Financial Accounting Exam 1.4

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- The exam packet is comprised of:
  1. This 17-page document, which contains the questions you are to answer. Write all of your answers in this document, put your name on each page, and submit the document for grading.
  2. The Exam Supplement, which contains a chart of accounts you must use for **all** exam entries, a BSE matrix for a fictitious company, and financial statements and a few footnote excerpts for the following real companies:
     - Coca-Cola (Fiscal 2014 10-K annual report, for year ended December 31, 2014)
     - Macy's (Fiscal 2014 10-K annual report, for year ended January 31, 2015)
  3. Scrap paper. Additional scrap paper is available at the front of the room.
- There are 100 possible points on the exam: 25 questions each worth 4 points. **Partial credit will not be awarded, so check your answers carefully.** There is also a 4-point bonus question.
- For all entries, you must use the most suitable accounts from those listed in the chart of accounts in the Exam Supplement. If you conclude two accounts are equally suitable, choose one and include a related note below your entry. If you use an account other than the one we concluded was most suitable and we agree with your logic, you will receive full credit.
- The exam is closed book and closed notes.
- You cannot use a laptop, tablet, cell phone, or other communication or mobile device.
- You may use a basic calculator (not to be shared with others). However, your calculator must not contain course related information. Additionally, your calculator must not be capable of storing "text" or communicating with others (no cell phones or other text messaging devices are permitted). 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.
- Once the exam starts, you may not take any materials from the room, including the exam document, the exam supplement, or any scrap paper (provided) until you have completed the exam and submitted your exam document to the Professor or Exam proctor.
- To protect the vast majority of students who will not cheat on the exam, there may be alternative versions of the exam that are the same in all respects except the questions contain some numbers that differ or are arranged differently.
- 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.
- More generally, you are to honor the school's core values in all respects.

Question 1

For parts (a) - (c) you are to create a balance sheet, income statement and statement of changes in owners' equity for Zoie's Outfitters 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.

(4 points for each statement, for a total of 12 points)

Part 1(a)

Complete the following balance sheet for Zoie's Outfitters:

Zoie's Outfitters Company Balance Sheet

First year of operations

	End Bal	Beg Bal
Assets	**End Bal**	**Beg Bal**
Current		
Cash		**$0**
Accounts receivable		**0**
Inventories		**0**
Total current assets		**0**
Non-current assets		
Property, plant, and equipment, net		
Historical cost of PP&E		**0**
Less accumulated depreciation		**0**
Property, plant and equipment, net		**0**
Total non-current assets		**0**
Total assets		**$0**
Liabilities and Stockholders' Equity		
Liabilities		
Current		
Accounts 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 1b)

Complete the following income statement for Zoie's Outfitters:

Zoie's Outfitters Company
Statement of Comprehensive Income
First year of operations

Operating profit	
Revenues	
Cost of sales	
Depreciation	
Operating profit	
Non-operating profit	
Interest income	
Net profit	
Other comprehensive income	0
Comprehensive income	

Part 1(c)

Complete the following statement of changes in owners' equity for Zoie's Outfitters:

Zoie's Outfitters 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				
Other comprehensive income				
Total				
Common stock issued				
Dividend declared				
Ending balances				

Note: Many of the above blanks may be zero or left blank.

Part 1(d)

Questions 1(a) - 1(c) asked you to create Zoie's **first year** financial statements. By contrast, this question focuses on entries Zoie's recorded during the **second year**.

Determine the direct effect(s) on the following Zoie's second-year metrics, everything else equal (ignore taxes) from recognizing revenues during the second year.

You may assume the current ratio was greater than 1 and financial leverage, gross margin percentage and return on equity were all less than 1 immediately before this entry was recorded.

Here is the second year journal entry

Recognize second year revenue

	Debit	Credit
Accounts receivable	$700	
Revenues, net		$700

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

Guidance:

Include the direct effects, 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
Current ratio (current assets / current liabilities)	☐	☐	☐
Financial leverage (liabilities / assets)	☐	☐	☐
Gross margin percentage ((revenues - cost of sales) / revenues)	☐	☐	☐
Return on equity (ROE) (net profit / average owners' equity)	☐	☐	☐

Question 2

For parts (a) - (j) you are to record journal entries for Casey's Fine Dining (CFD) in the spaces provided **using accounts from the chart of accounts in the supplement**. *Check your work carefully, no partial credit.*

(4 points for each part, for a total of 40 points)

Part 2(a)

On January 1, 2015, to help finance the company, CFD issued 1,000 shares of common stock to Casey's brother Jerry in exchange for $20 thousand cash and an interest bearing note to her dad in exchange for $100 thousand cash. The first payment on this debt was scheduled for January 1, 2017.

Record a journal entry for the $120 thousand of cash received on January 1, 2015.

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

	Debit	Credit

Part 2(b)

On January 1, 2015, CFD paid $24 thousand cash to rent a building during 2015 that would be suitable for a restaurant.

Record the $24 thousand rental payment on January 1, 2015.

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

	Debit	Credit

Part 2(c)

The rental contract for the building did not include the cost of kitchen equipment and dining room furniture. CFD purchased these items on January 1, 2015 for $60 thousand cash, expecting to use them for 10 years.

Record a journal entry for the $60 thousand payment on January 1, 2015.

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

	Debit	Credit

Part 2(d)

On January 1, 2015 CFD hired ten employees and paid each of them a $200 advance for services expected to be rendered during the pay period that starts on January 1 and ends on January 31, 2015.

Record a journal entry for the $2 thousand payment made to employees on January 1, 2015.

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

	Debit	Credit

Part 2(e)

On January 1, 2015 CFD purchased and received $3 thousand worth of food products it planned to use to prepare menu items for customers. CFD also received the invoice for the bill on January 1, 2015, requiring CFD to pay the supplier $3 thousand by February 5, 2015.

Record a journal entry for the $3 thousand of food products purchased on January 1, 2015.

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

	Debit	Credit

Part 2(f)

On January 2, 2015 CFD collects $2 thousand cash from customers in exchange for menu items. (All of CFD's sales are for cash.) CFD's accounting policy is to record the proceeds collected from customers daily. By contrast, cost of sales is only recorded at the end of each month when monthly financial statements are prepared. The cost of sales adjusting entry is not required for this exam..

Record a journal entry for the $2 thousand collected from customers on January 2, 2015.

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

	Debit	Credit

Part 2(g)

Assuming CFD plans to prepare financial statements at the end of each month, should the company record an adjusting entry on January 31, 2015 for one month's usage of the rented restaurant building? **If not, write "no entry required"** in the first row of the space allotted below for the entry. Assume no entry has been recorded earlier for January usage of the restaurant building and that this usage is valued at 1/12 of the $24 thousand rental payment made on January 1, 2015, or $2 thousand.

Record a journal entry for the January usage of the rental property or state no entry required.

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

	Debit	Credit

Part 2(h)

Assuming CFD plans to prepare financial statements at the end of each month, should the company record an adjusting entry on January 31, 2015 for one month's usage of the kitchen equipment and dining room furniture purchased on January 1? If so, record the entry below. **If not, write "no entry required"** in the first row of the space allotted below for the entry. Assume no entry has been recorded earlier for January usage of the kitchen equipment and dining room furniture and that this usage is valued at 1/120 of the $60 thousand payment made on January 1, 2015, or $0.50 thousand.

Record a journal entry for the January usage of the equipment and furniture or state no entry required.

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

	Debit	Credit

Part 2(i)

As indicated above, on January 1, 2015 CFD hired ten employees and paid each of them a $200 advance for services expected to be rendered during the pay period that starts on January 1 and ends on January 31, 2015, for a total of $2 thousand. By January 31st, employees earned a total of $10 thousand for this period. CFD plans to pay the remaining $8 thousand on February 1, 2015.

Assuming CFD plans to prepare financial statements at the end of each month, should the company record an adjusting entry on January 31, 2015 related to the services the ten employees rendered during January? If so, record the entry below. **If not, write "no entry required"** in the first row of the space allotted below for the entry. Assume the only related entry recorded earlier was the advance payment you recorded above for January 1, 2015.

Record a journal entry on January 31 for the January services rendered by employees or state no entry required.

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

	Debit	Credit

Part 2(j)

CFD promised to pay Casey's dad interest on the $100 thousand note issued on January 1, 2015 at a rate of 0.5% per month on the unpaid balance. This means on January 31, 2015 CFD owed $0.50 thousand of interest to Casey's dad for having had the use of the $100 thousand during January. This interest will be included in the first debt payment, which is scheduled for January 1, 2017.

Assuming CFD plans to prepare financial statements at the end of each month, should the company record an adjusting entry on January 31, 2015 for the $0.50 of interest (assuming no interest has been recognized earlier)? If so, record the entry. **If not, write "no entry required"** in the first row of the space allotted below for the entry.

Record a journal entry for the interest owed on January 31, 2015 or state no entry required.

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

	Debit	Credit

Question 3

Questions 3(a)-3(h) pertain to Coke's financial statements in the Exam Supplement.
(4 points for each part, for a total of 32 points)

Question 3(a)

CIRCLE the letter associated with the best response.

If you circle more than one letter, you will not get credit.

Based on the information in the Exam Supplement, it is reasonable to conclude:

(a) Coca-Cola's customers and possibly other parties owed Coca-Cola $4,797 million on December 31, 2014. ($4,797 = $4,466 + $331)

(b) Coca-Cola sold $334 million of Property, plant and equipment during 2014. ($334 = $14,967 - $14,633)

(c) At the end of 2014, Coca-Cola was expecting to repay $3,552 million during 2015 of the $22,615 million of long term debt owed on December 31, 2014. ($22,615 = $3,552 + $19,063)

(d) (a) and (b)

(e) (b) and (c)

(f) (a) and (c)

(g) (a), (b) and (c)

(h) None of the above

Question 3(b)

CIRCLE the letter associated with the best response.

If you circle more than one letter, you will not get credit.

Based on the information in the Exam Supplement, it is reasonable to conclude::

(a) Coca-Cola paid $483 million of interest during 2014.

(b) The $45,998 of net operating revenues Coca-Cola recognized for 2014 was associated with a $45,998 increase in net assets during 2014.

(c) Coca-Cola declared $5,350 of dividends payable to shareholders of Coca-Cola stock during 2014, which increased financial leverage (defined as assets/owners' equity).

(d) (a) and (b)

(e) (b) and (c)

(f) (a) and (c)

(g) (a), (b) and (c)

(h) None of the above

RELEVANT INFORMATION for QUESTIONS 3(c) and 3(d)

Base your responses on Coca-Cola's financial statements in the supplement; the excerpt below from a 2014 report Coca Cola prepared for investors; and the assumptions below.

Asset Impairments

During the three months and year ended December 31, 2013, the Company recorded charges of $5 million and $195 million, respectively, related to certain intangible assets. The charges of $195 million included $113 million related to the impairment of trademarks recorded in our Bottling Investments and Asia Pacific operating segments. … Additionally, the remaining charge of $82 million was related to goodwill recorded in our Bottling Investments operating segment. This charge was primarily the result of management's revised outlook on market conditions and volume performance. The total impairment charges of $195 million were recorded in our Corporate operating segment.

The Coca-Cola Company and Subsidiaries: Reconciliation of GAAP and Non-GAAP Financial Measures, Page 1

Assumptions

For the purpose of this exam, assume:

- The impaired trademarks have indefinite lives.
- The impairments relate to subsidiaries that are 100% owned by Coca-Cola (and thus non-controlling interests were not affected).

Part 3(c)

Record a journal entry that summarizes the entries Coca-Cola recorded in 2013 related to the $195 million of charges discussed above. Use the accounts in the supplement.

Record a journal entry for the $195 million charge recognized in 2013.

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

	Debit	Credit
____________	______	______
____________	______	______
____________	______	______
____________	______	______

Part 3(d)

Identify the Coca-Cola financial-statement line items that were affected by the 2013 impairment charges recorded in entry in Part 3(c) and the direction of these effects (as indicated below).

If an incorrect entry in part 3(c) leads to errors here, you won't receive credit here. Thus, check your response to part 3(c) entry carefully.

Guidance:

(1) Determine the appropriate line item(s) affected using Coca-Cola's statements. For example, write "cash and cash equivalents" rather than "cash" because this is on Coca-Cola's balance sheet. Thus, **write the line-item caption reported on the financial statement (verbatim) rather than the account name**.

(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 changes in shareholders' 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 entries associated with the above event increased or decreased the number reported for the line item. Put an X in the appropriate column if the above event increases or decreases the number reported for 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!

Financial-statement effects of $195 million of charges recognized in 2013.

Consolidated Balance Sheets

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

Consolidated Statements of Income

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

Consolidated Statements of Shareholders' Equity

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

Part 3(e)

Record a journal entry that summarizes the entries Coca-Cola recorded during 2014 when dividends were declared to shareholders of Coca-Cola or to other parties holding non-controlling interests in subsidiaries controlled by Coca-Cola. Use the accounts in the supplement.

Record a journal entry for the dividends declared in 2014.

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

	Debit	Credit

RELEVANT INFORMATION for QUESTIONS 3(f) - 3(h)

Base your responses on Coca-Cola's financial statements in the supplement; the excerpt below from the 2014 10-K; and the assumptions below.

Advertising Costs

Our Company expenses production costs of print, radio, television and other advertisements as of the first date the advertisements take place. All other marketing expenditures are expensed in the annual period in which the expenditure is incurred. Advertising costs included in the line item selling, general and administrative expenses in our consolidated statements of income were $3.5 billion, $3.3 billion and $3.3 billion in 2014, 2013 and 2012, respectively. As of December 31, 2014 and 2013, advertising and production costs of $228 million and $363 million, respectively, were primarily recorded in the line item prepaid expenses and other assets in our consolidated balance sheets.

The Coca-Cola Company 2014 10-K, Page 80

Assumptions

For the purpose of this exam, assume:

- Advertising expense is only recognized when there is a cash outflow or a decrease in prepaid expenses.
- Any advertising cost prepaid during 2014 and subsequently expensed during 2014 can be treated as a cash expense in the entry you are to record. That is, you can assume an expense was recognized at the time of the cash outflow.
- Any advertising cost paid prior to the end of 2013 but not yet expensed by that date is expensed during 2014.

Part 3(f)

Given the assumptions, estimate the cash Coca-Cola paid during 2014 for advertising, expressing your answer in millions.

Write your answer in this box: [ ]

Part 3(g)

Given the assumptions, record a journal entry that summarizes the entries Coca-Cola recorded during 2014 to recognize advertising expense, expressing all numbers in millions. Use the accounts in the supplement.

Record a journal entry for the advertising expense recognized during 2014.

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

	Debit	Credit

Part 3(h)

Determine the effect(s) on the following Coca-Cola metrics for 2014, everything else equal (ignore taxes) from recognizing advertising expense recognized in the entry for 3(g) above.

If an incorrect entry in part 3(g) leads to errors here, you won't receive credit here. Thus, check your response to part 3(g) entry carefully.

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

Guidance:

Include the direct effects, 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
Current ratio (current assets / current liabilities)			
Financial leverage (liabilities / assets)			
Gross margin percentage ((revenues - cost of sales) / revenues)			
Return on equity (ROE) (net profit / average owners' equity)			

Question 4

Questions 4(a)-4(c) pertain to Macy's financial statements and footnotes in the Exam Supplement. (4 points for each part, for a total of 12 points)

RELEVANT INFORMATION for QUESTIONS 4(a) and 4(b)

Base your responses on the assumptions and hint below.

Assumptions

For the purpose of this exam, assume:

- Interest expense is only recognized when there is a cash outflow or an increase in accrued interest.
- Any interest expense accrued during fiscal 2014 and subsequently paid during fiscal 2014 can be treated as a cash expense in the entry you are to record. That is, you can assume an expense was recognized at the time of the cash outflow. Fiscal 2014 ended on January 31, 2015.
- Any interest expensed prior to the end of fiscal 2013 but not yet paid by that date is paid during fiscal 2014.

Hint

See Note 7 excerpt in the exam supplement

Part 4(a)

Given the assumptions, record a journal entry that summarizes the entries Macy's recorded during fiscal 2014 to recognize interest expense, expressing all numbers in millions. Use the accounts in the supplement.

Record a journal entry for the interest expense recognized during fiscal 2014.

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

	Debit	Credit

Part 4(b)

Given the assumptions, estimate the cash Macy's paid during fiscal 2014 for interest, expressing your answer in millions.

Write your answer in this box:

RELEVANT INFORMATION for QUESTION 4(c)

Assumptions

For the purpose of this exam, assume:

- The impairments referenced in Note 2 pertain to Property and Equipment, net reported on the balance sheet.
- The "Severance" and "Other" costs reported in Note 2 for fiscal 2014 will be paid in fiscal 2015.

Hint

See the excerpts for Notes 2 and 7 in the exam supplement

Part 4(c)

Given the assumptions, record a journal entry that summarizes the entries Macy's recorded during fiscal 2014 to recognize the "Impairments, store closing and other" expense reported on the fiscal 2014 income statement, expressing all numbers in millions. Use the accounts in the supplement.

Record a journal entry for the "Impairments, store closing and other costs" expense recognized during fiscal 2014.

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

	Debit	Credit

NAME________________________________

Bonus Question

Record the following beginning balances and journal entries into the blank T-accounts below and then derive ending balances for each account (assuming these are the only entries during the reporting period).

4 points (added to your curved exam score out of 100 points)

Beginning Balances

Inventory	$1,500
Accounts payable	$1,200
Accrued liabilities	$900
Retained earnings	$2,400
Advertising expense	$0
Income summary	$0

Journal Entries

E1: Purchase inventory on account

	Debit	Credit
Inventory	$700	
Accounts payable		$700

E2: Accrue advertising expense

	Debit	Credit
Advertising expense	$300	
Accrued liabilities		$300

E3: Close income accounts

	Debit	Credit
Income summary	$300	
Advertising expense		$300

E4: Close income summary

	Debit	Credit
Retained earnings	$300	
Income summary		$300

Blank T-Accounts

Inventory	Accounts payable	Accrued liabilities

Retained earnings	Advertising expense	Income summary