Section I. Basic Level

(1/2 point each, for a total of 4 points)

I-1a

Record a journal entry for the following:

During December 2012, Carlstedt sold products to customers for $1,725. $1,200 was collected at the time of the sale and the remainder was fully expected to be collected in the next 60 days. Carlstedt's policy is to recognize revenue at the time products is sold, providing collection is reasonably assured.

Recognize products revenue

	Debit	Credit
Cash	$1,200	
Accounts receivable - gross	$525	
Products revenues		$1,725

I-1b

Record a journal entry for the following:

During December 2012, products sold in part I-1a above cost $1,035.

Recognize cost of sold products

	Debit	Credit
Cost of sales	$1,035	
Inventories - finished goods		$1,035

I-1c

Record a journal entry for the following:

During December 2012, Carlstedt purchased iPhone accessory products on account for $850. The products do not require any manufacturing so the company will resell the products directly to customers for a profit. The company was invoiced upon delivery.

Purchase products for resale on account

	Debit	Credit
Inventories - finished goods	$850	
Accounts payable		$850

I-1d

Record a journal entry for the following:

During December 2012, Carlstedt collected $600 due from customers for previous sales.

Collect amounts due from customers

	Debit	Credit
Cash	$600	
Accounts receivable - gross		$600

I-1e

Record a journal entry for the following:

During December 2012, Carlstedt paid $300 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	$300	
Cash		$300

I-1f

Record a journal entry for the following:

During the year ended December 31, 2012, Carlstedt recognized $125 of selling, general, and administrative expense. $100 was recognized when the company received invoices from resource providers. The remaining expense was recognized when the company paid resource providers.

Recognize SG&A expense (period)

	Debit	Credit
Sales, general & administrative	$125	
Cash		$25
Accounts payable		$100

I-1g

Record a journal entry for the following:

When the new equipment leased by Carlstedt was installed, ready to use, and put into production, the company concluded the lease met the criteria for an operating lease. The estimated present value of the $3 thousand monthly future minimum payments of the non-cancelable lease was $50 thousand.

At the commencement of the new lease, record the entry below, IF an entry is required. Otherwise write "NONE" in the space below. (No credit if the space below is left blank.)

	Debit	Credit
NONE		

I-1h

Record a journal entry for the following:

On December 31, 2012, Carlstedt recognized $50 of depreciation related to the office computer it used in the sales department and $200 of depreciation related to the equipment it used in the manufacturing department.

Recognize depreciation

	Debit	Credit
Depreciation expense	$50	
Inventories - WIP	$200	
Accumulated depreciation		$250

Question I-2

Identify the Carlstedt's iPhone Accessory Manufacturing Company financial statement line items that would have been directly affected (and the direction of the effects) when it recorded the journal entry in question I-1f (recognized SG&A expense) during the fiscal 2012.
(1/2 point per statement, for a total of 2 points.)

Recognized depreciation

BALANCE SHEETS

Line Items	Increases	Decreases
Cash and cash equivalents		X
Accounts payable	X	
Retained earnings		X

INCOME STATEMENT

Line Items	Increases	Decreases
Sales, general & administrative (Reported negative number decreases)		X

STATEMENT OF STOCKHOLDERS' EQUITY

Line Items	Increases	Decreases
Net income		X

CASH FLOW STATEMENT

Line Items	Increases	Decreases
Net income		X
Accounts payable	X	
Net cash from operations		X

Question I-3

(2 points)

M & E's High Tech Manufacturing Company

Inventories, net (in thousands)	December 31 2012	December 31 2011
Inventories at FIFO:		
Beginning FIFO balance	$450	$350
Inventory purchases	900	1,000
Inventory sales (cost of sales)	(1,000)	(900)
Ending FIFO balances	350	450
Excess of FIFO over LIFO	(55)	(50)
Inventories at LIFO	$295	$400

Based on the above inventories footnote, what was M&E's LIFO (last-in, first-out) cost of sales for fiscal 2012?

Write your answer in this box: $1,005

LIFO cost of sales = FIFO cost of sales + increase in LIFO reserve; $1,000 + ($55 - $50)

Question I-4

(2 points)

You currently have $50 in a savings account that earns interest at 6% per year compounded monthly. What is the maximum you can spend on a gift for a friend two years from now if you can only use money accumulated in the savings account? Must round your answer to two decimal places to receive credit.

Write your answer in this box: $56.36

Future value of $50 with interest at 6% per year or 0.5% per month; $50 x 1.12716 from FV table

Section II. Intermediate Level

Question II-1

Allan's Boat Company
LIFO Perpetual

	Units	Input Costs Layers							Total
		$50 Layer	$60 Layer	$80 Layer	$90 Layer	$100 Layer	$200 Layer		
2011									
Year-end balance	20	5 @ $50	5 @ $60	5 @ $80	5 @ $90			=	$1,400
2012									
Purchase on January 1	70					70 @ $100		=	$7,000
Sales for January 1 - June 30	(90)	(5) @ $50	(5) @ $60	(5) @ $80	(5) @ $90	(70) @ $100		=	($8,400)
Purchase on July 1	100						100 @ $200	=	$20,000
Sales for July 1 - December 31	(95)						(95) @ $200	=	($19,000)
Pre-impairment balance	**5**						**5 @ $200**	=	**$1,000**
LCM impairment: market = $190	5						5 @ ($10)	=	($50)
Year-end balance	**5**						**5 @ $190**	=	**$950**

LIFO Summary	**Cost of Sales**	**Ending Inventory**
2012	$27,450	$950

Fill in the two boxes in the above template.
(1 point each, for a total of 2 points)

Question II-2

Fill in the boxes below.

You must put an "X" in the appropriate Buy or Lease box to receive credit. You will not receive credit if you put an X in more than one box. Indicate the amount saved each month.
(1 point for buy-lease decision and 2 points for monthly savings, for a total of 3 points)

	Buy	**Lease**
What is your decision? (check only one one box)		x
How much will you save each month? (write the amount)	56.33	

Should you buy or lease the car? How much will you save each month based on your decision?

Monthly loan payment if purchase car	
Present value of $1 annuity for 36 months at 0.5% per month (from table)	32.8708
Amount borrowed to purchase car	$15,000
Monthly loan payment (= amount borrowed / present value factor above)	$456.33
Monthly savings	
Monthly loan payment	$456.33
Monthly lease payment	$400.00
Incremental cash available to save each month if lease rather than buy	**$56.33**
Future value of depositing incremental monthly savings	
Future value of $1 annuity at month end for 36 months at 0.25% per month (from below)	37.62056
Amount in savings account at end of lease term (36 months) if lease rather than buy	**$2,119**
Expected value of car in 36 months (trade in or resale)	**$2,000**
Decision	
Buy the car only if the trade in or resale value of the car is greater than your savings.	
Decision:	**Lease**
Future value of $1 annuity at month end for 36 months at 0.25% per month	
Using table for future value of annuity of investing $1 at end of month for 36 months at 0.25%	37.62056
Alternatively, using table for future value of annuity of investing $1 at **start** of month:	
Future value of $1 annuity at start of month for 35 months at 0.25% per month (from table)	36.62056
Future value of $1 received at end of 36th month	1.00000
Future value of $1 annuity at month end for 36 months at 0.25% per month	37.62056

Question II-3

No credit for completing the bond attributes and amortization tables below. However, the related data is needed for the entries below and on the following page.

Carter's Corporation

Computing the stated interest and stated interest rate

Present value of face value: $5,583.95 = $10,000 * 0.5584, where 0.5584 is the present value of $1 discounted at 6% for 10 periods

Present value of stated interest payments: $5,152.06 = $10,736 - $5,583.95

Stated interest payments: $700.00 = $5,152.06/7.3601, where 7.3601 is the present value of an annuity of $1 discounted at 6% for 10 years

Stated interest rate: 7% = ($700.00/$10,000) * 100%

Issuance Date: December 31, 2013				Contractual Future Cash Flows									
Stated rate	Face value	Market rate at issuance	Proceeds at issuance	31-Dec-14	31-Dec-15	30-Dec-16	30-Dec-17	31-Dec-18	31-Dec-19	30-Dec-20	30-Dec-21	31-Dec-22	31-Dec-23
7.00%	$10,000	6.00%	$10,736	($700)	($700)	($700)	($700)	($700)	($700)	($700)	($700)	($700)	($10,700)

Amortization Table Through End of 2014

Year	Cash paid during year	Interest expense during year	Discount or premium amortized during year	Debt carrying value at year end
2013				$10,736.01
2014	$700	$644.16	$55.84	$10,680.17

(2 points each, for a total of 4 points)

II-3a

Record Carter's journal entry to recognize the issuance of the bonds on December 31, 2013.

Issue bond on December 31, 2013

	Debit	Credit
Cash	$10,736.01	
Bond unamortized premium		$736.01
Bond face value		$10,000.00

II-3b

Record Carter's journal entry to recognize the first-year interest expense on December 31, 2014, including any amortization of a premium or discount and accrue the interest payment that is due. Assume the related unamortized discount or premium is classified as non-current.

Record first-year interest expense on December 31, 2014

	Debit	Credit
Finance (interest) expense	$644.16	
Bond unamortized premium	$55.84	
Accrued liabilities		$700.00

Question II-4

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

II-4(i)

CIRCLE the letter associated with the best response.

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

(a) The net effect of operating entries on Newell RubberMaid's balance sheet for Accounts receivable, net was a $110.4 million increase during fiscal 2012.

(b) The net effect of operating entries on Newell RubberMaid's balance sheet for Accounts receivable, net was a $101.2 million increase during fiscal 2012.

(c) The net effect of operating entries on Newell RubberMaid's balance sheet for Accounts receivable, net was a ($101.2) million or a decrease during fiscal 2012.

(d) (a) and (c)

(e) (b) and (c)

II-4(ii)

CIRCLE the letter associated with the best response.

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

(a) Net income attributable to shareholders who owned Newell RubberMaid shares was $401.3 million for fiscal 2012.

(b) Net income attributable to shareholders who owned Newell RubberMaid shares was $319.3 million for fiscal 2012.

(c) At the end of fiscal 2012, parties other than Newell RubberMaid owned shares or other ownership interests in entities Newell RubberMaid controlled.

(d) (a) and (c)

(e) (b) and (c)

Question II-5

II-5a

Record a single journal entry that summarizes the entries Newell RubberMaid recorded during fiscal 2012 to recognize its bad debts expense for accounts receivables. Ignore "other" items.
(1 point)

	Debit	Credit
Bad debts expense	$70.6	
Allowance for bad debts		$70.6

Source: Schedule II: Allowance for losses on accounts receivable

II-5b

Record a single journal entry that summarizes the entries Newell RubberMaid recorded during fiscal 2012 to repurchase and retire shares of common stock with cash.
Hint: you will need all four rows in the space below.
(2 points)

	Debit	Credit
Common stock	$4.9	
Additional paid-in capital	$10.0	
Retained earnings	$76.6	
Cash		$91.5

Source: Statement of cash flows and Statement of stockholders' equity

II-5c

Record a single journal entry that summarizes the entries Newell RubberMaid recorded during fiscal 2011 for impairment charges (note the year is intentionally fiscal 2011).
(1 point)

	Debit	Credit
Goodwill impairment charges	$382.6	
Goodwill		$382.6

Source: Statement of cash flows and Income statement

II-5d

Identify the Newell RubberMaid financial statement line items that would have been directly affected (and the direction of the effects) if Newell RubberMaid had recorded the journal entry in question II-5c (goodwill impairment) during fiscal 2011. NOTE: YEAR IS FISCAL 2011.
(1/2 point per statement, for a total of 2 points.)

Newell RubberMaid Inc. Financial Statements, Fiscal 2011

Balance Sheet

Line Items	Increases	Decreases
Goodwill		x
Retained earnings		x

Statement of Stockholders' Equity

Line Items	Increases	Decreases
Net income		x

Statement of Operations

Line Items	Increases	Decreases
Impairment charges	x	

Statement of Cash Flows

Line Items	Increases	Decreases
Net income		x
Impairment charges	x	

Question II-6

II-6a

Assume the judge rules in Apple's favor, instructing Samsung to pay Apple $15.7 million at a specified future date, and Apple records the amount due when the judge makes this ruling. Determine the direct effect(s) on the following Apple metrics, everything else equal (ignore taxes) when Apple records this entry.
(1/2 point per ratio, for a total of 2 point.)

	Increases	Decreases	No Effect
Financial leverage (liabilities / assets)		x	
Asset turnover (revenues / average assets)		x	
Gross margin ((revenues - cost of sales) / revenues)			x
Return on equity (ROE) (net profit / average owners' equity)	x		

II-6b

Determine the direct effect(s) on the following BlackBerry's metrics, everything else equal (ignore taxes) when BlackBerry recorded the journal entry to recognize the $934 million inventory charge.
(1/2 point per ratio, for a total of 2 point.)

	Increases	Decreases	No Effect
Working capital (current assets - current liabilities)		x	
Asset turnover (revenues / average assets)	x		
Net cash from operations			x
Gross margin ((revenues - cost of sales) / revenues)		x	

Section III — MORE CHALLENGING

Question III-1a

(3 points)

Assume EADs reported € 1,678 "Profit before income taxes" (in millions of euros) for the year ended December 31, 2012. What would EADS have reported as "Profit before income taxes" (in millions of euros) for this period if it had always accounted for product development costs under US GAAP rather than IFRS?

Assume, all other accounting remains the same and ignore taxes. Also assume reported 2012 income was not affected by impairments or disposals of capitalized development costs.

Note: An implication of assuming "EADS had **always** accounted for product development costs under US GAAP" is you can ignore the capitalized development costs reported on EADS's balance sheet at the start of 2011 when determining the income EADS would have reported under US GAAP. More specifically, you can focus on flows in and out of capitalized development cost, net.

Write your answer in this box: € 1,361

EADS

Profit before income taxes if product development under US GAAP

In millions of euros	**2012**
Profit before income taxes with product development under IFRS	**1,678**
Reverse amortization in cost of sales	171
Subtract development costs capitalized during 2012	-488
Profit before income taxes if product development under US GAAP	**1,361**

Question III-1b

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

Identify how the ratios below would change (relative to those based on EADS's actual reported IFRS numbers) if EADS were to restate its reported numbers to what they would have been if it had always accounted for product development costs under US GAAP.

	Change in ratio if product development costs had always been accounted for under US GAAP rather than IFRS		
	Increases	**Decreases**	**No Effect**
Working capital (current assets - current liabilities)			X
Financial leverage (liabilities / assets)	X		
Gross margin ((revenues - cost of sales) / revenues)		X	
Asset turnover (revenues/average assets)	X		

III-2a

Record a single journal entry that summarizes the entries Google recorded during fiscal 2012 to recognize stock-based compensation expense.
(3 points)

	Debit	Credit
Cost of sales - Google	$359.0	
Cost of sales- Motorola	$14.0	
Research and development	$1,325.0	
Selling and Marketing	$498.0	
General and administrative	$453.0	
Common stock		$2,649.0

Source: Note at bottom of Income statement

III-2b

Identify the Google financial statement line items that would have been directly affected (and the direction of the effects) if Google had recorded the journal entry in question III-2a (stock-based compensation expense) during during fiscal 2012.

Note: the stock-based compensation expense you recorded in III-2a excludes $43 million related to discontinued operations. Ignore this difference when identifying the financial statement effects.

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

Google Inc. Financial Statements, fiscal 2012

Balance Sheet

Line Items	Increases	Decreases
Class A and Class B common stock and additional paid-in capital	X	
Retained earnings		X

Statement of Stockholders' Equity

Line Items	Increases	Decreases
Net income		X
Stock-based compensation expense	X	

Income Statement

Line Items	Increases	Decreases
Cost of revenues—Google	X	
Cost of revenues—Motorola Mobile	X	
Research and development	X	
Sales and marketing	X	
General and administrative	X	

Statement of Cash Flows

Line Items	Increases	Decreases
Net income		X
Stock-based compensation expense	X	