Financial Accounting Exam 1.3 Solution

Question 1

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

Part 1(a)

On January 1, 2014, Pop's Bakery paid employees $30 thousand for services rendered during December 2013. Pop's had recognized the related compensation expense in an earlier adjusting entry on December 31, 2013. Record the January 1, 2014 compensation payment.

Pay $30 of previously recognized compensation expense

	Debit	Credit
Accrued compensation and related expenses	$30	
Cash		$30

Part 1(b)

On December 31, 2013, Pop's Bakery paid $24 thousand rent for the right to use a store during 2014. Record the January 31, 2014 adjusting entry that recognizes the store's usage during January, 2014.

Recognize store usage for January 2014

	Debit	Credit
Selling, general, and administrative expense	$2	
Prepaid expenses		$2

Part 1(c)

On January 1, 2014, Pop's Bakery purchased a delivery truck for $45 thousand. On December 31, 2014, Pop's concluded that $9 thousand of the $45 thousand cost of the truck should be assigned to usage during 2014. None of this usage had been recorded prior to December 31, 2014. Record the December 31, 2014 adjusting entry to recognize this usage.

Recognize $9 of 2014 truck usage

	Debit	Credit
Depreciation expense	$9	
PP&E accumulated depreciation		$9

Part 1(d)

On December 15, 2014 Pop's Bakery received $20 thousand cash when it sold another truck with $40 thousand of historical cost and $25 thousand of accumulated depreciation. Record the truck sale. Consistent with US GAAP, Pop's Bakery had not previously recognized any unrealized gains associated with the truck.

Recognize sale of truck for $20 cash

	Debit	Credit
Cash	$20	
PP&E accumulated depreciation	$25	
PP&E historical cost		$40
Gain on sale of PP&E		$5

Question 2

(1/2 point for each statement, for a total of 1.5 points)

Part 2(a)

Cece's Golf Apparel Company Balance Sheet
First year of operations

	End Bal	Beg Bal
Assets		
Current		
Cash	**$2,455**	**$0**
Accounts receivable	**80**	**0**
Inventories	**170**	**0**
Total current assets	**2,705**	**0**
Non-current assets		
Property, plant, and equipment, net		
Historical cost of PP&E	**450**	**0**
Less accumulated depreciation	**(30)**	**0**
Property, plant and equipment, net	**420**	**0**
Total non-current assets	**420**	**0**
Total assets	**$3,125**	**$0**
Liabilities and Stockholders' Equity		
Liabilities		
Current		
Accounts payable	**70**	**0**
Total current liabilities	**70**	**0**
Non-current	**0**	**0**
Total liabilities	**70**	**0**
Stockholders' equity		
Common stock	**3,000**	**0**
Retained earnings	**55**	**0**
Total stockholders' equity	**3,055**	**0**
Total liabilities and stockholders' equity	**$3,125**	**$0**

Part 2(b)

Cece's Golf Apparel Company
Statement of Comprehensive Income
First year of operations

Operating profit	
Revenues	$200
Cost of sales	(80)
Depreciation	(30)
Operating profit	90
Non-operating profit	
Interest income	45
Net profit	135
Other comprehensive income	0
Comprehensive income	**$135**

Part 2(c)

Cece's Golf Apparel Company
Statement of Changes in Equity
First year of operations

	Common Stock	Retained Earnings	Reserves	Total
Beginning balances	**$0**	**$0**	**$0**	**$0**
Comprehensive income				
Net profit		135		135
Other comprehensive income			0	0
Total		135	0	135
Common stock issued	3,000			3,000
Dividend declared		(80)	0	(80)
Ending balances	**$3,000**	**$55**	**$0**	**$3,055**

Cece Company BSE for Entries E1-E9 and Closing

				Assets								=	Liabilities		+	Owners' Equity													
				Current				+	Noncurrent			=	Current		+	Permanent			+	Net income									
			+	C	+	AR	+	Inven	+	GPPE	-	AcDep	=	+	AP	+	CS	+	RE	+	Rev	-	Cgs	-	DepEx	+	Intinc	+	IncS
Beginning balances			+	+ $0	+	+ $0	+	+ $0	+	+ $0	-	+ $0	=	+	+ $0	+	+ $0	+	+ $0	+	+ $0	-	+ $0	-	+ $0	+	+ $0	+	+ $0
Period Entries	E1	Issue stock for cash	+	+ 3,000	+		+		+		-		=	+		+	+ 3,000	+		+		-		-		+		+	
	E2	Purchase building with cash	+	- 450	+		+		+	+ 450	-		=	+		+		+		+		-		-		+		+	
	E3	Purchase inventory on account	+		+		+	+ 250	+		-		=	+	+ 250	+		+		+		-		-		+		+	
	E4a	Recognize revenue	+		+	+ 200	+		+		-		=	+		+		+		+	+ 200	-		-		+		+	
	E4b	Recognize cost of sales	+		+		+	- 80	+		-		=	+		+		+		+		-	+ 80	-		+		+	
	E5	Customer collections	+	+ 120	+	- 120	+		+		-		=	+		+		+		+		-		-		+		+	
	E6	Supplier payments	+	- 180	+		+		+		-		=	+	- 180	+		+		+		-		-		+		+	
	E7	Interest income and collection	+	+ 45	+		+		+		-		=	+		+		+		+		-		-		+	+ 45	+	
	E8	Dividend declared and paid	+	- 80	+		+		+		-		=	+		+		+	- 80	+		-		-		+		+	
	E9	Depreciation expense	+		+		+		+		-	+ 30	=	+		+		+		+		-		-	+ 30	+		+	
Trial balance			+	+ $2,455	+	+ $80	+	+ $170	+	+ $450	-	+ $30	=	+	+ $70	+	+ $3,000	+	- $80	+	+ $200	-	+ $80	-	+ $30	+	+ $45	+	+ $0
Closing to and from income summary			+		+		+		+		-		=	+		+		+		+	- 200	-	- 80	-	- 30	+	- 45	+	+ 135
			+		+		+		+		-		=	+		+		+	+ 135	+		-		-		+		+	- 135
Ending balances			+	+ $2,455	+	+ $80	+	+ $170	+	+ $450	-	+ $30	=	+	+ $70	+	+ $3,000	+	+ $55	+	+ $0	-	+ $0	-	+ $0	+	+ $0	+	+ $0

Question 3

Part 3(a)

Record Southwest Airline's journal entry to recognize the ticket sales on May 11, 2014. (1 point)

Recognize selling tickets for $397 on May 11, 2014.

	Debit	Credit
Cash	$397	
Air traffic liability		$397

Part 3(b)

Record Southwest Airline's journal entry (if any) when the customer misses a flight on August 7, 2014. (1 point)

Recognize customer failing to use a $241 ticket on August 7, 2014.

	Debit	Credit
Air traffic liability	$241	
Revenues, net		$241

Question 4

Part 4(a)

Record a journal entry that summarizes the entries entities controlled by AT&T (including the parent company) recorded during the year ended December 31, 2013 to declare dividends to parties with claims on AT&T's consolidated net assets. (1 point)

Recognize dividends declared to all parties who have claims on net assets controlled by AT&T for the year ended December 31, 2013

	Debit	Credit
Retained earnings	$9,589	
Noncontrolling interest	$231	
Dividends payable		$9,820

Part 4(b)

Record a journal entry that summarizes the entries AT&T recorded during the year ended December 31, 2011 to impair intangible assets. Note the year is 2011, not 2013. (1 point)

Recognize AT&T's intangible impairments for the year ended December 31, 2011

	Debit	Credit
Impairment of intangible assets	$2,910	
Goodwill		$2,745
Trademarks, net (including trade names)		$165

Part 4(c)

Identify the AT&T financial-statement line items that were affected by the 2011 intangibles impairments entry in Part 4(b) and the direction of these effects (as indicated below).

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

Financial-statement effects of 2011 intangibles impairments.

Consolidated Balance Sheets

Line Items	Increases	Decreases
Goodwill		X
Other intangible assets - net		X
Retained earnings		X

Consolidated Statements of Income

Line Items	Increases	Decreases
Impairment of intangible assets	X	

Consolidated Statements of Changes in Stockholders' Equity

Line Items	Increases	Decreases
Net income attributable to AT&T		X

Part 4(d)

Determine the direct effect(s) on the following AT&T metrics, everything else equal (ignore taxes) from recognizing depreciation and amortization during fiscal 2013.

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

	Increases	Decreases	No Effect
Current ratio (current assets / current liabilities)			X
Financial leverage (liabilities / assets)	X		
Gross margin percentage ((revenues - cost of sales) / revenues)			X
Return on equity (ROE) (net profit / average owners' equity)		X	

Question 5

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)

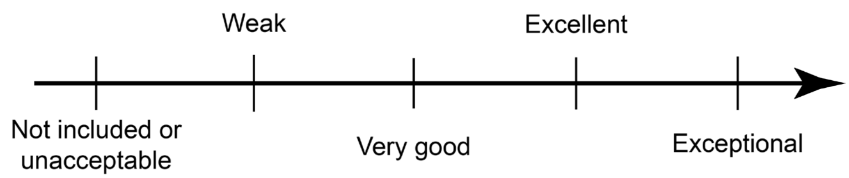
While there aren't correct responses to this portion of the exam, some are definitely better than others. Below is a feedback form students received, along with their score out of 10 points.

Feedback Form

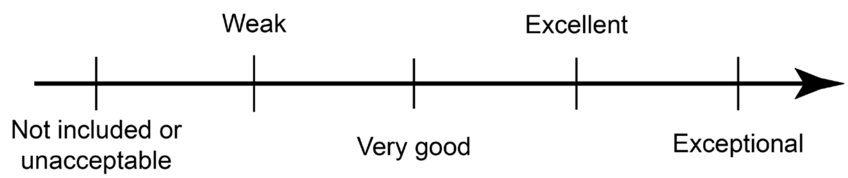
Question 5 asked: Which company appears to have the better future prospects at the most recent balance sheet dates, taking into consideration expected future ROEs, growth rates, and risks. Based on the information in the case and concepts covered thus far, there are excellent arguments on both sides. 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.

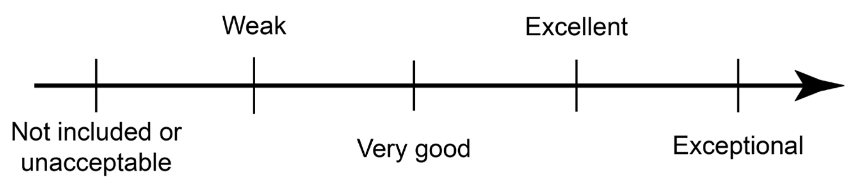
- **Expected future ROEs:**



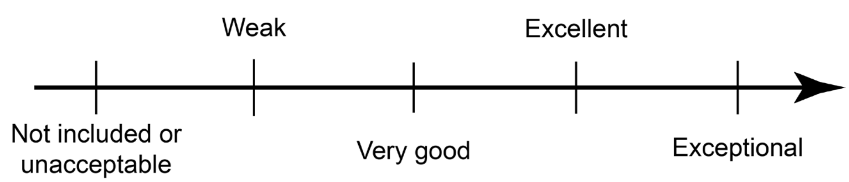
- **Expected future growth:**



- **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.