NAME________________________________

Financial Accounting Exam 3.2

Professors G. Peter and Carolyn R. Wilson

- The exam packet is comprised of:
  1. This 31-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. Questions are labeled as Parts I: Basic, II: Intermediate and III: More Challenging.
  2. The Final Exam Supplement, which contains **separate** chart of accounts for **each** company, statements for a fictitious company, and statements and select disclosures for the following real companies:
     - **Steelcase, Inc.** "Steelcase is the global leader in creating great work experiences in business, education and healthcare environments... provide an integrated portfolio of furniture settings, user-centered technologies and interior architectural products ..." (Steelcase's 2012 10-K, page 1)
     - **BP, p.l.c.** "BP is one of the world's leading international oil and gas companies. BP operates or markets products in more than 80 countries, providing customers with fuel for transportation, energy for heat and light, retail services." (BP's 2010 annual report 20-F, page 14)
     - **Apple, Inc.** "Designs, manufactures and markets mobile communication and media devices, personal computers, and portable digital music players, and sells a variety of related software, services, peripherals, networking solutions, and third-party digital content and applications." (Apple's 2012 10-K, page 1)
     - **For the purpose of this exam, assume all companies' policy is to report working-capital reconciliation adjustments that reflect the net effects of all operating entries during the period on the related accounts.**
  3. Scrap paper. Additional scrap paper is available at the front of the room.
- There are 40 possible points on the exam that can be applied to your course grade. Partial credit will not be awarded, so check your answers carefully.
- Be careful not to get bogged down on a question and spend so much time on it that you don't get to the questions you know how to answer. If you believe a question is ambiguous, describe the nature of the ambiguity and the assumptions you are making to resolve this ambiguity.
- You have 5 hours to complete the exam.
- The exam is closed book and closed notes.
- You cannot use a laptop, tablet, cell phone, or other communication or mobile device.
- You may bring a calculator for your individual use (not to be shared with others), but your calculator must not contain course related information. 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.
- You may bring a hardcopy dictionary for your individual use (not to be shared with others), but it must not contain course related information, either as handwritten notes or attached/inserted notes. No electronic dictionaries allowed. We reserve the right to inspect your dictionary before the exam and randomly during the exam. As a result, we may, in our sole judgment, deem it inappropriate for use during the exam.
- You are required to TURN IN ALL MATERIALS when you have finished the exam, including the exam document, the exam supplement, and all scrap paper (provided). Moreover, once the exam starts, you may not take any materials from the room, including the above and your dictionary, if you brought one.
- 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.

Part I: Basic Level Questions

Part I 1-4: Basic Level Questions pertains to **Jerri's Pampering Day Spa.** Jerri's sells a variety of services including massages and facials for a one day experience or an annual fee for monthly spa services. Jerri's also sells aromatherapy products for customers to extend the spa experience at home.

Question I-1

For parts (a) - (e) you are to record journal entries for **Jerri's Pampering Day Spa.** (1) Write your journal entry in the space provided below each question. (2) Use the *most* appropriate accounts from **Jerri's Pampering Day Spa chart of accounts in the exam supplement** (it contains some accounts that are not appropriate).
(1/2 point each, for a total of 2 1/2 points)

I-1a

Record a journal entry for the following:

During December 2012, Jerri's Pampering Day Spa purchased office computers for $1,500 cash.

	Debit	Credit

I-1b

Record a journal entry for the following:

During December 2012, Jerri's Pampering Day Spa purchased aromatherapy products on account for $700. The company will resell the products to customers for a profit. The company was invoiced upon delivery.

	Debit	Credit

I-1c

Record a journal entry for the following:

During December 2012, Jerri's Pampering Day Spa sold aromatherapy products to customers for $1,900. $1,400 was collected at the time of the sale and the remainder was fully expected to be collected in the next 60 days. Jerri's policy is to recognize revenue at the time products are sold, providing collection is reasonably assured.

	Debit	Credit

I-1d

Record a journal entry for the following:

During December 2012, the aromatherapy products sold in part I-1c above cost $575.

	Debit	Credit

I-1e

Record a journal entry for the following:

During December 2012, Jerri's Pampering Day Spa accrued $90 of tax expense.

	Debit	Credit

Question I-2

For parts (a) - (b) you are to record journal entries for **Jerri's Pampering Day Spa** and then determine the effects on **Jerri's Pampering Day Spa's** financial statements found in the exam supplement.

I-2a

(1) Write your journal entry in the space provided below each question. (2) Use the *most* appropriate accounts from **Jerri's Pampering Day Spa chart of accounts in the exam supplement** (it contains some accounts that are not appropriate).
(1/2 point)

Record a journal entry for the following:

During December 2012, Jerri's Pampering Day Spa collected $1,800 of annual service fees from customers. Jerri's policy is to recognize service revenues evenly over the subsequent twelve months, starting at the end of the month fees are collected.

	Debit	Credit

I-2b

Identify the Jerri's Pampering Day Spa 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-2a (collect service fees) during the fiscal 2012.
(1/2 point per statement, for a total of 2 points.)

If an incorrect entry in I-2a leads to errors here, you won't receive credit here. Thus, check your entry carefully.

Guidance:

(1) Determine the appropriate line item(s) affected using **Jerri's Pampering Day Spa** statements. For example, write "Cash and cash equivalents" because this is on **Jerri's Pampering Day Spa's** balance sheet.

(2) Include line item(s) directly affected, including the effect(s) of closing entries for events affecting income. Ignore taxes.

(3) **Identify the subtotal "Net cash from operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals.**

(4) **Don't include totals or sub-totals other than "Net cash from operations" 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 cash flows, so you must include "Net income" if it's affected on the statement of cash flows.**

(5) Three lines were included below for each statement, but you may need none, more than one, or all lines. **Write "NONE" if no line item is effected on the statement.**

(6) Indicate if the effect(s) of the entries associated with the above event increased or decreased the line item. Put an X in the appropriate column if the above event increases or decreases 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.**

(7) You won't receive credit for a statement if you list line items not affected by the entry: don't guess!

Jerri's Pampering Day Spa 2012 Statements

BALANCE SHEETS Line Items	Increases	Decreases	INCOME STATEMENT Line Items	Increases	Decreases
______________	☐	☐	______________	☐	☐
______________	☐	☐	______________	☐	☐
______________	☐	☐	______________	☐	☐

STATEMENT OF STOCKHOLDERS' EQUITY Line Items	Increases	Decreases	CASH FLOW STATEMENT Line Items	Increases	Decreases
______________	☐	☐	______________	☐	☐
______________	☐	☐	______________	☐	☐
______________	☐	☐	______________	☐	☐

Question I-3

For parts (a) - (b) you are to record journal entries for **Jerri's Pampering Day Spa** and then determine the effects on **Jerri's Pampering Day Spa's** financial statements found in the exam supplement.

I-3a

(1) Write your journal entry in the space provided below each question. (2) Use the *most* appropriate accounts from **Jerri's Pampering Day Spa chart of accounts in the exam supplement** (it contains some accounts that are not appropriate).
(1/2 point)

Record a journal entry for the following:

During December 2012, Jerri's Pampering Day Spa recognized $150 of previously deferred service revenue.

	Debit	Credit

I-3b

Identify the Jerri's Pampering Day Spa 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-3a (recognize previously deferred service revenue) during the fiscal 2012.
(1/2 point per statement, for a total of 2 points.)

If an incorrect entry in I-3a leads to errors here, you won't receive credit here. Thus, check your entry carefully.

Guidance:

(1) Determine the appropriate line item(s) affected using **Jerri's Pampering Day Spa** statements. For example, write "cash" because this is on **Jerri's Pampering Day Spa's** balance sheet.

(2) Include line item(s) directly affected, including the effect(s) of closing entries for events affecting income. Ignore taxes.

(3) **Identify the subtotal "Net cash from operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals.**

(4) **Don't include totals or sub-totals other than "Net cash from operations" 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 cash flows, so you must include "Net income" if it's affected on the statement of cash flows.**

(5) Three lines were included below for each statement, but you may need none, more than one, or all lines. **Write "NONE" if no line item is effected on the statement.**

(6) Indicate if the effect(s) of the entries associated with the above event increased or decreased the line item. Put an X in the appropriate column if the above event increases or decreases 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.**

(7) You won't receive credit for a statement if you list line items not affected by the entry: don't guess!

Jerri's Pampering Day Spa 2012 Statements

BALANCE SHEETS

Line Items	Increases	Decreases
	☐	☐
	☐	☐
	☐	☐

INCOME STATEMENT

Line Items	Increases	Decreases
	☐	☐
	☐	☐
	☐	☐

STATEMENT OF STOCKHOLDERS' EQUITY

Line Items	Increases	Decreases
	☐	☐
	☐	☐
	☐	☐

CASH FLOW STATEMENT

Line Items	Increases	Decreases
	☐	☐
	☐	☐
	☐	☐

Question I-4

For parts (a) - (b) you are to record journal entries for **Jerri's Pampering Day Spa** and then determine the effects on **Jerri's Pampering Day Spa's** financial statements found in the exam supplement.

I-4a

(1) Write your journal entry in the space provided below each question. (2) Use the *most* appropriate accounts from **Jerri's Pampering Day Spa chart of accounts in the exam supplement** (it contains some accounts that are not appropriate).
(1/2 point)

Record a journal entry for the following:

During December 2012, Jerri's Pampering Day Spa recognized $25 of depreciation expense related to its office computer equipment.

	Debit	Credit

I-4b

Identify the Jerri's Pampering Day Spa 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-4a (depreciation expense) during the fiscal 2012.
(1/2 point per statement, for a total of 2 points.)

If an incorrect entry in I-4a leads to errors here, you won't receive credit here. Thus, check your entry carefully.

Guidance:

(1) Determine the appropriate line item(s) affected using **Jerri's Pampering Day Spa** statements. For example, write "cash" because this is on **Jerri's Pampering Day Spa's** balance sheet.

(2) Include line item(s) directly affected, including the effect(s) of closing entries for events affecting income. Ignore taxes.

(3) **Identify the subtotal "Net cash from operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals.**

(4) **Don't include totals or sub-totals other than "Net cash from operations" 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 cash flows, so you must include "Net income" if it's affected on the statement of cash flows.**

(5) Three lines were included below for each statement, but you may need none, more than one, or all lines. **Write "NONE" if no line item is effected on the statement.**

(6) Indicate if the effect(s) of the entries associated with the above event increased or decreased the line item. Put an X in the appropriate column if the above event increases or decreases 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.**

(7) You won't receive credit for a statement if you list line items not affected by the entry: don't guess!

Jerri's Pampering Day Spa 2012 Statements

BALANCE SHEETS

Line Items	Increases	Decreases
____________________	☐	☐
____________________	☐	☐
____________________	☐	☐

INCOME STATEMENT

Line Items	Increases	Decreases
____________________	☐	☐
____________________	☐	☐
____________________	☐	☐

STATEMENT OF STOCKHOLDERS' EQUITY

Line Items	Increases	Decreases
____________________	☐	☐
____________________	☐	☐
____________________	☐	☐

CASH FLOW STATEMENT

Line Items	Increases	Decreases
____________________	☐	☐
____________________	☐	☐
____________________	☐	☐

Part II: Intermediate Level Questions

Part II 5-11: Intermediate Level Questions pertains to **Steelcase, Inc. See the exam supplement for Steelcase's financial statements and other footnote disclosures.** Use the *most* appropriate accounts from **Steelcase's chart of accounts in the exam supplement** (it contains some accounts that are not appropriate).

Question II-5

RELEVANT INFORMATION for QUESTION 5
The format for parts (i)-(ii) of question 5 is the same as the format for clicker questions discussed during class. **You MUST CIRCLE the letter associated with the best response to receive credit.** (1/2 point each for a total of 1 point)

II-5(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 Steelcase's Accounts receivable, net was a $15.9 million increase during the year ended February 22, 2013.

(b) The net effect of operating entries on Steelcase's Accounts receivable, net was a $12.8 million decrease during the year ended February 22, 2013.

(c) The net effect of non-operating entries on Steelcase's Accounts receivable, net was a $3.1 million increase during the year ended February 22, 2013.

(d) (a) and (c)

(e) (b) and (c)

II-5(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 Steelcase shares was $33.8 million for the year ended February 22, 2013.

(b) Net income attributable to shareholders who owned Steelcase shares was $38.8 million for the year ended February 22, 2013.

(c) At the year ended February 22, 2013, parties other than Steelcase owned shares or other ownership interests in entities Steelcase controlled.

(d) (a) and (c)

(e) (b) and (c)

Question II-6

II-6a

Record a single journal entry that summarizes the entries Steelcase recorded during the year ended February 22, 2013 to purchase investments with cash. For the purpose of this exam, assume Steelcase expects to sell or liquidate them within one year.
(1 point)

	Debit	Credit
____________________	______	______
____________________	______	______
____________________	______	______
____________________	______	______

II-6b

Record a single journal entry that summarizes the entries Steelcase recorded during the year ended February 22, 2013 to repay long-term debt principal with cash. Assume Steelcase had anticipated this payment, prior to making the payment.
(1 point)

	Debit	Credit
____________________	______	______
____________________	______	______
____________________	______	______
____________________	______	______

II-6c

Record a single journal entry that summarizes the entries Steelcase recorded during the year ended February 22, 2013 for disposal of fixed assets. For the purpose of this exam question, assume:

- **The accumulated depreciation of the disposed assets was $10.0.**
- **Hint: Book value of assets = historical cost - accumulated depreciation.**

(1 point)

	Debit	Credit

Question II-7

II-7a

Record a single journal entry that summarizes the entries Steelcase recorded during the year ended February 22, 2013 to impair goodwill.
(1 point)

	Debit	Credit

II-7b

Identify the Steelcase financial statement line items that would have been directly affected (and the direction of the effects) if Steelcase had recorded the journal entry in question II-7a (goodwill impairment) during the year ended February 22, 2013.
(1/2 point per statement, for a total of 2 points.)

If an incorrect entry in II-7a leads to errors here, you won't receive credit here. Thus, check your entry carefully.

Guidance:

(1) Determine the appropriate line item(s) [not accounts] affected using Steelcase's statements. For example, write "cash and cash equivalents" rather than "cash" because this is the description of the line item on Steelcase's balance sheet.

(2) Include line item(s) directly affected, including the effect(s) of closing entries for events affecting income. Ignore taxes.

(3) **Identify the subtotal "Net cash provided by operating activities" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals.**

(4) **Don't include totals or sub-totals other than "Net cash provided by operating activities" 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 cash flows, so you must include "Net income" if it's affected on the statement of cash flows.**

(5) Four lines were included below for each statement, but you may need none, more than one, or all lines. **Write "NONE" if no line item is effected on the statement.**

(6) Indicate if the effect(s) of the entries associated with the above event increased or decreased the line item. Put an X in the appropriate column if the above event increases or decreases 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.**

(7) You won't receive credit for a statement if you list line items not affected by the entry: don't guess!

Steelcase Inc. Financial Statements, year ended February 22, 2013

Balance Sheet

Line Items	Increases	Decreases
________________	☐	☐
________________	☐	☐
________________	☐	☐
________________	☐	☐

Statement of Stockholders' Equity

Line Items	Increases	Decreases
________________	☐	☐
________________	☐	☐
________________	☐	☐
________________	☐	☐

Income Statement

Line Items	Increases	Decreases
________________	☐	☐
________________	☐	☐
________________	☐	☐
________________	☐	☐

Statement of Cash Flows

Line Items	Increases	Decreases
________________	☐	☐
________________	☐	☐
________________	☐	☐
________________	☐	☐

Question II-8

II-8a

Record a single journal entry that summarizes the entries Steelcase recorded during the year ended February 22, 2013 to recognize its write-offs (net of recoveries) of accounts receivables. Ignore "other" items.

(1 point)

	Debit	Credit

II-8b

Record a single journal entry that summarizes the entries Steelcase recorded during the year ended February 22, 2013 to recognize its bad debts expense for accounts receivables. Ignore "other" items.

(1 point)

	Debit	Credit

NAME_________________________________

II-8c

Identify the Steelcase financial statement line items that would have been directly affected (and the direction of the effects) if Steelcase had recorded the journal entry in question II-8b (recognize bad debts expense) during the year ended February 22, 2013.
(1/2 point per statement, for a total of 2 points.)

If an incorrect entry in II-8b leads to errors here, you won't receive credit here. Thus, check your entry carefully.

Guidance:

(1) Determine the appropriate line item(s) [not accounts] affected using Steelcase's statements. For example, write "cash and cash equivalents" rather than "cash" because this is the description of the line item on Steelcase's balance sheet.

(2) Include line item(s) directly affected, including the effect(s) of closing entries for events affecting income. Ignore taxes.

(3) **Identify the subtotal "Net cash provided by operating activities" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals.**

(4) **Don't include totals or sub-totals other than "Net cash provided by operating activities" 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 cash flows, so you must include "Net income" if it's affected on the statement of cash flows.**

(5) Four lines were included below for each statement, but you may need none, more than one, or all lines. **Write "NONE" if no line item is effected on the statement.**

(6) Indicate if the effect(s) of the entries associated with the above event increased or decreased the line item. Put an X in the appropriate column if the above event increases or decreases 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.**

(7) You won't receive credit for a statement if you list line items not affected by the entry: don't guess!

Steelcase Inc. Financial Statements, year ended February 22, 2013

Balance Sheet

Line Items	Increases	Decreases
____________________	☐	☐
____________________	☐	☐
____________________	☐	☐
____________________	☐	☐

Statement of Stockholders' Equity

Line Items	Increases	Decreases
____________________	☐	☐
____________________	☐	☐
____________________	☐	☐
____________________	☐	☐

Income Statement

Line Items	Increases	Decreases
____________________	☐	☐
____________________	☐	☐
____________________	☐	☐
____________________	☐	☐

Statement of Cash Flows

Line Items	Increases	Decreases
____________________	☐	☐
____________________	☐	☐
____________________	☐	☐
____________________	☐	☐

Question II-9

Steelcase's warranties footnote indicates its non-current warranty allowance is included in "other long-term liabilities" on the balance sheet. However, the footnote doesn't separately report current and non-current allowances. Thus, for the purpose of recording entries in questions II-9a & b only (NOT for the financial effects in II-9c) you are to record the entry into a fictitious account that combines the current and non-current warranty liabilities into a single allowance for warranty account.

II-9a

Record a single journal entry that summarizes the entries Steelcase recorded during the year ended February 22, 2013 to meet customers' warranty and recall claims. That is, to repair or replace products under warranty and recall programs.

For the purpose of this question, assume 90% of Steelcase's total cost to meet customers' warranty and recall claims is related to inventoried replacement parts or products and 10% to wages for labor to be paid at a future date. Round amounts to one decimal place.

(1 point)

	Debit	Credit

II-9b

Record a single journal entry that summarizes the entries Steelcase recorded during the year ended February 22, 2013 to replenish the warranty allowance. Ignore currency translation adjustments.

(1 point)

	Debit	Credit

II-9c

Identify the Steelcase financial statement line items that would have been directly affected (and the direction of the effects) if Steelcase had recorded the journal entry in question II-9b (replenish the warranty allowance) during the year ended February 22, 2013. HOWEVER, UNLIKE THE ENTRY IN II-9b, CONSIDER THE EFFECTS OF CURRENT AND NON-CURRENT SEPARATELY. The amounts are not disclosed, but you can determine the line items directly affected and the direction of the effects.
(1/2 point per statement, for a total of 2 points.)

If an incorrect entry in II-9b leads to errors here, you won't receive credit here. Thus, check your entry carefully.

Guidance:

(1) Determine the appropriate line item(s) [not accounts] affected using Steelcase's statements. For example, write "cash and cash equivalents" rather than "cash" because this is the description of the line item on Steelcase's balance sheet.

(2) Include line item(s) <u>directly</u> affected, <u>including the effect(s) of closing entries</u> for events affecting income. Ignore taxes.

(3) **Identify the subtotal "Net cash provided by operating activities" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals.**

(4) **Don't include totals or sub-totals other than "Net cash provided by operating activities" 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 cash flows, so you must include "Net income" if it's affected on the statement of cash flows.**

(5) Four lines were included below for each statement, but you may need none, more than one, or all lines. **Write "NONE" if no line item is effected on the statement.**

(6) Indicate if the effect(s) of the entries associated with the above event increased or decreased the line item. Put an X in the appropriate column if the above event increases or decreases 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.**

(7) You won't receive credit for a statement if you list line items not affected by the entry: don't guess!

Steelcase Inc. Financial Statements, year ended February 22, 2013

Balance Sheet

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

Statement of Stockholders' Equity

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

Income Statement

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

Statement of Cash Flows

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

Question II-10

Hypothetically, for the purpose of this question only, assume the accounting standards for leases changed and Steelcase was required to capitalize the estimated future minimum annual rental commitments, net of sublease rental income, under non-cancelable operating leases as of February 22, 2013. Assume the company recognized the current and non-current implications of this change when recording this hypothetical entry using the following computations:

Capitalizing operating leases: present value of future operating lease payments

Discount rate: 5%

Reported by Steelcase		Present value of estimated future lease payements, discounted at 5%, using 2018 payment after 2018, until thereafter cash flows used up			
Year	Operating lease payments, net	Year	Operating lease payments	Present value of 1, discounted at 5%	Present value of each payment
2014	$42.7	2014	$42.7	0.9524	$40.7
2015	33.3	2015	33.3	0.9070	30.2
2016	24.9	2016	24.9	0.8638	21.5
2017	15.3	2017	15.3	0.8227	12.6
2018	11.0	2018	11.0	0.7835	8.6
Thereafter	14.4	2019	11.0	0.7462	8.2
	$141.6	2020	3.4	0.7107	2.4
				Total	**$124.2**

II-10a

Record a single journal entry that summarizes the hypothetical entry Steelcase would record as of February 22, 2013 to to capitalize the estimated future minimum annual rental commitments, net of sublease rental income, under non-cancelable operating leases. Assume the company recognized the current and non-current implications of this change when recording this hypothetical entry. Round amounts to one decimal place.
(1 point)

	Debit	Credit

II-10b

Determine the direct effect(s) on the following Steelcase's metrics, everything else equal (ignore taxes) if Steelcase recorded the hypothetical journal entry to recognize all of its operating leases as capital leases on February 22, 2013. Ignore taxes.
(1/4 point per ratio, for a total of 1 point.)

If an incorrect entry in part II-10a leads to errors here, you won't receive credit here. Thus, check your part **II-10a** entry carefully.

Guidance:
Include the direct affects, 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)	☐	☐	☐
Return on equity (ROE) (net profit / average owners' equity)	☐	☐	☐
Financial leverage (average assets / average owners' equity)	☐	☐	☐
Asset turnover (revenues / average assets)	☐	☐	☐

Question II-11

Part II-11: Intermediate Level Questions pertains to various companies' news as reported in the *Wall Street Journal* or the company's press release. There is no additional information provided in the exam supplement. All information needed is provided with the question.

II-11a

As reported in *The Wall Street Journal*, September 27, 2013:

> "J.C.Penny Co. top executives arrived in New York this week to declare efforts to bring shoppers back to the beleaguered department-store chain were gaining traction. ...
>
> What soured the mood was a hastily arranged effort to sell more than $800 million worth of new shares. The sale shored up the retailer's balance sheet ahead of what could be a tricky holiday season. ...
>
> Earlier this year, the investment bank [Goldman Sachs] arranged a $2.25 billion loan for Penney backed by the company's real estate."

Determine the direct effect(s) on the following J.C. Penny's metrics, everything else equal (ignore taxes) when J.C. Penny recorded the journal entries to recognize the $800 million of new shares and the $2.25 billion loan.
(1/4 point per ratio, for a total of 1 point.)

Guidance:
Include the direct affects, 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
Working capital (current assets - current liabilities)	☐	☐	☐
Return on equity (ROE) (net profit / average owners' equity)	☐	☐	☐
Net cash from financing	☐	☐	☐
Net cash from investing	☐	☐	☐

II-11b

As reported in *The Wall Street Journal*, August 1, 2013:

> "Barrick Gold Corp., the world's largest gold miner by production, took $8.7 billion of write-downs in the second quarter and slashed its dividend, in a stark example of the fallout from gold's precipitous price decline.
>
> With gold prices down by more than 20% this year, Barrick joined a host of other miners forced to write down the value of mines acquired - or put into production - in previous years as the price of the precious metal set new highs. ...
>
> The write-downs pushed Barrick to a net loss of $8.56 billion..."

Determine the direct effect(s) on the following Barrick Gold Corp. metrics, everything else equal (ignore taxes) when Barrick Gold Corp. recorded the journal entry to recognize the $8.7 billion write-down.
(1/4 point per ratio, for a total of 1 point.)

Guidance:
Include the direct affects, 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
Financial leverage (liabilities / assets)	☐	☐	☐
Profit margin (pretax profit / revenues)	☐	☐	☐
Asset turnover (revenues / average assets)	☐	☐	☐
Net cash from investing	☐	☐	☐

II-11c

As reported in *The Wall Street Journal*, September 20, 2013:

"BlackBerry Ltd. took an ax to its operations Friday, saying it would cut its staff by 40% and stop selling devices to consumers after its attempt to regain its footing in the smartphone market failed. ...

But the company now acknowledges those efforts [to compete] have fallen flat, saying it would write off nearly $1 billion in inventory of the new touch screen phones."

As reported in *The Wall Street Journal*, September 27, 2013:

"BlackBerry Ltd. posted a $965 million quarterly loss Friday and left many questions unanswered about the smartphone maker's future, its customers, and a proposed $4.7 billion deal to go private. ...

Excluding a $934 million inventory charge and restructuring charges of about $72 million in the latest quarter, BlackBerry said it lost $2.48 million, or 47 cents a share for the quarter ended Aug. 31."

As reported in *BlackBerry's News Release*, September 27, 2013:

"... loss from continuing operations... includes a ... pre-tax charge against inventory and supply commitments of approximately $934 million...

Cost of sales included the $934 million Z10 Inventory Charge incurred in the second quarter of fiscal 2014."

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

Guidance:
Include the direct affects, 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
Working capital (current assets - current liabilities)	☐	☐	☐
Asset turnover (revenues / average assets)	☐	☐	☐
Net cash from operations	☐	☐	☐
Gross margin ((revenues - cost of sales) / revenues)	☐	☐	☐

PART III: MORE CHALLENGING QUESTIONS

Part III-12: More Challenging Level Questions pertains to **Apple. See the exam supplement for Apple's financial statements and other footnote disclosures.** Use the *most* appropriate accounts from **Apple's chart of accounts in the exam supplement** (it contains some accounts that are not appropriate).

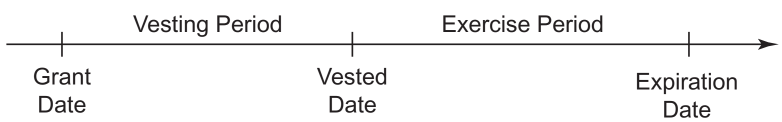
Question III-12

BACKGROUND INFORMATION

This question asks you to record Apple's share-based compensation expense for the year ended September 29, 2012 and to identify the financial statement effects of this entry. To this end, this background information briefly explains the concept of share-based compensation. It also provides a fictitious example of a share-based compensation entry. Additionally, you will need to refer to Apple's Share-based compensation footnote and financial statements in the exam supplement.

Share Based Compensation Concept

Share-based compensation pertains to compensation employees receive that is tied to their employer's share price. Options are a pervasive type of share-based compensation. Options give employees the right to purchase their employer's stock at a price specified when the options are awarded — the exercise price. Typically, the exercise price equals, or is very close to, the stock's fair value on the date the options are awarded — the grant date — and employees can't exercise the options until after a pre-specified period when employees earn the right to exercise the options, called the vesting period. Once vested, employees can exercise options at any time during the exercise period, which typically extends for ten or more years.



Apple uses stock options and restricted stock units (RSUs) for share-based compensation. When employees are granted RSUs (at the grant date), they are awarded the right to receive shares at the end of a vesting period, providing they meet certain performance goals or don't leave the company.

Accounting for Share-Based Compensation

Depending on the type of award, companies can receive three benefits in exchange for share-based compensation awards: (1) service from the employee during the vesting period, (2) cash from the employee, typically when they exercise stock options and (3) tax benefits from the government. Companies account for all three types of benefits during the life of share-based compensation arrangements. However, here we will focus solely on accounting for the value the company receives from the employee's service during the vesting period, which Apple refers to as "share-based compensation expense."

The amount of share-based compensation recognized during the vesting period depends on the estimated value of the award at the grant date. The value of an RSU award is the fair value of the company's shares on the grant date. The value of a stock option award at the grant date is determined using an option pricing model. (These models are beyond the scope of this discussion). The award's estimated value at the grant date is recognized ratably straight line over the vesting period as indicated in the following fictitious example.

Fictitious Example

- On January 1, 2012, Smith Company grants an option to an employee that can be exercised at the end of a four year vesting period. On this grant date, the value of the option is estimated to be $8. Given these facts, Smith Company will recognize the $8 of share-based compensation expense ratably on a straight-line basis over the four-year vesting period, or $2 of expense each period.

- The entry to recognize the share-based compensation expense each year is debit "share-based compensation expense" and credit "paid-in capital," each $2. The debit to the expense represents the cost to acquire the employee's service during the year and the credit to paid-in capital represents the employee's equity claim (e.g., the stock option).

  Aside: This is a highly unusual expense. In fact, strictly speaking it doesn't meet the definition of an expense under either US GAAP or IFRS. Both standard setting bodies' definitions are associated with a decrease in net assets, but the entry to record share-based compensation doesn't affect assets, nor liabilities. Regardless, both boards refer to this as an expense.

- The SEC has ruled that share-based compensation expense should be assigned to the same line items on the income statement that cash compensation for the employees is assigned. If the employee in the above example worked in Smith Company's marketing department and the company reported "marketing expense" on its income statement, the $2 recorded to share-based compensation expense would be assigned to this line item. Alternatively, the $2 could be recorded directly to a marketing expense account.

QUESTIONS

III-12a

Record a single journal entry that summarizes the entries Apple recorded during fiscal 2012 to recognize share-based compensation expense.

Use the most specific, appropriate accounts in Apple's chart of accounts in the exam supplement.

(2 points)

	Debit	Credit
______________________	______	______
______________________	______	______
______________________	______	______
______________________	______	______

NAME________________________________

III-12b

Identify the Apple financial statement line items that would have been directly affected (and the direction of the effects) if Apple had recorded the journal entry in question III-12a (share-based compensation expense) during during fiscal 2012.

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

If an incorrect entry in III-12a leads to errors here, you won't receive credit here. Thus, check your entry carefully.

Guidance:

(1) Determine the appropriate line item(s) [not accounts] affected using Apple's statements. For example, write "cash and cash equivalents" rather than "cash" because this is the description of the line item on Apple's balance sheet.

(2) Include line item(s) directly affected, including the effect(s) of closing entries for events affecting income. Ignore taxes.

(3) **Identify the subtotal "Cash generated by operating activities" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals.**

(4) **Don't include totals or sub-totals other than "Cash generated by operating activities" 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 cash flows, so you must include "Net income" if it's affected on the statement of cash flows.**

(5) Four lines were included below for each statement, but you may need none, more than one, or all lines. **Write "NONE" if no line item is effected on the statement.**

(6) Indicate if the effect(s) of the entries associated with the above event increased or decreased the line item. Put an X in the appropriate column if the above event increases or decreases 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.**

(7) You won't receive credit for a statement if you list line items not affected by the entry: don't guess!

Apple Inc. Financial Statements, year ended September 29, 2012

Balance Sheet

Line Items	Increases	Decreases
______________	☐	☐
______________	☐	☐
______________	☐	☐
______________	☐	☐

Statement of Stockholders' Equity

Line Items	Increases	Decreases
______________	☐	☐
______________	☐	☐
______________	☐	☐
______________	☐	☐

Income Statement

Line Items	Increases	Decreases
______________	☐	☐
______________	☐	☐
______________	☐	☐
______________	☐	☐

Statement of Cash Flows

Line Items	Increases	Decreases
______________	☐	☐
______________	☐	☐
______________	☐	☐
______________	☐	☐

Part III-13: More Challenging Level Questions pertains to **BP. See the exam supplement for excerpts from BP's footnote disclosures.** Use the *most* appropriate accounts from **BP's chart of accounts in the exam supplement** (it contains some accounts that are not appropriate).

Question III-13

BACKGROUND INFORMATION

This question asks you to record entries that summarize entries BP recorded during 2010 to account for a massive oil spill in the Gulf of Mexico. To this end, we are providing two types of background information: (1) a brief overview of the business setting, and (2) an explanation of the related accounting, including fictitious examples. To record the entries, you will also be using information from BP's Schedule 20-F for the year ended December 31, 2010, reported in the exam supplement.

Business Setting

The following quotes from BP's 2010 Schedule 20-F briefly describe the damage associated with the oil spill and two types of related costs that you will be accounting for in this question: (1) costs associated with paying claims filed by harmed parties, including individuals, businesses, and governments and (2) all of BP's other costs, including, for example, the costs to stop the flow of oil (hydrocarbons) and rehabilitate the Gulf and beaches.

> "On 20 April 2010, following a well blowout in the Gulf of Mexico, an explosion and fire occurred on the semi-submersible rig Deepwater Horizon and on 22 April the vessel sank. Tragically, 11 people lost their lives and 17 others were injured. Hydrocarbons continued to flow from the reservoir and up through the casing and the blowout preventer (BOP) for 87 days, causing a very significant oil spill.
>
> ...
>
> "At the end of 2010, the GCRO had a permanent staff of 100 employees and about 5,900 contractors including the Gulf Coast incident management team. The majority of the clean-up, maintenance and monitoring is being carried out by contract staff."
>
> "BP immediately took responsibility for responding to the incident, taking steps to remedy the harm that the spill caused to the Gulf of Mexico, the Gulf coast environment, and the livelihoods of the people in the region. … BP's comprehensive response focused on three strategic fronts: stopping the flow of hydrocarbons at the source; working to capture, contain and remove oil offshore and near the shore; and cleaning and restoring impacted shorelines and beaches along the Gulf coast. Initially BP mobilized a fleet of 30 vessels and over a million feet of protective boom. Thereafter the scale of activity grew rapidly, and at its peak included more than 6,500 vessels, more than 13 million feet of boom and almost 48,000 personnel."
>
> Page 34, 2010 Schedule 20-F

> "BP initially established a claims process in accordance with the requirements of the Oil Pollution Act 1990 (OPA 90), allowing claimants to make a claim against BP as one of the designated responsible parties. ... BP paid $399 million in claim payments to individuals and businesses before 23 August 2010, when the administration of these claims was transferred to the Gulf Coast Claims Facility (**GCCF**) … According to GCCF statistics, as of 31 December 2010, 468,869 claimants had submitted claims ...
>
> In support of the settlement of claims BP established the Deepwater Horizon Oil Spill Trust (Trust), and committed $20 billion to the Trust over a period of three-and-a-half years. … During 2010, BP made payments to the Trust totaling $5 billion and is committed to making additional payments of $1.25 billion, in one or more installments, during and prior to the end of each calendar quarter commencing with the first calendar quarter of 2011 and continuing until the last calendar quarter of 2013."
>
> Page 36, 2010 Schedule 20-F

Note: A trust fund is a legal entity established to administer distributions of cash or other property. Specific details about the BP Trust fund will be provided later with BP's disclosures.

Overview of BP's Accounting

Accounting for costs NOT associated with the Trust fund

During fiscal 2010, BP accounted for two types of costs that were not associated with claims administered by the Trust fund. The related entries are similar to those studied during the course:

(1) **Costs charged directly to income statement** (e.g., expensed as incurred)

Fictitious Example

- BP expensed $7 of clean-up costs when invoiced by third-party contractors. We will assume the entry is debit "oil spill expense" and credit "accounts payable," each $7.
- BP pays $3 owed to contractors. We will assume the entry is debit "accounts payable" and credit "cash," each $3.

(2) **Estimated future costs recorded to a liability allowance** each quarter during fiscal 2010. Some of this allowance was used during 2010. For example, part of the allowance recognized at the end of the second quarter was used during the third and fourth quarters.

Like many IFRS companies, BP refers to allowances as provisions

IFRS companies report provisions at the present value of the expected future costs and accrue interest to them over time.

Fictitious Example

- BP establishes a $9 provision (allowance) for oil spill costs at the end of the second quarter of fiscal 2010, which is the present value of $12 of estimated future costs. We will assume the entry is debit "oil spill expense" and credit "provision for oils spill," each $9.
- During the third quarter of fiscal 2010, BP uses $2 of the provision to pay third-party contractors. We will assume this involves two entries: (1) When the contractor invoices BP, debit "provision for oil spill" and credit "accounts payable," each $2. (2) When BP pays the contractor, debit "accounts payable" and credit "cash," each $2.
- At the end of the third quarter, BP accrues $0.50 of interest to the provision. We will assume the entry is debit "finance costs" (e.g., interest expense) and credit "provision for oil spill," each $0.50.
- At the end of the third quarter, BP adjusts the discount rate used to determine the present value of the provision (because interest rates have changed). As a result, BP increases the provision by $0.75. We will assume the entry is debit "oil spill expense" and credit "provision for oil spill," each $0.75. Note: the adjustment is not classified as finance costs on the income statement.
- At the end of the third quarter, having learned the anticipated future costs are much greater than anticipated earlier, BP increases the provision by $13. We will assume the entry is debit "oil spill expense" and credit "provision for oil spill," each $13.

  Note: This example dealt with costs NOT associated with claims administered through the Trust fund. As we will see next, the "provision for oil spill" liability also accounts for estimated future costs associated with claims administered through the Trust.

Accounting for costs associated with the Trust fund

This section explains the entries associated with the Trust fund BP established in 2010.

(1) **Entries affecting the "Trust fund liability**." BP recognized a Trust fund liability during fiscal 2010, representing its obligation to the US Government to fund the Trust by the end of fiscal 2013. The entries associated with the Trust fund liability are similar to those we have studied throughout the course when we've recognized expenses by accruing liabilities. The difference is the Trust fund liability is paid over three years, so similar to the "provision for oil spill" liability, the Trust fund liability is recognized at its present value and interest is accrued each period. We will assume BP recorded entries like those in the following example, **except with different numbers**:

Fictitious Example

- At the end of the second quarter of 2010, BP recognized its obligation to fund a Trust through quarterly payments totalling $120 by December 31,2013. At the time, the present value of the quarterly payments was $115. We will assume the entry to recognize the obligation is debit "oil spill expense" and credit "Trust fund liability," $115 each.
- During the third quarter of 2010, BP contributed $7.5 to the fund. We will assume the entry is debit "Trust fund liability" and credit "cash," $7.5 each. Thus, we will assume payments are made directly from the Trust fund: the Trust fund does not invoice BP and there are no transfers to accounts payable.
- At the end of the third quarter of 2010, BP accrued $1 of interest to the Trust fund liability. We will assume the entry is debit "finance costs" and credit "Trust fund liability," $1 each.
- At the end of the third quarter, BP adjusts the discount rate used to determine the present value of the Trust fund liability. As a result, BP increases the liability by $0.5. We will assume the entry is debit "oil spill expense" and credit "Trust fund liability," each $0.5.

  Note: Most of the expense associated with claims that will be paid by the Trust administrator is recognized when the Trust fund liability is established ($115 of the $120 in our example). The remaining expense, which is relatively small and spread over the funding period relates to the present value computations: the time value of money.

(2) **Entries affecting the "provision for oil spill" liability and "reimbursement asset."** The Trust fund liability reports the present value of the remaining payments BP must make to the fund, but it doesn't help investors track how Trust-fund claims are filed and paid by the fund administrators. Tracking the claims and payments is important because BP's agreement with the US Government doesn't cap BP's costs. Ultimately, costs can exceed the amount in the fund. BP reports an asset and liability that provide related information. In fact, BP reports the same amount at each balance sheet date. Here is how BP describes the asset and how it relates to the liability.

> "We use the term "reimbursement asset" to describe this asset. BP will not actually receive any reimbursements from the Trust fund, instead payments will be made directly to claimants from the Trust fund, and BP will be released from its corresponding obligation. ... The amount of the reimbursement asset is equal to the amount of provisions [in the provision for oil spill liability] as at 31 December 2010 that will be covered by the Trust fund."

Page 159, 2010 Schedule 20-F

The following example explains the entries behind the “reimbursement asset” and the portion of the “provision for oil spill” liability associated with the Trust claims:

Fictitious Example

- The portion of the “provision for oil spill” liability BP recognized during fiscal 2010 for items that will be covered by the Trust fund was $15 million. We will assume two entries are recorded that have a net effect of $0 on the “oil spill expense:”
  - Debit “oil spill expense” and credit “provision for oil spill” liability, each $15.
  - Debit “reimbursement asset” and credit “oil spill expense,” each $15.

  The net effect of these entries is debit “reimbursement asset” and credit “provision for oil spill” liability, each $15.
- The Trust fund administrators paid $7 to claimants during fiscal 2010 from the Trust fund. We will assume the entry is debit “provision for oils spill” liability and credit “reimbursement asset,” each $7.

QUESTIONS

III-13a

Record a single journal entry that summarizes the entries BP recorded during the year ended December 31, 2010 to recognize finance costs expense associated with the Gulf of Mexico oil spill.

See the exam supplement for excerpts from BP’s footnote disclosures. Use the accounts in the BP section of the exam supplement.
(2 points)

2010 finance costs related to oil spill

	Debit	Credit

III-13b

Record a single journal entry that summarizes the entries BP recorded during the year ended December 31, 2010 to recognize expenses associated with the Gulf of Mexico oil spill, excluding finance costs (recorded in III-13a).

See the exam supplement for excerpts from BP's footnote disclosures. Use the accounts in the BP section of the exam supplement.
(2 points)

2010 oil spill expense

	Debit	Credit

III-13c

Assumptions

For the purpose of this question, assume:

- "Costs charged directly to the income statement" are credited to accounts payable when incurred. These costs were never included in the estimated costs associated with the provision for oil spill.
- When a contractor invoices BP for a cost that is within the scope of the provision for oil spill or BP otherwise anticipates paying such a cost, BP transfers the cost from the provision to accounts payable.
- Payments to the Trust fund reduce the Trust fund liability.

Required

Record two journal entries below:

(1) An entry that summarizes the entries BP recorded during the year ended December 31, 2010 to transfer costs from the provision for oil spill to accounts payable.

(2) An entry that summarizes the entries BP recorded during the year ended December 31, 2010 to pay costs associated with the Gulf of Mexico oil spill .

See the exam supplement for excerpts from BP's footnote disclosures. Use the accounts in the BP section of the exam supplement.

(2 points: You must get both entries correct to receive credit.)

2010 transfers from provision for oil spills to accounts payable

	Debit	Credit

2010 cash payments related to oil spill

	Debit	Credit