Financial Accounting Exam 3.3

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- The exam packet is comprised of :
  1. This 19-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 it for grading.
  2. The Exam Supplement, which contains a chart of accounts for **all** exam entries, financial statements, and footnotes for related exam questions.
  3. Scrap paper. Additional scrap paper is available at the front of the room.
- For the purpose of this exam, assume all companies have a policy to report working-capital reconciliation adjustments that reflect the net effects of all operating entries during the period on the related accounts.
- 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.***
- Maximum time permitted is 3 hours.
- The exam is closed book and closed notes.
- You cannot use a laptop, tablet, cell phone, or other communication or mobile device.
- You may use a basic calculator for your individual use (not to be shared with others). However, your calculator must not contain course related information. Additionally, your calculator must not be capable of storing "text" or communicating with others (no cell phones or other text messaging devices are permitted). 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 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.
- You may not discuss or otherwise exchange information about the exam with anyone.
- To protect the vast majority of students who will not cheat on the exam, there may be alternative versions of the exam that are the same in all respects except the questions contain some numbers that differ or are arranged differently.
- 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.
- More generally, you are to honor the school's core values in all respects.

Honesty and Integrity — Mutual Respect — Pursuit of Excellence — Personal Accountability

Question 1

For parts (a) - (d) you are to record journal entries in the spaces provided **using accounts from the chart of accounts in the supplement**.

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

Part 1(a)

MaryEllen's Camping and Equipment Company (MEC) manufactures and sells state of the art camping equipment. MEC sells its products to retail companies on account and expects them to pay the full amounts they owe within 20 days. On December 1, 2014 MEC sold products valued at $25 thousand to a retailer, Tim's. On December 20, 2014, Tim's paid MEC the $25 thousand outstanding balance.

Record MEC's December 20, 2014 entry.

Note: If no entry is needed, write "NONE" in the space below. No credit if the space is left blank.

	Debit	Credit

Part 1(b)

On December 31, 2014, MEC's accountants were preparing the adjusting entries for the end of the fiscal year. They determined that the company owes the sales staff $10 thousand and owes the manufacturing employees $15 thousand for the month of December 2014. The company policy is to pay employees on the 1st of each month. No earlier related entry has been recorded.

Record an adjusting journal entry for the December 2014 employee compensation.

Note: If no entry is needed, write "NONE" in the space below. No credit if the space is left blank.

	Debit	Credit

Part 1(c)

On January 1, 2014, MEC's paid $24 thousand rent for the right to use an office building for the company's sales department during 2014. On December 31, 2014, MEC's accountants prepared a month-end adjusting entry to recognize the office's usage during December.

Record the December 31 adjusting entry to record usage of the rental property.

Note: If no entry is needed, write "NONE" in the space below. No credit if the space is left blank.

	Debit	Credit

Part 1(d)

On December 20, 2014, new manufacturing equipment leased by MEC was installed, ready to use, and put into production. The company concluded the lease met the criteria for a capital lease. The estimated present value of the $3 thousand monthly future minimum payments of the non-cancelable lease was $50 thousand, with the first payment due January 20, 2015. MEC's policy is to record transfers from non-current liabilities to current liabilities in separate month-end adjusting entries.

Record a journal entry for the commencement of the new lease on December 20, 2014.

Note: If no entry is needed, write "NONE" in the space below. No credit if the space is left blank.

	Debit	Credit

Question 2

This question asks you to compute last-in, first-out (LIFO) measures for **Elizabeth's Dance Apparel,** a retail chain that purchases all of its inventory. The company's fiscal year end is December 31.

Fill in the two boxes near the bottom of the template on the next page:

- LIFO cost of sales for fiscal 2014, and
- LIFO ending inventory for fiscal 2014.

Use the assumptions below and the template on the next page. The template numbers are based on the perpetual LIFO method.

Write your answers in the two boxes at the bottom of the template on the next page.

Elizabeth's Dance Apparel
Assumptions

Market price, December 31, 2014
$65

Tax rate
40%

Inventory transactions
The company had the following inventory purchases (units and purchase prices), sales (negative units), and ending balances for each year.

	Units	Purchase price per unit
2012		
Purchase on January 1	20	$50
Sales for January 1 - June 30	(15)	
Purchase on July 1	40	$55
Sales for July 1 - December 31	(35)	
Year-end balance	**10**	
2013		
Purchase on January 1	50	$60
Sales for January 1 - June 30	(45)	
Purchase on July 1	70	$65
Sales for July 1 - December 31	(65)	
Year-end balance	**20**	
2014		
Purchase on January 1	70	$70
Sales for January 1 - June 30	(90)	
Purchase on July 1	100	$75
Sales for July 1 - December 31	(95)	
Year-end balance	**5**	

Elizabeth's Dance Apparel
LIFO Perpetual

	Units	$50 Layer	$55 Layer	$60 Layer	$65 Layer	$70 Layer	$75 Layer		Total
		Input Costs Layers							
2013									
Year-end balance	20	5 @ $50	5 @ $55	5 @ $60	5 @ $65			=	$1,150
2014									
Purchase on January 1	70					70 @ $70		=	$4,900
Sales for January 1 - June 30	(90)							=	
Purchase on July 1	100						100 @ $75	=	$7,500
Sales for July 1 - December 31	(95)							=	
Pre-impairment balance	**5**							=	
LCM impairment: market = $65	5							=	
Year-end balance	**5**							=	

LIFO Summary	Cost of Sales	Ending Inventory
2014		

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

Question 3

Aanza, Inc. issued bonds on December 31, 2013. The stated interest was payable at the end of each year. The face value, market rate at issuance, and proceeds at issuance are presented in the incomplete bond attribute table below.

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

Aanza Inc.

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
	$10,000	5.00%	$11,544										

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				
2014				

For parts (a) - (b) you are to record journal entries in the spaces provided **using accounts from the chart of accounts in the supplement** (it contains some accounts that are not appropriate).
(2 points each, for a total of 4 points)

Part 3(a)

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

	Debit	Credit

Part 3(b)

Record Aanza'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.

	Debit	Credit

Question 4

The following questions pertain to **Cisco Systems**. See the Exam Supplement for **the chart of accounts, financial statements and related footnotes.**

Part 4(a)

Record the entry Cisco recorded in 2014 to replenish the Allowance for doubtful accounts related to Accounts receivable. (1 point)

	Debit	Credit

Part 4(b)

Identify the Cisco Systems financial-statement line items that were affected by the journal entries Cisco recorded during fiscal 2014 to replenish the Allowance for doubtful accounts related to Accounts receivable in Part 4(a) and the direction of these effects (as indicated below).

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

If an incorrect entry in part 4(a) leads to errors here, you won't receive credit here. Thus, check your response to part 4(a) entry carefully.

Guidance:

(1) Determine the appropriate line item(s) affected using the company's statements in the exam supplement. For example, write "cash and cash equivalents" rather than "cash" because this is on its balance sheet. DON'T write accounts below; write the exact line item titles.

(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 shareholders' equity or cash flow statement.

(5) Four lines were included below for each statement, but you may need none or more than one line. **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!

Cisco Systems Financial Statements

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 4(c)

Determine the direct effect(s) on the following Cisco System metrics, everything else equal (ignore taxes) from replenishing its allowance for doubtful accounts receivable recorded in Part 4(a) during fiscal 2014.

(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)	☐	☐	☐
Financial leverage (liabilities / assets)	☐	☐	☐
Receivables turnover (revenues /average gross receivables)	☐	☐	☐
Allowance coverage (bad debts allowance/gross receivables)	☐	☐	☐

Part 4(d)

Record the entry Cisco recorded in 2014 to write-off uncollectible accounts recivables (net of recoveries).
(1 point)

	Debit	Credit

Question 5

The following questions pertain to **Steelcase**. See the Exam Supplement for **the chart of accounts, financial statements and related footnotes.**

Part 5(a)

Record an entry that summarizes the entries Steelcase recorded during year ended February 28, 2014 to replenish its warranty allowance. Combine the current and noncurrent allowance.
(1 point)

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

Part 5(b)

Identify the Steelcase financial-statement line items that were affected by the journal entries Steelcase recorded during fiscal 2014 to replenish its warranty allowance in Part 5(a) and the direction of these effects.

IMPORTANT: INDICATE THE SEPARATE CURRENT AND NON-CURRENT LINE ITEMS, IF EFFECTED.

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

If an incorrect entry in part 5(a) leads to errors here, you won't receive credit here. Thus, check your response to part 5(a) entry carefully.

Use the Guidance on page 8:

Steelcase Financial Statements

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 5(c)

Record an entry that summarizes the entries Steelcase recorded during year ended February 28, 2014 to settle warranty claims.
(1 point)

	Debit	Credit

Part 5(d)

Identify the Steelcase financial-statement line items that were affected by the journal entries Steelcase recorded during fiscal 2014 to settle warranty claims in Part 5(c) and the direction of these effects.

IMPORTANT: INDICATE THE SEPARATE CURRENT AND NON-CURRENT LINE ITEMS, IF EFFECTED.

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

If an incorrect entry in part 5(c) leads to errors here, you won't receive credit here. Thus, check your response to part 5(c) entry carefully.

Use the Guidance on page 8:

Steelcase Financial Statements

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
	☐	☐
	☐	☐
	☐	☐
	☐	☐

Per Management's discussion and Analysis of Financial Condition and Results of Operations in the company's 10K report, **Steelcase's tax rate for the year ended February 28, 2014 is 40.4%**

Part 5(e)

For the year ended February 28, 2014, what was Steelcase's FIFO cost of sales?
(1.5 points)

Write your answer in this box:

Part 5(f)

For the year ended February 28, 2014, what was Steelcase's tax savings from using LIFO? (round to 2 decimal places)
(1 point)

Write your answer in this box:

Part 5(g)

For the year ended February 28, 2014, what was Steelcase's FIFO retained earnings? (round to 2 decimal places)
(1.5 points)

Write your answer in this box:

Question 6

The following questions pertain to **Starbucks**. See the Exam Supplement for **the chart of accounts, financial statements and related footnotes.**

Part 6(a)

Record an entry that summarizes the entries Starbucks recorded during year ended September 28, 2014 for depreciation and amortization.
(2 points)

	Debit	Credit

Part 6(b)

Identify the Starbucks financial-statement line items that were affected by the journal entries Starbucks recorded during fiscal 2014 for depreciation and amortization in Part 6(a) and the direction of these effects.

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

If an incorrect entry in part 6(a) leads to errors here, you won't receive credit here. Thus, check your response to part 6(a) entry carefully.

Use the Guidance on page 8:

Starbucks Financial Statements

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 7

The following questions pertain to **Loblaw's**. See the Exam Supplement for **the chart of accounts, financial statements and related footnotes.**

Part 7(a)

Record an entry that summarizes the entries Loblaw recorded when it disposed of fixed assets during fiscal 2013.
(2 points)

	Debit	Credit

Part 7(b)

Identify the Loblaw financial-statement line items that were affected by the journal entries Loblaw recorded during fiscal 2013 when it disposed of fixed assets in Part 7(a) and the direction of these effects.

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

If an incorrect entry in part 7(a) leads to errors here, you won't receive credit here. Thus, check your response to part 7(a) entry carefully.

Use the Guidance on page 8:

Loblaw Financial Statements

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 7(c)

Record an entry that summarizes the entries Loblaw recorded when it impaired fixed assets during fiscal 2013.
(2 points)

	Debit	Credit

Question 8

Jeni's Dream House

Jeni has always wanted to live in one particular house in Brookfield, WI. On her wedding day, October 1, 2014, she received $200,00 from her parents to put a down payment on the house. Jeni decided she would repay her parents with interest based on a market rate of 3.5% per year, compounded annually. She plans to make her first of 20 equal annual payments on October 1, 2015. She will begin accruing interest on the unpaid balance starting on October 1, 2014, when she receives the $200,000.

How much total interest will Jeni pay to her parents? (round to 2 decimal places)
(3 points)

Write your answer in this box:

Question 9

The following questions pertain to **Target's operating lease note** in the Exam Supplement. The format for parts (i)-(ii) 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 point each for a total of 2 points)

Question 9(i)

CIRCLE the letter associated with the best response.
Assumption:
If Target had capitalized its operating leases at the end of fiscal 2013 (2/1/2014) using a 5% discount rate (as indicated in the exam supplement information), the depreciation expense would have been $93.57 in future years.

Based on the available information in **Target's operating lease note** in the exam supplement, it is reasonable to conclude:

(a) The fiscal 2014 interest expense associated with the newly capitalized leases would have been $70.54.

(b) The fiscal 2014 interest expense associated with the newly capitalized leases would have been $116.97.

(c) The fiscal 2014 total expense associated with the newly capitalized leases would have exceeded the $187 minimum operating lease expense anticipated for 2014 (assuming the leases are not capitalized).

(d) (a) and (c)

(e) (b) and (c)

Question 9(ii)

CIRCLE the letter associated with the best response.
Assumption:
If Target had capitalized its operating leases at the end of fiscal 2013 (2/1/2014) using a 5% discount rate (as indicated in the exam supplement information), the depreciation expense would have been $93.57 in future years.

Based on the available information in **Target's operating lease note** in the exam supplement, it is reasonable to conclude:

(a) Fiscal 2014 gross margin percent would not have changed, where gross margin percent = (revenues - cost of sales)/revenues.

(b) Financial leverage at the end of fiscal 2013 would have increased, where financial leverage = (total liabilities) /(total assets).

(c) Fiscal 2013 return on equity would not have changed, where return on equity = (net income)/(average owners' equity).

(d) (a) and (b)

(e) (a), (b) and (c)

NAME________________________________

Question 10

These questions pertain 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.

Part 10(a)

As reported in *The Wall Street Journal*, November 21, 2014:
Alibaba's Gift Keeps Giving:
$8 Billion Debt Sales Make Company Wall Street's Top Underwriting Customer

> "Wall Street has a new favorite customer: Alibaba Group Holding Ltd.
>
> The Chinese e-commerce company has emerged as this year's biggest source of fees for banks working on capital-markets deals. After its $25 billion initial public offering in September, the largest in history, the Chinese Internet company on Thursday sold $8 billion in bonds, one of the largest corporate-bond deals of the year. ..."

Determine the direct effect(s) on the following Alibaba's metrics, everything else equal (ignore taxes) when Alibaba recorded the journal entries to recognize issuing $25 billion of new shares and $8 billion in bonds. Ignore transaction costs.
(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 operations	☐	☐	☐
Net cash from financing	☐	☐	☐

NAME________________________________

Part 10(b)

As reported in *The Wall Street Journal*, January 6, 2014:
FedEx to Offer $2 Billion in Notes to Repurchase Shares:
Expects to Buy Back 11.4 Million Shares....

"FedEx Corp. plans to offer $2 billion in senior unsecured notes to fund the repurchase of the package-delivery company's shares from Goldman Sachs Group Inc. and J.P. Morgan Chase & Co. ...

FedEx plans to repurchase a combined $2 billion of its stock before the end of its current fiscal year..."

Determine the *combined* direct effect(s) on the following FedEx's metrics, everything else equal (ignore taxes) when FedEx recorded the journal entries to recognize the $2 billion in notes [assuming this is long-term debt] and $2 billion to repurchase shares.
(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)	☐	☐	☐
Return on equity (ROE) (net profit / average owners' equity)	☐	☐	☐
Net cash from investing	☐	☐	☐
Net cash from financing	☐	☐	☐