty Income is recognized as earned based on the greater of the licensees' sales of licensed products at rates specified in the licensing contracts or contractual minimum royalty levels.
> *VF Corporation 2011 10-K, pages F18*

Part 5(a)

Record a journal entry to accrue the total amount (in thousands) of royalty income VF recognized during fiscal 2011. For the purposes of this question, assume royalty income is accrued prior to receipt of cash and no royalty income has been deferred. Ignore any related costs or expenses.

(1 point)

(1) Write your journal entry in the space provided below. (2) Use the *most* appropriate accounts from the chart of accounts in the exam supplement (it contains some accounts that are not appropriate).

Note: Four rows have been provided, but you may not need them all.

	Debit	Credit

Question 6

RELEVANT INFORMATION for QUESTION 6

Base your responses to part (a) on VF's financial statements in the exam supplement.

Part 6(a)

Record a journal entry that combines the entries VF recorded during the year ended December 31, 2011 to declare dividends (in thousands).

(1 point)

(1) Write your journal entry in the space provided below. (2) Use the *most* appropriate accounts from the chart of accounts in the exam supplement (it contains some accounts that are not appropriate).

Note: Four rows have been provided, but you may not need them all.

	Debit	Credit

NAME________________________________

Question 7

RELEVANT INFORMATION for QUESTION 7
The format for question 7 requiring analyses is similar to the group assignments.

While there aren't correct responses to the question, some are definitely better than others. Generally, responses are better to the extent they are well organized, concise, use proper grammar, identify the most important arguments, counterarguments, and rebuttals, include appropriate qualifiers, and provide insights regarding the way you assessed the relative merits of the arguments, counterarguments and rebuttals.

Additionally, responses must cite sources and use quotation marks when copying word for word.

YOU MUST WRITE CLEARLY WITHIN THE GIVEN LINES TO RECEIVE CREDIT. YOU DO NOT NEED TO USE ALL THE SPACE TO RECEIVE FULL CREDIT. THE MARGINS ARE RESERVED FOR GRADING COMMENTS.
If, in our sole judgment, we can not read your response you will not receive full credit.
(total of 10 points)

Required

In this question, you will explore the financial postion and recent performance of two retail department stores: Macy's Inc. and Nordstrom Inc. Your analysis will be based solely on the provided background information from several articles, the companies' annual reports, and the tabular data herein.

Based solely on concepts covered thus far in the course and the provided background information and tabular data, which company, Macy's or Nordstrom, appears to have had stronger performance during fiscal years 2009-2011 and have a stronger financial position at the end of fiscal 2011?

> **Note:** If you conclude one company had stronger performance during fiscal 2009-2011 and the other a stronger financial position at the end of fiscal 2011: (1) Select one of the companies as the overall strongest having considered both performance and financial position; (2) In your opening remarks, state that you concluded one company had stronger performance and the other a stronger financial position; and (3) incorporate these relative strengths into your arguments, counterarguments, and the confidence you attribute to your claim.

Respond to this question by completing the templates in Parts I-III.

Background Information

Excerpts from February 21, 2012 Wall Street Journal Article

> "Macy's Inc. reported a 12% rise in fiscal-fourth-quarter earnings following a strong holiday performance by the department store operator. …
>
> Macy's has been one of the strongest performers in an intensely competitive retail environment that continues to challenge many peers. Reporting quarterly sales earlier this month, Chief Executive Terry J. Lundgren touted the company's fourth quarter as its strongest in many years.
>
> For the quarter ended Jan. 28, Macy's reported a profit of $745 million, or $1.74 a share, up from a year-earlier profit of $667 million, or $1.55 a share.
>
> Macy's earlier this month reported sales for the quarter rose 5.5% to $8.72 billion, topping the $8.7 billion expected by analysts. Same-store sales were up 5.2%. ["same-store sales" are sales for stores that were open during the entire prior reporting period and current reporting period.]
>
> The retailer again recorded solid demand from shoppers online, helping it post a 40% leap in online sales in the fourth quarter."

"Macy's, Saks Post Strong Earnings Gains", Mia Lamar and Tess Stynes, The Wall Street Journal, February 21, 2012

Excerpts from February 28, 2012 Investopedia Article

"The department store operator [Macy's] closed out its fiscal year in solid fashion ... with solid sales and profit growth. More impressively, it is growing in a sluggish economy and outperforming competitors that have also been in the business for many decades. It is also realizing that affordable luxury pays, which is what a more upscale rival has been pursuing for some time. …

Sales advanced 5.6% to $26.4 billion. This came despite a closure of 12 stores, though four new locations were opened and a store was reopened after flooding. Same store sales growth of 5.3% drove the majority of the improvement and online sales through the Macy's and Bloomingdales websites, which jumped 39.6% and boosted the comparable sales results by 1.7 percentage points. …

For the coming year, management plans to open two namesake stores as well as five Bloomingdale's Outlet locations. Like upscale rival Nordstrom (NYSE:JWN), which is opening its Nordstrom Rack discount stores at a steady clip, Macy's has realized the appeal of affordable luxury. Bloomingdales competes with Nordstrom and Saks (NYSE:SKS) at the higher end of the department store industry. …

There is still room for improvement as the economy improves, which should benefit its core customer base of middle class consumers."

"Macy's Remains Fashionable", Ryan C. Fuhrmann, Investopedia, February 28, 2012

Excerpts from February 20, 2012 Verdict Article

[note: Author incorrectly referred to the calendar year as fiscal year, e.g. FY2012 is FY2011, etc.]

"Luxury department store operator Nordstrom has reported 12.7% revenue growth in FY2012, outperforming other US department stores Macy's, Kohl's, and Dillard's. While the economic difficulties in the US market have heavily impacted other players, such as Sears and JCPenney, Nordstrom has bounced back from a poor FY2009, having benefitted from demand for high quality luxury goods.

US retailer Nordstrom has recorded sales of $10,497m for the year ending January 28, 2012, the first time it has reached over $10bn. While its group like-for-like sales growth slowed on the previous year, increasing by 7.2% compared to the 8.1% reported in FY2011, its sales performance is impressive considering the saturated nature of the US department store market, which Verdict estimates achieved growth of just 2.1% in 2011. Moreover, given the current climate, where disposable incomes remain squeezed and consumers are making far more considered purchases, its luxury positioning has appealed to consumers wanting to purchase good quality, special items in an aspirational store environment, helping to justify the higher price points.

As another route to market, the retailer has sought growth by diversifying into the discount sector, which has piqued consumer interest in the US, with its Nordstrom Rack fascia, allowing it to attract price-sensitive consumers and a broader audience than its core luxury department store chain. Nordstrom has aggressively expanded its Rack business, opening 18 new stores in FY2012 and achieving sales growth of 21% to reach over $2bn in revenue. The fascia has resonated well with cash-conscious shoppers, with like-for-like sales reaching 3.7% in FY2012, exceeding the previous year's like-for-like growth by three percentage points.

While the retailer's discount fascia has been a key part of its recent success, it is its core upmarket department store and its online arm that continue to generate strong revenues, with 8.2% like-for-like growth in FY2012. Nordstrom has invested in the business wisely, improving its online offer and focusing on enhancing customer service, enabling it to justify its premium prices.

The retailer has sought to enhance its relationship with shoppers in an effort to strengthen customer loyalty to both physical stores and online. Initiatives such as free delivery and returns for online purchases, which it launched in August 2011, incentivize customers to spend through the channel and can be particularly influential in customer purchasing decisions. With an investment of $140m in its e-commerce business planned for FY2013, the retailer is now looking to introduce same-day delivery for online purchases as well as extending its online product offer.

It has also strived to improve customer service instore, increasing the number of personal stylists in order to enhance customers' shopping experience; as well as rolling out mobile point-of-sale devices across its store network, offering complete convenience to customers when purchasing, as well as increased speed. In addition, its Fashion Rewards loyalty program has been revamped, giving cardholders more control over how and when they earn reward points, and extra benefits such as free alterations."

"Nordstrom's strong customer service boosts sales amid a challenging US market", Kate Ormrod, Verdict, February 20, 2012

Excerpts from Macy's Inc.'s Fiscal 2011 10K Annual Report

"The Company is a retail organization operating stores and Internet websites under two brands (Macy's and Bloomingdale's) that sell a wide range of merchandise, including apparel and accessories (men's, women's and children's), cosmetics, home furnishings and other consumer goods in 45 states, the District of Columbia, Guam and Puerto Rico. As of January 28, 2012, the Company's operations were conducted through Macy's, macys.com, Bloomingdale's, bloomingdales.com and Bloomingdale's Outlet which are aggregated into one reporting segment. …

In 2010, the Company piloted a new Bloomingdale's Outlet store concept. Bloomingdale's Outlet stores are each approximately 25,000 square feet and offer a range of apparel and accessories, including women's ready-to-wear, men's, children's, women's shoes, fashion accessories, jewelry, handbags and intimate apparel.

Macy's Inc.'s 2011 10K, page 13

"Net income for 2011 was $1,256 million, compared to net income of $847 million for 2010, reflecting the benefits of the key strategies at Macy's, the continued strong performance at Bloomingdale's and higher income from credit operations. …

Net sales for 2011 totaled $26,405 million, compared to net sales of $25,003 million for 2010, an increase of $1,402 million or 5.6%. On a comparable store basis, net sales for 2011 were up 5.3% compared to 2010. Sales from the Company's Internet businesses in 2011 increased 39.6% compared to 2010 and positively affected the Company's 2011 comparable store sales by 1.5%. …

By family of business, sales in 2011 were strongest in cosmetics and fragrances, handbags, watches, men's, home textiles and furniture. …

Sales in 2011 were less strong in women's traditional casual apparel, juniors and cold weather merchandise."

Macy's Inc.'s 2011 10K, page 14

"Receivables were $368 million at January 28, 2012, compared to $338 million at January 29, 2011. In connection with the sale of most of the Company's credit card accounts and related receivable balances to Citibank, the Company and Citibank entered into a long-term marketing and servicing alliance pursuant to the terms of a Credit Card Program Agreement ..."

Macy's Inc.'s 2011 10K, page F13

NOTE: This means Macy's sells its accounts receivables to Citibank for cash and then Citibank collects the cash from customers. This decreases Macy's accounts recievables and increases cash.

Macy's fiscal 2009-2011 statements of cash flows report Macy paid shareholders $504, $1, and $1 million to repurchase shares, respectively, during these years. It also reports Macy paid shareholders cash dividends of $148, $84, and $84, respectively, during these years.

Macy's Inc.'s 2011 10K, page F7

NOTE: Macy's records share repurchases by decreasing cash and increasing Treasury shares, which is a negative owners' equity account (or contra equity) that is included in "Other stockholders' equity" in the balance sheet information provided later. This is one of two acceptable methods to record share repurchases under US GAAP (Nordstrom's uses the other method, which is described later.)

Macy's fiscal 2009-2011 statements of cash flows report Macy issued $800, $0, and $0 million of long-term debt, respectively, during these years. It also reports Macy repaid $454, $1,245, and $966, respectively, during these years.

Macy's Inc.'s 2011 10K, page F7

Excerpts from Nordstrom Inc.'s Fiscal 2011 10K Annual Report

"Nordstrom is a fashion specialty retailer offering high-quality apparel, shoes, cosmetics and accessories for women, men and children. We offer a wide selection of brand name and private label merchandise through various channels: our 'Nordstrom' branded full-line stores and website, our off-price 'Nordstrom Rack' stores, our online private sale subsidiary 'HauteLook,' our 'Jeffrey' boutiques and our philanthropic 'treasure&bond' store.

Our stores are located in 30 states throughout the United States. In addition, we offer our customers a variety of payment products and services, including credit and debit cards with an associated loyalty program.

In 2011, we achieved record total net sales of $10,497 [excluding credit card revenues of $380], an increase of 12.7%, while growing earnings before interest and taxes ("EBIT") by 11.7%. …

To enhance the customer experience online, we have accelerated our investments in e-commerce. We acquired HauteLook, a leader in the online private sale marketplace. We believe this acquisition will help us further develop our mobile and e-commerce capabilities and enable us to participate in the fast-growing private sales channel. …

Our strong financial position enables us to continue to make investments in the customer experience to improve our store and online business while also growing through new stores, remodels and other initiatives. During 2011, we opened three Nordstrom full-line stores, eighteen Nordstrom Rack stores and remodeled six Nordstrom full-line stores. We also opened a philanthropic store in New York called treasure&bond."

Nordstrom Inc.'s 2011 10K, page 19

"Our Credit segment includes our wholly owned federal savings bank, Nordstrom fsb, through which we provide a private label credit card, two Nordstrom VISA credit cards and a debit card. The credit and debit cards feature a shopping-based loyalty program designed to increase customer visits and spending. Although the primary purpose of our Credit business is to foster greater customer loyalty and drive more sales, we also generate revenues through finance charges and other fees on these cards."

Nordstrom Inc.'s 2011 10K, page 4

"Nordstrom net sales for 2011 were $8,426 [for full-line stores only], an increase of 9.4% compared with 2010, with same-store sales up 8.2%. Our sales growth was due in large part to our investments and efforts to build stronger relationships with customers and to improve the shopping experience across all channels.

In addition, our merchandising, inventory management and multi-channel initiatives continue to drive our sales growth. Both the average selling price and the number of items sold increased in 2011 compared with 2010. Category highlights included Designer, Handbags and Shoes."

Nordstrom Inc.'s 2011 10K, page 20

"Our inventory turnover rate [cost of sales/ average inventories] remained in-line with the high rate achieved in 2010, reflecting the strong execution and discipline of our buying organization and the ongoing benefits from our multi-channel capabilities that contributed to a flow of fresh merchandise throughout the year."

Nordstrom Inc.'s 2011 10K, page 21

"Off-Balance Sheet Arrangements. We enter into commitments to extend credit to customers for use at third parties through our Nordstrom VISA credit cards. The unused credit card capacity available to our customers represents an off-balance sheet commitment. As of January 28, 2012, this unfunded commitment was $14,284 [million]. We had no other off-balance sheet arrangements, other than operating leases entered into in the normal course of business, during 2011."

Nordstrom Inc.'s 2011 10K, page 34

"Accounts receivable includes credit card receivables from our Nordstrom private label and VISA credit cards, as well as credit and debit card receivables due from third party financial institutions. We record credit card receivables on our consolidated balance sheets at the outstanding balance, net of an allowance for credit losses. The allowance for credit losses reflects our best estimate of the losses inherent in our receivables as of the balance sheet date, including uncollectible finance charges and fees. We estimate such credit losses based on several factors, including historical aging and delinquency trends, write-off experience, concentration and risk metrics and general economic conditions. Credit card receivables constitute unsecured consumer loans, for which the risk of cardholder default and associated credit losses tend to increase as general economic conditions deteriorate."

Nordstrom Inc.'s 2011 10K, page 44

Nordstrom's fiscal 2009-2011 statements of cash flows report Nordstrom paid shareholders $840, $84, and $0 million to repurchase shares, respectively, during these years. It also reports Nordstrom paid shareholders cash dividends of $197, $167, and $139 , respectively, during these years.

Nordstrom Inc.'s 2011 10K, page 41

NOTE: Nordtrom's records share repurchases by decreasing cash, decreasing common stock by the amount the shares were originally issued for at an earlier date, and decreasing retained earnings for the amount the shares increased in value since they were originally issued. This is one of two acceptable methods to record share repurchases under US GAAP (Macy's uses the other method, which was described earlier.)

Nordstrom's fiscal 2009-2011 statements of cash flows report Nordstrom issued $824, $498, and $399 million of long-term debt, respectively, during these years. It also reports Nordstrom repaid $6, $356, and $300, respectively, during these years.

Nordstrom Inc.'s 2011 10K, page 41

Comparing Properties in the Retail Industry

Numbers below are disclosed in the company's footnotes.

	Macy's Inc			**Nordstrom Inc.**		
	fiscal 2011	**year end fiscal 2010**	**fiscal 2009**	**fiscal 2011**	**year end fiscal 2010**	**fiscal 2009**
	28-Jan-12	29-Jan-11	30-Jan-10	28-Jan-12	29-Jan-11	30-Jan-10
PROPERTIES						
Number of stores, beginning of year	850	850	847	204	184	169
Stores opened and other expansions	4	7	9	22	20	16
Stores closed	(12)	(7)	(6)	(1)	-	(1)
Number of stores, end of year	**842**	**850**	**850**	**225**	**204**	**184**

Source: Companies' websites
See accompanying notes in annual reports.

NAME______________________________

Comparing Balance Sheets in the Retail Industry

Numbers below are either disclosed on the company's balance sheets with similar captions or they combine numbers with related captions.

	Macy's Inc				Nordstrom Inc.			
	year end				year end			
	fiscal 2011	fiscal 2010	fiscal 2009	fiscal 2008	fiscal 2011	fiscal 2010	fiscal 2009	fiscal 2008
	28-Jan-12	29-Jan-11	30-Jan-10	31-Jan-09	28-Jan-12	29-Jan-11	30-Jan-10	31-Jan-09
Assets	USD Millions $				USD Millions $			
Current assets								
Cash and cash equivalents	2,827	1,464	1,686	1,385	1,877	1,506	795	72
Receivables	368	338	358	360	2,033	2,026	2,035	1,942
Inventories	5,117	4,758	4,615	4,769	1,148	977	898	900
Other current assets	465	339	223	226	502	315	326	303
Total current assets	**8,777**	**6,899**	**6,882**	**6,740**	**5,560**	**4,824**	**4,054**	**3,217**
Property, plant and equipment net	8,420	8,813	9,507	10,442	2,469	2,318	2,242	2,221
Other non-current assets	4,898	4,919	4,911	4,963	462	320	283	223
Total assets	**22,095**	**20,631**	**21,300**	**22,145**	**8,491**	**7,462**	**6,579**	**5,661**
Liabilities								
Current liabilities								
Accounts payable	4,381	3,946	3,938	3,910	917	846	726	563
Other current liabilities	1,882	1,045	524	1,216	1,658	1,033	1,288	1,038
Total current liabilities	**6,263**	**4,991**	**4,462**	**5,126**	**2,575**	**1,879**	**2,014**	**1,601**
Long-term debt (less current maturities)	6,655	6,971	8,456	8,733	3,141	2,775	2,257	2,214
Other noncurrent liabilities	3,244	3,139	3,729	3,640	819	787	736	636
Total liabilities	**16,162**	**15,101**	**16,647**	**17,499**	**6,535**	**5,441**	**5,007**	**4,451**
Stockholders' equity								
Common stock (paid-in capital less treasury stock)	2,979	3,270	3,179	3,124	1,484	1,168	1,066	997
Retained Earnings	4,015	2,990	2,227	2,008	517	882	525	223
Other stockholders' equity	(1,061)	(730)	(753)	(486)	(45)	(29)	(19)	(10)
Noncontrolling interests	-	-	-	-	-	-	-	-
Total stockholders' equity	**5,933**	**5,530**	**4,653**	**4,646**	1,956	2,021	1,572	1,210
Total liabilities and shareholders' equity	**22,095**	**20,631**	**21,300**	**22,145**	**8,491**	**7,462**	**6,579**	**5,661**
RATIOS								
Level 1								
Financial leverage (year-end)								
Liabilities/assets	73%	73%	78%	79%	77%	73%	76%	79%
Level 2								
Working capital	2,514	1,908	2,420	1,614	2,985	2,945	2,040	1,616
Current assets - current liabilities								
Current ratio	1.40	1.38	1.54	1.31	2.16	2.57	2.01	2.01
Current assets/ current liabilities								
Level 3								
Common Size Balance Sheet								
Line item/total assets								
Assets								
Cash and cash equivalents	13%	7%	8%	6%	22%	20%	12%	1%
Receivables	2%	2%	2%	2%	24%	27%	31%	34%
Inventories	23%	23%	22%	22%	14%	13%	14%	16%
Other current assets	2%	2%	1%	1%	6%	4%	5%	5%
Total current assets	40%	33%	32%	30%	65%	65%	62%	57%
Property, plant and equipment net	38%	43%	45%	47%	29%	31%	34%	39%
Other non-current assets	22%	24%	23%	22%	5%	4%	4%	4%
Total assets	100%	100%	100%	100%	100%	100%	100%	100%
Liabilities								
Accounts payable	20%	19%	18%	18%	11%	11%	11%	10%
Other current liabilities	9%	5%	2%	5%	20%	14%	20%	18%
Total current liabilities	28%	24%	21%	23%	30%	25%	31%	28%
Long-term debt (less current maturities)	30%	34%	40%	39%	37%	37%	34%	39%
Other noncurrent liabilities	15%	15%	18%	16%	10%	11%	11%	11%
Total liabilities	73%	73%	78%	79%	77%	73%	76%	79%
Stockholders' equity								
Common stock (paid-in capital less treasury stock)	13%	16%	15%	14%	17%	16%	16%	18%
Retained Earnings	18%	14%	10%	9%	6%	12%	8%	4%
Other stockholders' equity	-5%	-4%	-4%	-2%	-1%	0%	0%	0%
Noncontrolling interests	0%	0%	0%	0%	0%	0%	0%	0%
Total stockholders' equity	27%	27%	22%	21%	23%	27%	24%	21%
Total liabilities and shareholders' equity	100%	100%	100%	100%	100%	100%	100%	100%
Market's perception of missed or incorrectly measured BS items								
Market-to-book ratio								
Shares outstanding (issued - treasury)	414	423	421	420	208	218	218	215
Fiscal year-end price per share (historical quote)	$ 34.32	$ 23.15	$ 15.92	$ 8.59	$ 49.53	$ 41.18	$ 35.19	$ 12.53
Market value of stockholders' equity	14,215	9,800	6,700	3,609	10,282	8,977	7,661	2,699
Book value of stockholders' equity	5,933	5,530	4,653	4,646	1,956	2,021	1,572	1,210
Market-to-book ratio	2.40	1.77	1.44	0.78	5.26	4.44	4.87	2.23

Source: Companies' websites

Comparing Income Statements and Select Performance Ratios in the Retail Industry

Income Statement numbers below are either disclosed on the company's income statements with similar captions or they combine numbers with related captions.

	Macy's Inc.			Nordstrom Inc.		
	year ended			year ended		
	fiscal 2011	fiscal 2010	fiscal 2009	fiscal 2011	fiscal 2010	fiscal 2009
	28-Jan-12	29-Jan-11	30-Jan-10	28-Jan-12	29-Jan-11	30-Jan-10
INCOME STATEMENTS	USD Millions $			USD Millions $		
Net revenues	$26,405	$25,003	$23,489	$10,877	$9,700	$8,627
Cost of goods or services sold	(15,738)	(14,824)	(13,973)	(6,592)	(5,897)	(5,328)
Gross profit	10,667	10,179	9,516	4,285	3,803	3,299
Other operating income and (expenses)	(8,256)	(8,285)	(8,453)	(3,036)	(2,685)	(2,465)
Operating profit	2,411	1,894	1,063	1,249	1,118	834
Other income and (expenses)	(443)	(574)	(556)	(130)	(127)	(138)
Profit before taxes	1,968	1,320	507	1,119	991	696
Income tax refund (expense)	(712)	(473)	(178)	(436)	(378)	(255)
Net profit (loss) from continuing operations	$1,256	$847	$329	$683	$613	$441
SELECT RATIOS						
Gross margin ratio						
gross margin/revenue	40.40%	40.71%	40.51%	39.40%	39.21%	38.24%
Profit margin ratio						
profit before taxes/revenue	7.45%	5.28%	2.16%	10.29%	10.22%	8.07%
Asset turnover ratio						
revenue/average total assets	1.24	1.19	1.08	1.36	1.38	1.41
Return-on-equity (ROE) ratio						
net profit/average owner's equity	21.91%	16.64%	7.10%	34.35%	34.12%	31.70%

Source: Companies' websites

NAME________________________________

Part I: Your qualified claim and opening remarks

Claim:

Fill in the blank with either Macy's or Nordstrom:

______________________________ appears to have had stronger performance during fiscal years 2009-2011 and have a stronger financial position at the end of fiscal 2011.

Qualifiers:

Put an X at the spot on the scale below that indicates the likelihood your claim is correct, given the available information and concepts covered thus far.

After completing Parts II and III, put an X at the spot on the scale below that indicates the likelihood your claim is correct, given the available information and concepts covered thus far. Your response should depend on the strength of your arguments, counterarguments, and rebuttals to counterarguments. For example, when you conclude your arguments and counterarguments are equally strong, your X will be near the middle of the scale. By contrast, when you conclude your arguments are very strong and there are no viable counterarguments, your X will be near the right end of the scale.

Given these directions, your response should ignore the possibility that other relevant information exists that could change your arguments, counterarguments, or rebuttals, and thus the confidence you have in your claim.

The Toulmin Method of Argumentation: The Second Triad, Keith Green
http://www.youtube.com/watch?v=-gRaC_vZiD8

Opening remarks:

Assume you are presenting your analysis to an audience and you have decided that your opening remarks will present your qualified claim and briefly preview the way you assess the relative strengths of your arguments, counterarguments, and rebuttals without explicitly stating them.

For example, you might state "Based on my analysis of available information, I have concluded that XX Company likely had stronger performance during fiscal years 2009-2011 and stronger financial position at the end of fiscal 2011 than YY Company. I will present three supporting arguments for this claim, two of which are very compelling. I will also present two counterarguments. I will thoroughly refute one of these but I can't provide a reasonable rebuttal for the other, which has sufficient merit for me to qualify my claim as likely rather than probable."

Write your opening remarks below:

Part II: Your arguments

Provide no more than three arguments in support of your claim in the space provided below, numbered and arranged according to your assessment of their strength (from strongest to weakest).

Consistent with The Toulmin Model, each argument should provide evidence, a warrant, and possibly backing for the warrant. You need not identify the components. For example, you needn't state here is my evidence and here is its warrant. However, both must be present for each argument and while the warrant can be implied, the evidence and backing must be explicit. Keep in mind that the quality of your response depends more on the strength of the arguments you present rather than the number of arguments. For example, one exceptional argument may be all you need.

Arguments:

Write your arguments below, conditional on concepts covered thus far and the provided information:

NAME________________________________

Part III: Your counterarguments and rebuttals

Provide no more than three counterarguments to your claim, numbered and arranged according to your assessment of their challenge to the claim (from strongest to weakest). If possible provide rebuttals immediately below each counterargument.

Counterarguments and rebuttals:

Write your counterarguments and rebuttals below, conditional on concepts covered thus far and the provided information:

NAME__________________________________