

FINANCIAL ACCOUNTING EXAM 2.4

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ASSETS

Current

Accounts receivable (current)

Gross notes and trade accounts receivables
Gross short-term financing receivables
Gross other accounts receivable
Current allowance for doubtful accounts <i>Fictitious account for outsiders to record entries using footnote information. It is a contra asset to all three "gross" accounts above.</i>

Inventories

Materials and parts
Work in process
Finished goods

Other current assets

Cash
Prepaid expenses
Short-term investments

Noncurrent

Financing receivables (noncurrent)

Gross long-term financing receivables
Noncurrent allowance for doubtful accounts <i>It is a contra asset to above account.</i>

Intangibles accounts

Goodwill historical cost
Goodwill accumulated impairments
Other intangibles historical cost
Other intangibles accumulated amortization
Other intangibles accumulated impairments

Property, plant, and equipment accounts

PP&E historical cost
PP&E accumulated depreciation
PP&E accumulated impairments

LIABILITIES

Current

Accrued liabilities: other
Accounts payable
Dividends payable
Short-term debt

Current and Noncurrent

Extended warranty liability (deferred income) <i>Fictitious account for outsiders to record entries using footnote information.</i>
Standard warranty liability <i>Fictitious account for outsiders to record entries using footnote information.</i>

Noncurrent

Long-term debt
Other long-term liabilities

OWNERS' EQUITY

Permanent

Additional paid-in capital
Common stock
Retained earnings

Net income

Cost of goods sold
Depreciation expense
Pretax loss related to anticipated divestiture
Interest expense
Income summary
Gain on disposal of PP&E
Provision for doubtful accounts
Revenues, net
Other expense

Carly's Candies BSE for Entries E1-E12 and Closing for January 1 - 31, 2016

	Assets						=	Liabilities						Owners' Equity					
	C	AR	AR	StInv	Inven	Inven		AP	AcCB	TaxP	CS	RE	Rev	Cgs	MG&A	IntInc	TxExp	IncS	
December 31, 2015																			
E3 Purchase inventory on account																			
E4 Recognize revenue																			
E4b Recognize cost of sales																			
E5 Pay wages for Dec 16- Jan15																			
E6 Supplier payments																			
E7 Pay landlord for January rent																			
E8 Customer collections																			
E9 Interest earned																			
E10 Unpaid wages for Jan 15- Jan 31																			
E12 Recognize tax expense																			
Total operations																			
E2 Sell debt securities																			
Total investing																			
E1 Declare and pay dividend																			
Total financing																			
Trial balance																			
Closing to and from income summary																			
January 31, 2016																			

**Carly's Candies
Chart of Accounts**

ASSETS	
Current	
AR	Accounts receivable
C	Cash
Inven	Inventory
StInv	Short-term investments
LIABILITIES	
Current	
AP	Accounts payable
AcCB	Accrued compensation & benefits
TaxP	Taxes payable
OWNERS' EQUITY	
Permanent	
CS	Common stock
RE	Retained earnings
Net income	
Cgs	Cost of goods sold
MG&A	Marketing, general & administrative expense
Inc-S	Income summary
IntInc	Interest income
Rev	Revenues, net
TxExp	Tax expense

IBM's income statements

Consolidated Statement of Earnings

International Business Machines Corporation and Subsidiary Companies

(\$ in millions except per share amounts)

For the year ended December 31:	Notes	2014	2013*	2012*
Revenue				
Services		\$55,673	\$57,655	\$ 59,453
Sales		35,063	38,666	41,381
Financing		2,057	2,047	2,040
Total revenue	T	92,793	98,367	102,874
Cost				
Services		36,034	37,564	39,166
Sales		9,312	11,009	12,260
Financing		1,040	1,110	1,087
Total cost		46,386	49,683	52,513
Gross profit		46,407	48,684	50,361
Expense and other (income)				
Selling, general and administrative		23,180	23,451	23,463
Research, development and engineering	O	5,437	5,743	5,816
Intellectual property and custom development income		(742)	(822)	(1,074)
Other (income) and expense		(1,938)	(333)	(843)
Interest expense	D&J	484	402	459
Total expense and other (income)		26,421	28,440	27,821
Income from continuing operations before income taxes		19,986	20,244	22,540
Provision for income taxes	N	4,234	3,363	5,541
Income from continuing operations		15,751	16,881	16,999
Loss from discontinued operations, net of tax	C	(3,729)	(398)	(395)
Net income		\$12,022	\$16,483	\$ 16,604
Earnings/(loss) per share of common stock				
Assuming dilution				
Continuing operations	P	\$ 15.59	\$ 15.30	\$ 14.71
Discontinued operations	P	(3.69)	(0.36)	(0.34)
Total	P	\$ 11.90	\$ 14.94	\$ 14.37
Basic				
Continuing operations	P	\$ 15.68	\$ 15.42	\$ 14.88
Discontinued operations	P	(3.71)	(0.36)	(0.35)
Total	P	\$ 11.97	\$ 15.06	\$ 14.53
Weighted-average number of common shares outstanding				
Assuming dilution		1,010,000,480	1,103,042,156	1,155,449,317
Basic		1,004,272,584	1,094,486,604	1,142,508,521

IBM's balance sheets

Consolidated Statement of Financial Position

International Business Machines Corporation and Subsidiary Companies

(\$ in millions except per share amounts)

At December 31:	Notes	2014	2013
Assets			
Current assets			
Cash and cash equivalents		\$ 8,476	\$ 10,716
Marketable securities	D	0	350
Notes and accounts receivable—trade (net of allowances of \$336 in 2014 and \$291 in 2013)		9,090	10,465
Short-term financing receivables (net of allowances of \$452 in 2014 and \$308 in 2013)	F	19,835	19,787
Other accounts receivable (net of allowances of \$40 in 2014 and \$36 in 2013)		2,906	1,584
Inventories	E	2,103	2,310
Deferred taxes	N	2,044	1,651
Prepaid expenses and other current assets		4,967	4,488
Total current assets		49,422	51,350
Property, plant and equipment	G	39,034	40,475
Less: Accumulated depreciation	G	28,263	26,654
Property, plant and equipment—net	G	10,771	13,821
Long-term financing receivables (net of allowances of \$126 in 2014 and \$80 in 2013)	F	11,109	12,755
Prepaid pension assets	S	2,160	5,551
Deferred taxes	N	4,808	3,051
Goodwill	I	30,556	31,184
Intangible assets—net	I	3,104	3,871
Investments and sundry assets	H	5,603	4,639
Total assets		\$ 117,532	\$ 126,223
Liabilities and equity			
Current liabilities			
Taxes	N	\$ 5,084	\$ 4,633
Short-term debt	D&J	5,731	6,862
Accounts payable		6,864	7,461
Compensation and benefits		4,031	3,893
Deferred income		11,877	12,557
Other accrued expenses and liabilities		6,013	4,748
Total current liabilities		39,600	40,154
Long-term debt	D&J	35,073	32,856
Retirement and nonpension postretirement benefit obligations	S	18,261	16,242
Deferred income		3,691	4,108
Other liabilities	K	8,892	9,934
Total liabilities		105,518	103,294
Contingencies and commitments	M		
Equity	L		
IBM stockholders' equity			
Common stock, par value \$.20 per share, and additional paid-in capital		52,666	51,594
Shares authorized: 4,687,500,000			
Shares issued (2014—2,215,209,574; 2013—2,207,522,548)			
Retained earnings		137,793	130,042
Treasury stock, at cost (shares: 2014—1,224,685,815; 2013—1,153,131,611)		(150,715)	(137,242)
Accumulated other comprehensive income/(loss)		(27,875)	(21,602)
Total IBM stockholders' equity		11,868	22,792
Noncontrolling interests	A	146	137
Total equity		12,014	22,929
Total liabilities and equity		\$ 117,532	\$ 126,223

IBM's statements of cash flows

Consolidated Statement of Cash Flows

International Business Machines Corporation and Subsidiary Companies

(\$ in millions)

For the year ended December 31:	2014	2013	2012
Cash flows from operating activities			
Net income	\$ 12,022	\$ 16,483	\$ 16,604
Adjustments to reconcile net income to cash provided by operating activities			
Depreciation	3,145	3,327	3,392
Amortization of intangibles	1,347	1,351	1,284
Stock-based compensation	512	614	688
Deferred taxes	(237)	(1,610)	797
Net (gain)/loss on asset sales and other	(1,535)	(236)	(729)
Loss on microelectronics business disposal	3,381	—	—
Change in operating assets and liabilities, net of acquisitions/divestitures			
Receivables (including financing receivables)	1,270	(1,407)	(2,230)
Retirement related	(655)	294	(1,008)
Inventories	(39)	(57)	280
Other assets/other liabilities	(1,886)	(747)	733
Accounts payable	(456)	(529)	(224)
Net cash provided by operating activities	16,868	17,485	19,586
Cash flows from investing activities			
Payments for property, plant and equipment	(3,740)	(3,623)	(4,082)
Proceeds from disposition of property, plant and equipment	404	372	410
Investment in software	(443)	(517)	(635)
Purchases of marketable securities and other investments	(2,338)	(4,608)	(4,109)
Proceeds from disposition of marketable securities and other investments	2,493	4,873	3,142
Non-operating finance receivables—net	(1,078)	(1,063)	(608)
Acquisition of businesses, net of cash acquired	(656)	(3,056)	(3,722)
Divestiture of businesses, net of cash transferred	2,357	297	599
Net cash used in investing activities	(3,001)	(7,326)	(9,004)
Cash flows from financing activities			
Proceeds from new debt	8,180	16,353	12,242
Payments to settle debt	(4,644)	(10,013)	(9,549)
Short-term borrowings/(repayments) less than 90 days—net	(1,753)	621	(441)
Common stock repurchases	(13,679)	(13,859)	(11,995)
Common stock transactions—other	709	1,074	1,540
Cash dividends paid	(4,265)	(4,058)	(3,773)
Net cash used in financing activities	(15,452)	(9,883)	(11,976)
Effect of exchange rate changes on cash and cash equivalents	(655)	28	(116)
Net change in cash and cash equivalents	(2,240)	304	(1,511)
Cash and cash equivalents at January 1	10,716	10,412	11,922
Cash and cash equivalents at December 31	\$ 8,476	\$ 10,716	\$ 10,412
Supplemental data			
Income taxes paid—net of refunds received	\$ 5,748	\$ 4,024	\$ 3,169
Interest paid on debt	\$ 1,061	\$ 982	\$ 1,009
Capital lease obligations	\$ 2	\$ 14	\$ 10

IBM's statements of shareholders' equity (page 1 of 2)

Consolidated Statement of Changes in Equity

International Business Machines Corporation and Subsidiary Companies

(\$ in millions)

	Common Stock and Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income/(Loss)	Total IBM Stockholders' Equity	Non- Controlling Interests	Total Equity
2012							
Equity, January 1, 2012	\$48,129	\$104,857	\$(110,963)	\$(21,885)	\$ 20,138	\$ 97	\$ 20,236
Net income plus other comprehensive income/(loss)							
Net income		16,604			16,604		16,604
Other comprehensive income/(loss)				(3,874)	(3,874)		(3,874)
Total comprehensive income/(loss)					\$ 12,731		\$ 12,731
Cash dividends paid—common stock		(3,773)			(3,773)		(3,773)
Common stock issued under employee plans (15,091,320 shares)	1,532				1,532		1,532
Purchases (2,406,007 shares) and sales (2,746,169 shares) of treasury stock under employee plans—net		(48)	(160)		(208)		(208)
Other treasury shares purchased, not retired (61,246,371 shares)			(12,008)		(12,008)		(12,008)
Changes in other equity	448				448		448
Changes in noncontrolling interests						27	27
Equity, December 31, 2012	\$50,110	\$117,641	\$(123,131)	\$(25,759)	\$ 18,860	\$124	\$ 18,984

Amounts may not add due to rounding.

The accompanying notes on pages 86 through 150 are an integral part of the financial statements.

(\$ in millions)

	Common Stock and Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income/(Loss)	Total IBM Stockholders' Equity	Non- Controlling Interests	Total Equity
2013							
Equity, January 1, 2013	\$50,110	\$117,641	\$(123,131)	\$(25,759)	\$ 18,860	\$124	\$ 18,984
Net income plus other comprehensive income/(loss)							
Net income		16,483			16,483		16,483
Other comprehensive income/(loss)				4,157	4,157		4,157
Total comprehensive income/(loss)					\$ 20,641		\$ 20,641
Cash dividends paid—common stock		(4,058)			(4,058)		(4,058)
Common stock issued under employee plans (9,961,389 shares)	1,216				1,216		1,216
Purchases (1,666,069 shares) and sales (1,849,883 shares) of treasury stock under employee plans—net		(25)	(117)		(142)		(142)
Other treasury shares purchased, not retired (73,121,942 shares)			(13,993)		(13,993)		(13,993)
Changes in other equity	268				268		268
Changes in noncontrolling interests						13	13
Equity, December 31, 2013	\$51,594	\$130,042	\$(137,242)	\$(21,602)	\$ 22,792	\$137	\$ 22,929

IBM's statements of shareholders' equity (page 2 of 2)

Consolidated Statement of Changes in Equity

International Business Machines Corporation and Subsidiary Companies

(\$ in millions)

	Common Stock and Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income/(Loss)	Total IBM Stockholders' Equity	Non- Controlling Interests	Total Equity
2014							
Equity, January 1, 2014	\$51,594	\$130,042	\$(137,242)	\$(21,602)	\$ 22,792	\$137	\$ 22,929
Net income plus other comprehensive income/(loss)							
Net income		12,022			12,022		12,022
Other comprehensive income/(loss)				(6,274)	(6,274)		(6,274)
Total comprehensive income/(loss)					\$ 5,748		\$ 5,748
Cash dividends paid—common stock		(4,265)			(4,265)		(4,265)
Common stock issued under employee plans (7,687,026 shares)	977				977		977
Purchases (1,313,569 shares) and sales (1,264,232 shares) of treasury stock under employee plans—net		(6)	(79)		(85)		(85)
Other treasury shares purchased, not retired (71,504,867 shares)			(13,395)		(13,395)		(13,395)
Changes in other equity	95				95		95
Changes in noncontrolling interests						8	8
Equity, December 31, 2014	\$52,666	\$137,793	\$(150,715)	\$(27,875)	\$ 11,868	\$146	\$ 12,014

Page 84, IBM 2014 Annual Report

IBM's Schedule II (excerpt)

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES For the Years Ended December 31: (Dollars in Millions)

Description	Balance at Beginning of Period	Additions*	Writeoffs	Other**	Balance at End of Period
Allowance For Doubtful Accounts					
2014					
—Current	\$636	\$ 276	\$ (48)	\$(35)	\$829
—Noncurrent	\$ 80	\$ 57	\$ (4)	\$(7)	\$126
2013					
—Current	\$560	\$ 127	\$ (60)	\$ 9	\$636
—Noncurrent	\$ 66	\$ 27	\$ 0	\$(12)	\$ 80
2012					
—Current	\$578	\$ 41	\$ (45)	\$(15)	\$560
—Noncurrent	\$ 38	\$ 10	\$ 0	\$ 17	\$ 66

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IBM's Significant Accounting Policies: Product Warranties

Product Warranties

The company offers warranties for its hardware products that generally range up to three years, with the majority being either one or three years. Estimated costs for warranty terms standard to the deliverable are recognized when revenue is recorded for the related deliverable. The company estimates its warranty costs standard to the deliverable based on historical warranty claim experience and estimates of future spending, and applies this estimate to the revenue stream for products under warranty. Estimated future costs for warranties applicable to revenue recognized in the current period are charged to cost of sales. The warranty liability is reviewed quarterly to verify that it properly reflects the remaining obligation based on the anticipated expenditures over the balance of the obligation period. Adjustments are made when actual warranty claim experience differs from estimates. Costs from fixed-price support or maintenance contracts, including extended warranty contracts, are recognized as incurred.

Revenue from separately priced extended warranty contracts is initially recorded as deferred income and subsequently recognized on a straight-line basis over the delivery period. Changes in deferred income for extended warranty contracts, and in the warranty liability for standard warranties, which are included in other accrued expenses and liabilities and other liabilities in the Consolidated Statement of Financial Position, are presented in the following tables:

Standard Warranty Liability

(\$ in millions)

	2014	2013
Balance at January 1	\$ 376	\$ 394
Current period accruals	240	346
Accrual adjustments to reflect experience*	(120)	22
Charges incurred	(298)	(387)
Balance at December 31	\$ 197	\$ 376

* Includes an adjustment of (\$125 million) in 2014 related to the industry standard server divestiture.

Extended Warranty Liability (Deferred Income)

(\$ in millions)

	2014	2013
Balance at January 1	\$ 579	\$ 606
Revenue deferred for new extended warranty contracts	298	305
Amortization of deferred revenue*	(316)	(324)
Other**	(24)	(8)
Balance at December 31	\$ 536	\$ 579
Current portion	\$ 254	\$ 284
Noncurrent portion	282	295
Balance at December 31	\$ 536	\$ 579