

FINANCIAL ACCOUNTING 2016 EXAM 3.4

Professors G. Peter and Carolyn R. Wilson

- The exam packet is comprised of :
 1. This 17-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 100 possible points on the exam: 23 questions worth 4 points each and 1 question worth 8 points (4 subparts worth 2 points each). **Partial credit will not be awarded, so check your answers carefully.**
- For all entries, you must use the most suitable accounts from those listed in the chart of accounts in the Exam Supplement. If you conclude two accounts are equally suitable, choose one and include a related note below your entry. If you use an account other than the one we concluded was most suitable and we agree with your logic, you will receive full credit.
- The exam is closed book and closed notes.
- You cannot use a laptop, tablet, cell phone, smart watch, or other communication/mobile device.
- You may use a basic calculator (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.
- Once the exam starts, you may not take any materials from the room, including the exam document, the exam supplement, or any scrap paper (provided) until you have completed the exam and submitted your exam document to the Professor or Exam proctor.
- 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.

Question 1

For parts (a) - (d) you are to record journal entries for Casey's Aprons and Tablecloths (CAT) in the spaces provided using accounts from the chart of accounts in the supplement. CAT is a manufacturing company that produces aprons and tablecloths in state of the art facilities and delivers them to retailers throughout the country. *Check your work carefully, no partial credit.*

(4 points for each part, for a total of 16 points)

Part 1(a)

On **January 1, 2015**, to help finance an expansion, CAT issued 1,000 shares of common stock to Casey's cousin Bobby in exchange for \$60 thousand cash and an interest bearing note to her aunt Margaret in exchange for \$200 thousand cash. The first payment on this debt was scheduled for January 1, 2017.

Record a journal entry for the \$260 thousand of cash received on January 1, 2015.

Note: Four rows have been provided, but you may not need them all.

	Debit	Credit
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Part 1(b)

On **January 1, 2015**, CAT paid a \$20 thousand cash advance deposit to a supplier for a \$30 thousand order of fabric that was expected to be delivered to CAT on January 4, 2015. CAT planned to use the fabric to produce aprons. CAT recorded the advance on January 1, 2015. (This is **NOT** the entry required below.)

As expected the \$30 thousand fabric order was fulfilled on **January 4, 2015** when the fabric was delivered. CAT paid the \$10 thousand balance due upon delivery.

Record the entry related to the fabric delivery on January 4, 2015.

Note: Four rows have been provided, but you may not need them all.

	Debit	Credit
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Part 1(c)

On **January 1, 2015** CAT purchased manufacturing equipment for \$300 thousand cash and recorded an entry for the purchase. (This is **NOT** the entry required below.)

CAT expected to use the equipment for 5 years, at which time it expected the equipment to have \$60 thousand of trade-in value. As a result, CAT estimated the cost to use the equipment for the five years would be \$240 thousand (\$300 - \$60), or \$4 thousand per month.

Assuming CAT plans to prepare financial statements at the end of each month, prepare a **January 31, 2015** adjusting entry for one month's usage of the manufacturing equipment purchased on January 1.

Record the January 31, 2015 journal entry for the January usage of the equipment.

Note: Four rows have been provided, but you may not need them all.

	<u>Debit</u>	<u>Credit</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Part 1(d)

On **January 1, 2015**, CAT paid employees a \$60 thousand advance for services that would be rendered during January 2015: \$36 thousand to production employees and \$24 thousand to non-production employees. (This is **NOT** the entry required below.)

The January 1 advance represented half of the \$120 thousand these employees would earn for January services: \$72 thousand to production employees and \$48 thousand to non-production employees.

On February 4, 2015 CAT will pay the employees the remaining \$60 thousand they will be owed for January services. (This is also **NOT** the entry required below.)

Assuming CAT plans to prepare financial statements at the end of each month, record an adjusting entry on **January 31, 2015** for services rendered by employees during January.

Record the January 31, 2015 journal entry for the services rendered during January.

Note: Four rows have been provided, but you may not need them all.

	<u>Debit</u>	<u>Credit</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Question 2

The following questions pertain to **Carly's Candies**, a retailer who purchases all of its inventories from suppliers. The company's fiscal year end is December 31.

Part 2(a)

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

- LIFO cost of sales for fiscal 2016, and
- LIFO ending inventory for fiscal 2016.

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

Carly's Candies		
Assumptions		
Market price, December 31, 2016		
		\$50
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.		
	<u>Units</u>	<u>Purchase price per unit</u>
2014		
Purchase on January 1	25	\$40
Sales for January 1 - June 30	(17)	
Purchase on July 1	45	\$45
Sales for July 1 - December 31	(35)	
Year-end balance	18	
2015		
Purchase on January 1	47	\$50
Sales for January 1 - June 30	(46)	
Purchase on July 1	65	\$55
Sales for July 1 - December 31	(60)	
Year-end balance	24	
2016		
Purchase on January 1	80	\$60
Sales for January 1 - June 30	(90)	
Purchase on July 1	112	\$65
Sales for July 1 - December 31	(97)	
Year-end balance	29	

		Input Costs Layers					Total
		\$40 Layer	\$45 Layer	\$50 Layer	\$55 Layer	\$60 Layer	\$65 Layer
Units							
2015							
	Year-end balance	8 @ \$40	10 @ \$45	1 @ \$50	5 @ \$55		
		24					= \$1,095
2016							
	Purchase on January 1					80 @ \$60	= \$4,800
	Sales for January 1 - June 30	(90)					=
	Purchase on July 1					112 @ \$65	= \$7,280
	Sales for July 1 - December 31	(97)					=
	Pre-impairment balance	29					=
	LCM impairment: market = \$50	29					=
	Year-end balance	29					=
LIFO Summary							
	2016						
		Cost of Sales				Ending Inventory	

Fill in the two boxes in the above template.
(2 points each, for a total of 4 points)

Part 2(b)

Record the four entries in steps 1-4 below, which collectively recognize Carly's Candies 2016 LIFO cost of good sold. Use the following accounts only:

- FIFO inventories
- LIFO reserve (contra asset to FIFO inventories)
- LIFO cost of good sold

You will find the information you need to record these entries in the LIFO computations table on the prior page (which you completed for Part 2(a)) and a similar FIFO computations table in the exam supplement.

(2 points for each entry, for a total of 8 points)

<p>Step 1: Record 2016 pre-impairment FIFO cost of sales</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 80%;"></th> <th style="text-align: center; border-bottom: 1px solid black; color: blue;">Debit</th> <th style="text-align: center; border-bottom: 1px solid black; color: blue;">Credit</th> </tr> </thead> <tbody> <tr> <td style="border-bottom: 1px solid black;"></td> <td style="border-bottom: 1px solid black;"></td> <td style="border-bottom: 1px solid black;"></td> </tr> <tr> <td style="border-bottom: 1px solid black;"></td> <td style="border-bottom: 1px solid black;"></td> <td style="border-bottom: 1px solid black;"></td> </tr> </tbody> </table>		Debit	Credit						
	Debit	Credit							
<p>Step 2: Record pre-impairment 2016 increase or decrease in LIFO reserve</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 80%;"></th> <th style="text-align: center; border-bottom: 1px solid black; color: blue;">Debit</th> <th style="text-align: center; border-bottom: 1px solid black; color: blue;">Credit</th> </tr> </thead> <tbody> <tr> <td style="border-bottom: 1px solid black;"></td> <td style="border-bottom: 1px solid black;"></td> <td style="border-bottom: 1px solid black;"></td> </tr> <tr> <td style="border-bottom: 1px solid black;"></td> <td style="border-bottom: 1px solid black;"></td> <td style="border-bottom: 1px solid black;"></td> </tr> </tbody> </table>		Debit	Credit						
	Debit	Credit							
<p>Step 3: Record 2016 FIFO impairment</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 80%;"></th> <th style="text-align: center; border-bottom: 1px solid black; color: blue;">Debit</th> <th style="text-align: center; border-bottom: 1px solid black; color: blue;">Credit</th> </tr> </thead> <tbody> <tr> <td style="border-bottom: 1px solid black;"></td> <td style="border-bottom: 1px solid black;"></td> <td style="border-bottom: 1px solid black;"></td> </tr> <tr> <td style="border-bottom: 1px solid black;"></td> <td style="border-bottom: 1px solid black;"></td> <td style="border-bottom: 1px solid black;"></td> </tr> </tbody> </table>		Debit	Credit						
	Debit	Credit							
<p>Step 4: Record 2016 Increase or decrease in LIFO reserve related to impairment</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 80%;"></th> <th style="text-align: center; border-bottom: 1px solid black; color: blue;">Debit</th> <th style="text-align: center; border-bottom: 1px solid black; color: blue;">Credit</th> </tr> </thead> <tbody> <tr> <td style="border-bottom: 1px solid black;"></td> <td style="border-bottom: 1px solid black;"></td> <td style="border-bottom: 1px solid black;"></td> </tr> <tr> <td style="border-bottom: 1px solid black;"></td> <td style="border-bottom: 1px solid black;"></td> <td style="border-bottom: 1px solid black;"></td> </tr> </tbody> </table>		Debit	Credit						
	Debit	Credit							

Question 3

Walter's Wheels Inc. (WW) issued bonds on December 31, 2015. The stated interest was payable at the end of each year. The stated rate, face value, and market rate 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.

Walter's Wheels Inc.				Contractual Future Cash Flows									
Issuance Date: December 31, 2015				30-Dec-16	31-Dec-17	31-Dec-18	31-Dec-19	31-Dec-20	31-Dec-21	31-Dec-22	31-Dec-23	31-Dec-24	31-Dec-25
Stated rate	Face value	Market rate at issuance	Proceeds at issuance										
3.00%	\$20,000	2.00%											

Amortization Table Through End of 2016				
Year	Cash paid during year	Interest expense during year	Discount or premium amortized during year	Debt carrying value at year end
2015				
2016				

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).
(4 points each, for a total of 8 points)

Part 3(a)

Record WW's journal entry to recognize the issuance of the bonds on December 31, 2015.

	Debit	Credit
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Part 3(b)

Record WW's journal entry to recognize the first-year payment on December 31, 2016. Assume no other entries related to the bond were recorded after the bond was recorded at issuance.

	Debit	Credit
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Question 4

This question pertains to **Mitel Networks Corp.** See the Exam Supplement for **the chart of accounts, financial statements and referenced footnotes.** (4 points each for a total of 32 points)

Receivables

Parts 4(a) - 4(d) center on receivables. See Mitel Network’s Schedule II in the Exam Supplement.

Clarification

Mitel Networks’ Schedule II reports a \$17 balance in the Allowance for doubtful accounts, excluding amounts related to lease receivables at December 31, 2015. The balance sheet at the same date reports Accounts receivable net of an allowance for doubtful accounts of \$17.9. **You can ignore the additional \$0.9 of allowance (= \$17.9 - \$17) reported on the balance sheet.**

However, if your curious, Mitel Networks indicates the additional \$0.9 of allowance is related to lease receivables. These are operating leases where Mitel Networks is the lessor.

Part 4(a)

Record an entry that summarizes the entries Mitel Networks recorded during the year ended December 31, 2015 to replenish the Allowance for doubtful accounts, excluding amounts related to lease receivables.

	<u>Debit</u>	<u>Credit</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Part 4(b)

Identify the Mitel Networks financial-statement line items that were affected by the journal entries Mitel Networks 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 point per statement)

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 (row 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!

Mitel Networks Financial Statements					
Balance Sheet			Statement of Shareholders' Equity		
Line Items	Increases	Decreases	Line Items	Increases	Decreases
	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Statement of Operations (Income Statement)			Statement of Cash Flows		
Line Items	Increases	Decreases	Line Items	Increases	Decreases
	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>

Part 4(c)

Determine the direct effect(s) on the following Mitel Networks System metrics, everything else equal (ignore taxes) from replenishing its allowance for doubtful accounts receivable recorded in Part 4(a) during fiscal 2015.

(1 point per ratio)

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
<u>Asset turnover (revenues / average assets)</u>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<u>Net cash from operations</u>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<u>Receivables turnover (revenues /average gross receivables)</u>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<u>Allowance coverage (bad debts allowance/gross receivables)</u>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Part 4(d)

Record the entry Mitel Networks recorded in 2015 to write-off doubtful accounts receivable, excluding amounts related to lease receivables.

	<u>Debit</u>	<u>Credit</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Operating Leases

Parts 4(e) and 4(f) center on operating leases. See Capitalizing Mitel Networks' operating leases in the Exam Supplement.

Assumption:

If Mitel Networks had capitalized its operating leases at the end of fiscal 2015 (12/31/2015) using a 5% discount rate (as indicated in the exam supplement information), the depreciation expense would have been \$22.98 in 2016 (and declining thereafter based on computations you need not be concerned with on this exam). Assume none of the depreciation was associated with manufacturing (production).

Question 4(e)

CIRCLE the letter associated with the best response.

If you circle more than one letter, you will not get credit.

Based on the available information in the exam supplement, it is reasonable to conclude that if Mitel Networks had capitalized its operating leases at the end of fiscal 2015:

- (a) The fiscal 2016 interest expense associated with the newly capitalized leases would have been \$12.98.
- (b) The fiscal 2016 interest expense associated with the newly capitalized leases would have been \$4.24.
- (c) The fiscal 2016 total expense associated with the newly capitalized leases would have exceeded the \$26.5 minimum operating lease expense anticipated for 2016 (assuming the leases are not capitalized).
- (d) (a) and (b)
- (e) (a) and (c)
- (f) (b) and (c)
- (g) (a), (b) and (c)
- (h) none of the above

Question 4(f)

CIRCLE the letter associated with the best response.

Based on the available information in the exam supplement, it is reasonable to conclude that if Mitel Networks had capitalized its operating leases at the end of fiscal 2015:

- (a) Fiscal **2016** profit margin percent [= (pretax profit)/revenues] would have increased.
- (b) Financial leverage [= (total liabilities) / (total assets)] at the end of fiscal **2015** would have increased.
- (c) Fiscal **2015** return on equity [= (net income) / (average owners' equity)] would not have changed.
- (d) (a) and (b)
- (e) (a) and (c)
- (f) (b) and (c)
- (g) (a), (b) and (c)
- (h) none of the above

Special charges and restructurings

Parts 4(g) and 4(h) center on **Mitel Networks'** special charges and restructuring costs (defined below by the company). See Mitel Networks' Note 20: Special charges and restructuring costs in the Exam Supplement.

“Special charges and restructuring costs consist of costs related to restructuring and integration activities as well as acquisition-related costs. Restructuring and integration costs generally relate to workforce reductions and facility reductions incurred to eliminate duplication of activities as a result of acquisitions or to improve operational efficiency. Costs related to workforce reductions are recorded when the company has committed to a plan of termination and notified the employees of the terms of the plan. Costs related to facility reductions primarily consist of lease termination obligations for vacant facilities, which generally include the remaining payments on an operating lease.”

Page 68, Mitel Networks' 2015 10K

Part 4(g)

Record a journal entry that summarizes the entries Mitel Networks recorded during the year ended December 31, 2015 to account for \$19.7 of employee-related charges and \$1.7 of facility-reduction related charges. Assume both charges will be paid within one year and the \$1.7 of facility reduction charge is all related to lease terminations.

(4 points)

	Debit	Credit

Part 4(h)

Determine the direct effect(s) on the following Mitel Networks System metrics, everything else equal (ignore taxes) from recording the charges in Part 4(g) during fiscal 2015.

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

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 (average assets / average owners' equity)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Net cash from operations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Profit margin (pretax profit / revenues)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Current ratio (current assets / current liabilities)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Question 5

This question pertains to **Hershey Inc.** See the Exam Supplement for **the chart of accounts, financial statements and referenced footnotes.** (4 points each for a total of 28 points)

Inventories

Parts 5(a) - 5(c) center on inventories. See Hershey's Note 15: Supplemental Balance Sheet Information in the Exam Supplement.

Part 5(a)

For the year ended December 31, 2015, what was Hershey's FIFO cost of sales?

Write your answer in this box:

Part 5(b)

Assuming a 40% tax rate for all years, what were Hershey's cumulative tax savings from using LIFO for all years prior to December 31, 2015? (round to 2 decimal places)

Write your answer in this box:

Part 5(c)

Assuming a 40% tax rate for all years, what was Hershey's FIFO retained earnings at December 31, 2015? (round to 2 decimal places)

Write your answer in this box:

Goodwill and intangible assets

Parts 5(d) - 5(f) center on goodwill. See Hershey's Note 3: Goodwill and intangible assets in the exam supplement.

Part 5(d)

Record a journal entry that summarizes the entries Hershey recorded during the year ended December 31, 2015 to account for amortization of intangibles. Assume none of the intangibles were associated with manufacturing (production).

	<u>Debit</u>	<u>Credit</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Part 5(e)

Record a journal entry that summarizes the entries Hershey recorded during the year ended December 31, 2015 to account for goodwill impairments.

	<u>Debit</u>	<u>Credit</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Part 5(f)

Identify the Hershey financial-statement line items that were affected by the journal entries Hershey recorded during fiscal 2015 for goodwill impairments in Part 5(e) and the direction of these effects.

(1 point per statement)

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

Use the Guidance on page 9:

Hershey Financial Statements					
Balance Sheet			Statement of Shareholders' Equity		
Line Items	Increases	Decreases	Line Items	Increases	Decreases
_____	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Statement of Operations (Income Statement)			Statement of Cash Flows		
Line Items	Increases	Decreases	Line Items	Increases	Decreases
_____	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>

Advertising

Part 5(g) centers on Hershey’s advertising expense. See Hershey’s Summary of Significant Accounting Policies (related to advertising) note and Note 15: Supplemental Balance Sheet Information in the exam supplement.

Assumptions

For the purpose of this exam, assume:

- All amounts reported as “advertising and promotion” in the exam supplement can be treated as advertising only. That is you can ignore the distinction between advertising and promotion.
- Advertising expense is recognized when there is a cash outflow, a decrease in prepaid expenses, or an increase in an accrued liability.
- Any advertising cost prepaid during the year ended December 31, 2015 (fiscal 2015) and subsequently expensed during fiscal 2015 can be treated as a cash expense in the entry you are to record. That is, you can assume an expense was recognized at the time of the cash outflow.
- Any advertising expense accrued during fiscal 2015 and subsequently paid during fiscal 2015 can be treated as a cash expense in the entry you are to record. That is, you can assume an expense was recognized at the time of the cash outflow.
- Any advertising cost paid prior to the end of 2014 but not yet expensed by that date is expensed during 2015.

Part 5(g)

Record a journal entry that summarizes the entries Hershey recorded during the year ended December 31, 2015 to account for advertising expense.

	<u>Debit</u>	<u>Credit</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Question 6**Jerry's Dream Car**

Jerry has always been a car enthusiast. He has been saving for his dream car for 15 years. Starting on January 1, 2000 Jerry began depositing \$1,100 into a savings account every six months thereafter through July 1st, 2014. The account compounds interest biannually (semi-annually) at an annual rate of 3% (the risk free rate of return).

On January 1, 2015, Jerry buys his dream car. The financing contract requires Jerry to pay \$1,300 monthly, beginning on January 31, 2015 for three years. Assume the interest rate implicit in the financing agreement is also the risk free rate of return (annual rate of 3%) compounding monthly.

How much must Jerry deposit on January 1, 2015 to ensure he has enough money to make all the future car payments? (round to 2 decimal places)

(4 points)

Write your answer in this box: