

Question 1

(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.

	Debit	Credit
Selling, general, and administrative expense	\$150	
Cash		\$150

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.

	Debit	Credit
Cash	\$5,000	
Deferred revenues		\$5,000

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.

	Debit	Credit
Selling, general, and administrative expense	\$400	
Accrued liabilities		\$400

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.

	Debit	Credit
Cash	\$4	
PP&E accumulated depreciation	\$5	
Loss on sale of PP&E	\$1	
PP&E historical cost		\$10

Question 2

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

Part 2(a)

Gordon's Sports Car Auto Parts Company		
Balance Sheets		
Assets	31-Dec-12	01-Dec-12
Current		
Cash	\$4,350	\$0
Accounts receivable	1,000	0
Short-term investments	10,000	0
Inventories	2,500	0
Total current assets	17,850	0
Non-current	0	0
Total assets	\$17,850	\$0
Liabilities and Stockholders' Equity		
Liabilities		
Current		
Accounts payable	\$2,000	\$0
Accrued compensation and benefits	200	0
Income taxes payable	260	0
Total current liabilities	2,460	0
Non-current	0	0
Total liabilities	2,460	0
Stockholders' equity		
Common stock	15,000	0
Retained earnings	390	0
Total stockholders' equity	15,390	0
Total liabilities and stockholders' equity	\$17,850	\$0

Part 2(b)

Gordon's Sports Car Auto Parts Company	
Comprehensive Income Statement	
December 1 - December 31, 2012	
(In Thousands)	
Operating profit	
Revenues	\$2,000
Cost of sales	(500)
Marketing general and administrative	(900)
Income from operations	600
Non-operating profit	
Interest income	50
Profit before taxes	650
Income tax expense	(260)
Net profit	390
Other comprehensive income	0
Comprehensive income	\$390

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) 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

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)

	Debit	Credit
Selling, general, and administrative expense	\$539,900	
Accrued liabilities		\$38,880
Cash		\$501,020

Sources: Footnotes disclosed advertising costs expensed totaled \$539.9 million and advertising ending balance in accrued liabilities was \$38,880. By assumption, this was assumed to be accrued during fiscal 2011 and the balance of the expense paid in cash.

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.)

Balance Sheets			Statements of Stockholders' Equity		
Line Items	Increases	Decreases	Line Items	Increases	Decreases
Cash and equivalents	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Net income	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Accrued liabilities	<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"/>
Statements of Income					
Line Items	Increases	Decreases			
Marketing, administrative and general expenses	<input checked="" type="checkbox"/>	<input type="checkbox"/>			
	<input type="checkbox"/>	<input type="checkbox"/>			
	<input type="checkbox"/>	<input type="checkbox"/>			

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.)

	Increases	Decreases	No Effect
Working capital (current assets - current liabilities)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Gross margin ((revenues - cost of sales) / revenues)	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Profit margin (pretax profit / revenues)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Question 5

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)

	Debit	Credit
Accounts receivable	\$93,755	
Royalty income		\$93,755

Sources: Income statement reports \$93,755 of royalty income. By assumption, royalty income is accrued prior to receipt of cash and accounts receivable is the best option in the given chart of accounts. As an aside, a footnote not included in the exam disclosed that accounts receivable includes royalty receivables.

Question 6

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)

	Debit	Credit
Retained earnings	\$285,722	
Dividends payable		\$285,722

Source: Statement of stockholders' equity discloses \$285,722 of dividends on common stock (no dividends were declared to non-controlling interests).

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.

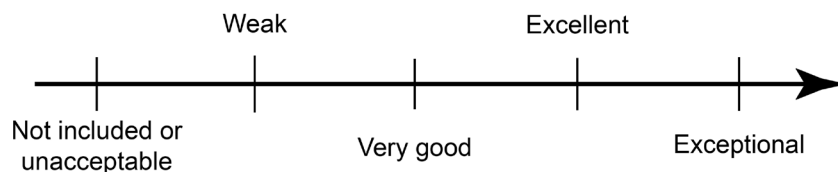
Below is a feedback form students received, along with their score out of 10 points.

Feedback Form

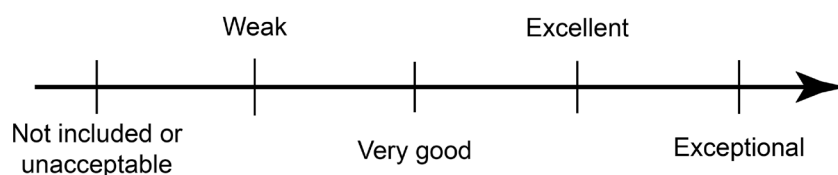
Question 7 asked you to make and defend a claim related to the following: Which company appears to have had stronger performance during fiscal years 2009-2011 and have a stronger financial position at the end of fiscal 2011? Based on the information in the case and concepts covered thus far, there are 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.

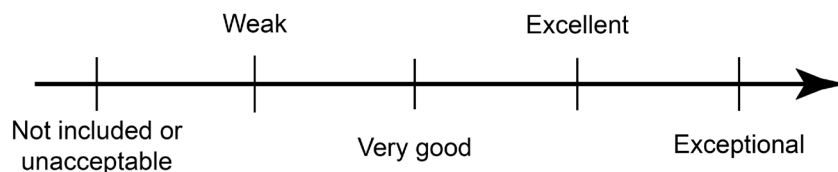
- **Expected future ROEs:**



- **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.

