Part I: Basic Level Questions

Question I-1

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

I-1a

Record a journal entry for the following:

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

Purchase PP&E

	Debit	Credit
Property, plant & equipment at cost	$1,500	
Cash		$1,500

I-1b

Record a journal entry for the following:

During fiscal 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.

Purchase products for resale on account

	Debit	Credit
Inventories	$700	
Accounts payable		$700

I-1c

Record a journal entry for the following:

During fiscal 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.

Recognize products revenue

	Debit	Credit
Cash	$1,400	
Accounts receivable	$500	
Products revenues		$1,900

I-1d

Record a journal entry for the following:

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

Recognize cost of sold products

	Debit	Credit
Cost of sales	$575	
Inventories		$575

I-1e

Record a journal entry for the following:

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

Accrue tax expense

	Debit	Credit
Tax expense	$90	
Accrued taxes		$90

Question I-2

I-2a

(1/2 point)

Record a journal entry for the following:

During fiscal 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.

Sell services for cash

	Debit	Credit
Cash	$1,800	
Deferred revenues		$1,800

I-2b

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

Deferred revenue when services were sold

BALANCE SHEETS

Line Items	Increases	Decreases
Cash and cash equivalents	x	
Deferred revenues	x	

INCOME STATEMENT

Line Items	Increases	Decreases
NONE		

STATEMENT OF STOCKHOLDERS' EQUITY

Line Items	Increases	Decreases
NONE		

CASH FLOW STATEMENT

Line Items	Increases	Decreases
Deferred revenues	x	
Net cash from operations	x	

Question I-3

I-3a

(1/2 point)

Record a journal entry for the following:

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

Recognize previously deferred revenue

	Debit	Credit
Deferred revenues	$150	
Services revenues		$150

I-3b

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

Recognized previously deferred revenue

BALANCE SHEETS

Line Items	Increases	Decreases
Deferred revenues		x
Retained earnings	x	

INCOME STATEMENT

Line Items	Increases	Decreases
Services revenues	x	

STATEMENT OF STOCKHOLDERS' EQUITY

Line Items	Increases	Decreases
Net income	x	

CASH FLOW STATEMENT

Line Items	Increases	Decreases
Net income	x	
Deferred revenues		x

Question I-4

I-4a

(1/2 point)

Record a journal entry for the following:

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

Recognize depreciation expense

	Debit	Credit
Depreciation expense	$25	
Accumulated depreciation		$25

I-4b

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

Recognized depreciation expense

BALANCE SHEETS

Line Items	Increases	Decreases
Accumulated depreciation		x
(Reported negative number decreases) Retained earnings		x

INCOME STATEMENT

Line Items	Increases	Decreases
Depreciation expense		x
(Reported negative number decreases.)		

STATEMENT OF STOCKHOLDERS' EQUITY

Line Items	Increases	Decreases
Net income		x

CASH FLOW STATEMENT

Line Items	Increases	Decreases
Net income		x
Depreciation	x	

Part II: Intermediate Level Questions

Question II-5

(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 for cash. For the purpose of this exam, assume Steelcase expects to sell or liquidate them within one year.
(1 point)

	Debit	Credit
Short-term investments	$78.6	
Cash		$78.6

Source: Statement of cash flows

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
Current portion of long-term debt	$2.6	
Cash		$2.6

Source: Statement of cash flows

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
Cash	$15.5	
Accumulated depreciation	$10.0	
Loss on sale of PP&E	$1.6	
PP&E historical cost		$27.1

Source: Statement of cash flows and given assumptions

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
Goodwill impairment charges	$59.9	
Goodwill		$59.9

Source: Statement of cash flows and Income statement

II-7b

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

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

Balance Sheet

Line Items	Increases	Decreases
Goodwill		x
Retained earnings		x

Statement of Stockholders' Equity

Line Items	Increases	Decreases
Net income		x

Income Statement

Line Items	Increases	Decreases
Goodwill impairment charges	x	

Statement of Cash Flows

Line Items	Increases	Decreases
Net income		x
Goodwill impairment charges	x	

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
Allowance for bad debts	$7.9	
Accounts receivable, gross		$7.9

Source: Schedule II: Allowance for losses on accounts receivable

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
Bad debts expense	$2.8	
Allowance for bad debts		$2.8

Source: Schedule II: Allowance for losses on accounts receivable

II-8c

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

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

Balance Sheet

Line Items	Increases	Decreases
Accounts receivable, net of allowances		x
Retained earnings		x

Statement of Stockholders' Equity

Line Items	Increases	Decreases
Net income		x

Income Statement

Line Items	Increases	Decreases
Operating expenses	x	

Statement of Cash Flows

Line Items	Increases	Decreases
Net income		x
Accounts receivable	x	

Question II-9

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
Accrued warranty allowance (current and noncurrent)	$9.4	
Inventories		$8.5
Accrued employee compensation		$0.9

Source: Warranties footnote and given assumptions

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
Cost of sales	$10.4	
Accrued warranty allowance (current and noncurrent)		$10.4

Source: Warranties footnote and given assumptions

II-9c

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

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

Balance Sheet

Line Items	Increases	Decreases
Product warranties	x	
Other long-term liabilities	x	
Retained earnings		x

Statement of Stockholders' Equity

Line Items	Increases	Decreases
Net income		x

Income Statement

Line Items	Increases	Decreases
Cost of sales	x	

Statement of Cash Flows

Line Items	Increases	Decreases
Net income		x
Accrued expenses and other liabilities	x	

Question II-10

II-10a

Record a single journal entry that summarizes the hypothetical entry Steelcase would record as of February 22, 2013 to capitalize all of its non-cancelable operating lease commitments. 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
Capital lease asset historical cost	$124.2	
Current portion of capital lease obligation		$36.5
Capital lease obligation		$87.7

Source: Leases footnote and given assumptions

Capitalizing operating leases: liability and asset amortization schedules

	Capital lease liability amortization					
Year	Beginning long-term capital lease obligation	Interest expense accrued during current year	Payment assumed last day of the current year	Principal paid last day of current year, except 2012	Principal paid last day of next year (transferred to current)	Ending long-term capital lease obligation
2014	$124.2	$6.2	$42.7	$36.5	$28.9	$58.8

II-10b

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

	Increases	Decreases	No Effect
Current ratio (current assets / current liabilities)		x	
Return on equity (ROE) (net profit / average owners' equity)			x
Financial leverage (average assets / average owners' equity)	x		
Asset turnover (revenues / average assets)		x	

Question II-11

II-11a

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.)

	Increases	Decreases	No Effect
Working capital (current assets - current liabilities)	x		
Return on equity (ROE) (net profit / average owners' equity)		x	
Net cash from financing	x		
Net cash from investing			x

II-11b

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.)

	Increases	Decreases	No Effect
Financial leverage (liabilities / assets)	x		
Profit margin (pretax profit / revenues)		x	
Asset turnover (revenues / average assets)	x		
Net cash from investing			x

II-11c

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.)

	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	

PART III: MORE CHALLENGING 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)

2012 share-based compensation expense

	Debit	Credit
Cost of sales	$265	
Research and development	$668	
Selling, general and administrative	$807	
Common stock		$1,740

III-12b

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

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

Balance Sheet

Line Items	Increases	Decreases
Common stock, no par value	X	
Retained earnings		X

Statement of Stockholders' Equity

Line Items	Increases	Decreases
Net income		X
Share-based compensation	X	

Income Statement

Line Items	Increases	Decreases
Cost of sales	X	
Research and development	X	
Selling, general and administrative	X	

Statement of Cash Flows

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

Question III-13

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. (2 points)

2010 finance costs related to oil spill

	Debit	Credit
Finance costs	$77	
Provision for oil spill		$4
Trust fund liability		$73

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). (2 points)

2010 oil spill expense

	Debit	Credit
Oil spill expense	$40,858	
Accounts payable		$3,339
Provision for oil spill		$17,699
Trust fund liability		$19,820

Explanation

Provision for oil spill	
Increase in provision — items not covered by the trust fund	$17,694
Change in discount rate	$5
Total	$17,699
Trust fund liability	
Trust fund liability originally recognized -- discounted	$19,580
Change in discount rate	$240
	$19,820

III-13c

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 .

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

2010 transfers from provision for oil spills to accounts payable

	Debit	Credit
Provision for oil spill	$10,912	
Accounts payable		$10,912

2010 cash payments related to oil spill

	Debit	Credit
Accounts payable	$12,658	
Trust fund liability	$5,000	
Cash		$17,658

Explanation

Payment to trust from trust fund liability		$5,000
Payments to contractors previously expensed through provision		$10,912
Payments to contractors directly expensed when incurred		
Total cash outflow	$17,658	
Explained above	$15,912	
Portion of $3,339 direct expense paid during 2010		$1,746