

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, Fred's Wallpaper and Paint 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, Fred's Wallpaper and Paint 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, Fred's Wallpaper and Paint 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

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

Part 2(a)

Ellie's Holiday Decorations and Party Services	
2012 Direct Cash Flow Statement	
<i>In Dollars, for year ended December 31, 2012</i>	
Operating activities	
Customer collections	\$2,600
Resource provider payments	(\$1,225)
Tax payments	(\$20)
Net cash from operations	<u>\$1,355</u>
Investing activities	
Purchase property, plant, and equipment	(\$2,400)
Net cash from investing activities	<u>(\$2,400)</u>
Financing activities	
Issue common stock	\$2,100
Net cash from financing activities	<u>\$2,100</u>
Net change in cash during year	<u>\$1,055</u>
Beginning cash balance	<u>\$750</u>
Ending cash balance	<u><u>\$1,805</u></u>

Part 2(b)

Ellie's Holiday Decorations and Party Services	
2012 Indirect Cash Flow Statement	
<i>In Dollars, for year ended December 31, 2012</i>	
Operating activities	
Net income	\$340
Depreciation	\$125
Accounts receivable	\$100
Inventory	(\$300)
Prepaid expenses	(\$50)
Accounts payable	\$950
Accrued taxes	\$90
Other accrued liabilities	(\$510)
Deferred revenues	\$610
Net cash from operations	<u>\$1,355</u>
Investing activities	
Purchase property, plant, and equipment	(\$2,400)
Net cash from investing activities	<u>(\$2,400)</u>
Financing activities	
Issue common stock	\$2,100
Net cash from financing activities	<u>\$2,100</u>
Net change in cash during year	<u>\$1,055</u>
Beginning cash balance	<u>\$750</u>
Ending cash balance	<u><u>\$1,805</u></u>

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) The net effect of Dillard's operating and non-operating entries on Accounts receivable during the year ended February 2, 2013 was a \$2,811 increase.
- (b) The net effect of Dillard's operating entries on Accounts receivable during the year ended February 2, 2013 was a \$2,811 increase.
- (c) The net effect of Dillard's operating entries on Accounts receivable during the year ended February 2, 2013 was a \$2,811 decrease.
- (d) (a) and (b)
- (e) (a) and (c)

Question 3(ii)

CIRCLE the letter associated with the best response.

For the purpose of this exam question, assume:

- Purchasing merchandise on account and selling merchandise are the only operating entries that affected Dillard's merchandise inventories during the year ended February 2, 2013.
- All other operating entries are relatively immaterial and can be ignored.

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

- (a) The cost of the merchandise Dillard purchased exceeded the cost of the merchandise it sold during the year ended February 2, 2013.
- (b) The cost of the merchandise Dillard sold exceeded the cost of the merchandise Dillard purchased during the year ended February 2, 2013.
- (c) The cost of the merchandise Dillard acquired as part of an acquisition of another company was \$0 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 Dillard's recorded during the year ended February 2, 2013 to declare dividends and the entries Dillard's recorded to pay dividends to all shareholders who have claims on the net assets controlled by Dillard's.

(1 point)

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

Sources: Statement of cash flows and statement of stockholders' equity

Part 4(b)

Determine the direct effect(s) on the following Dillard's metrics for fiscal 2012, everything else equal, for the entry in Part 4(a) [that summarizes the entries Dillard's recorded to declare dividends and the entries Dillard's 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"/>
Net cash from operations	<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 Dillard's recorded during the year ended February 2, 2013 for its purchase of treasury stock.

(1 point)

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

Sources: Statement of cash flows and statement of stockholders' equity

Question 6

Part 6(a)

Record a journal entry that recognizes Dillard's disposal of assets during the year ended February 2, 2013. For the purpose of this exam question, assume:

- The disposed assets were furniture, fixtures and equipment.
- The historical costs of the disposed assets was \$50,000.
- Hint: Book value of assets = historical cost - accumulated depreciation.

	Debit	Credit
Cash	\$30,923	
Accumulated depreciation	\$31,512	
PP&E historical cost		\$50,000
Gain on sale of PP&E		\$12,435

Source: Statement of cash flows and given 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 the disposal of assets 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 checked="" type="checkbox"/>	<input type="checkbox"/>	Net income	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Furniture, fixtures and equipment	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Less accumulated depreciation and amortization <small>(Reported negative number increases.)</small>	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Retained earnings	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Income Statement			Statement of Cash Flows		
Line Items	Increases	Decreases	Line Items	Increases	Decreases
Gain on disposal of assets <small>(Reported negative number decreases.)</small>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Net income	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	Gain on disposal of assets <small>(Reported negative number decreases.)</small>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	Proceeds from disposal of assets	<input checked="" 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.

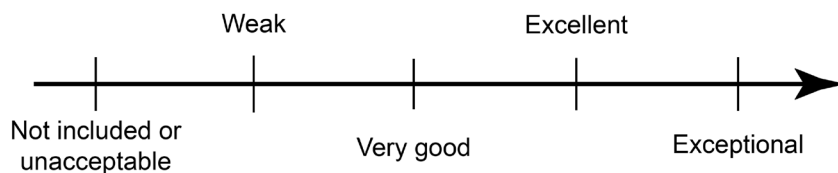
Below is a feedback form students received, along with their score out of 10 points.

Feedback Form

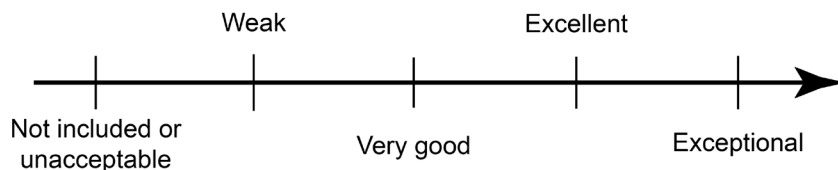
Question 7 asked: Which company appears to have the better future prospects at the most recent balance sheet dates, taking into consideration expected future ROEs, growth rates, and risks. Based on the information in the case and concepts covered thus far, there are excellent arguments on both sides. 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.

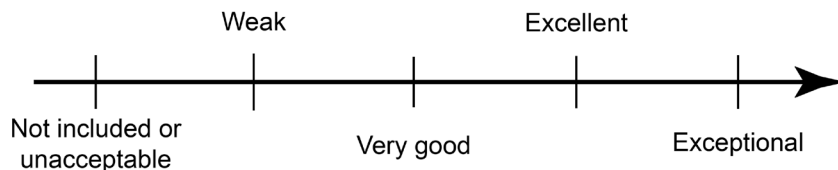
- **Expected future ROEs:**



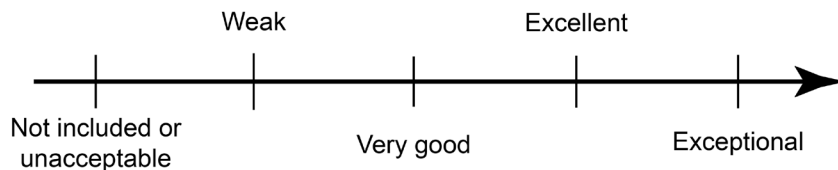
- **Expected future growth:**



- **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.

