FINANCIAL ACCOUNTING 2016 EXAM 3.4 SOLUTION

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Question 1

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

Part 1(a)

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

Issue $60 of common stock and $200 of long-term debt.

	Debit	Credit
Cash	$260	
Common stock		$60
Long-term debt		$200

Part 1(b)

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

Recognize $30 fabric delivery.

	Debit	Credit
Materials and parts	$30	
Supplier advances		$20
Cash		$10

Part 1(c)

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

Recognize $4 manufacturing depreciation.

	Debit	Credit
Work in process	$4	
PP&E accumulated depreciation		$4

Part 1(d)

Record the January 31, 2015 journal entry for the services rendered during January 22.

Recognize $120 of employee compensation for January services.

	Debit	Credit
Work in process	$72	
Other expense	$48	
Employee advances		$60
Accrued employee compensation		$60

Question 2

Part 2(a)

The completed table is on the next page.

Part 2(b)

Step 1: Record 2016 pre-impairment FIFO cost of sales

	Debit	Credit
LIFO cost of goods sold	$11,515	
FIFO inventories		$11,515

Step 2: Record pre-impairment 2016 increase or decrease in LIFO reserve

	Debit	Credit
LIFO cost of goods sold	$95	
LIFO reserve (contra asset to FIFO inventories)		$95

Step 3: Record 2016 FIFO impairment

	Debit	Credit
LIFO cost of goods sold	$435	
FIFO inventories		$435

Step 4: Record 2016 Increase or decrease in LIFO reserve related to impairment

	Debit	Credit
LIFO reserve (contra asset to FIFO inventories)	$210	
LIFO cost of goods sold		$210

Carly's Candies

LIFO Perpetual

	Units	Input Costs Layers: $40 Layer	$45 Layer	$50 Layer	$55 Layer	$60 Layer	$65 Layer		Total
2015									
Year-end balance	24	8 @ $40	10 @ $45	1 @ $50	5 @ $55			=	$1,095
2016									
Purchase on January 1	80					80 @ $60		=	$4,800
Sales for January 1 - June 30	(90)		(4) @ $45	(1) @ $50	(5) @ $55	(80) @ $60		=	($5,305)
Purchase on July 1	112						112 @ $65	=	$7,280
Sales for July 1 - December 31	(97)						(97) @ $65	=	($6,305)
Pre-impairment balance	**29**	**8 @ $40**	**6 @ $45**				**15 @ $65**	**=**	**$1,565**
LCM impairment: market = $50	29						15 @ ($15)	=	($225)
Year-end balance	**29**	**8 @ $40**	**6 @ $45**				**15 @ $50**	**=**	**$1,340**

LIFO Summary

	Cost of Sales	Ending Inventory
2016	$11,835	$1,340

Question 3

Walter's Wheels Inc.

Computing the stated interest and stated interest rate
Present value of face value: $16,406.97 = $20,000 * 0.8203, where 0.8203 is the present value of $1 discounted at 2% for 10 periods
Present value of stated interest payments: $5,389.55 = $21,797 - $16,406.97
Stated interest payments: $600.00 = $5,389.55/8.9826, where 8.9826 is the present value of an annuity of $1 discounted at 2% for 10 years
Stated interest rate: 3% = ($600.00/$20,000) * 100%

Issuance Date: December 31, 2015				Contractual Future Cash Flows									
Stated rate	Face value	Market rate at issuance	Proceeds at issuance	31-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
3.00%	$20,000	2.00%	$21,797	($600)	($600)	($600)	($600)	($600)	($600)	($600)	($600)	($600)	($20,600)

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				$21,796.52
2016	$600	$435.93	$164.07	$21,632.45

Part 3(a) and (b)

Required Journal Entries

Issue bond on December 31, 2015

	Debit	Credit
Cash	$21,796.52	
Bond unamortized premium		$1,796.52
Bond face value		$20,000.00

Record first-year interest expense on December 31, 2016

	Debit	Credit
Finance (interest) expense	$435.93	
Bond unamortized premium	$164.07	
Cash		$600.00

Question 4

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.

	Debit	Credit
Provision for doubtful accounts	$6	
Allowance for doubtful accounts		$6

Part 4(b)

Mitel Networks Financial Statements

Balance Sheet

Line Items	Increases	Decreases
Accounts receivable (net of allowance for doubtful accounts)		X
Accumulated deficit		x

Statement of Shareholders' Equity

Line Items	Increases	Decreases
Comprehensive loss		X

Statement of Operations (Income Statement)

Line Items	Increases	Decreases
Selling, general, and administrative	x	

Statement of Cash Flows

Line Items	Increases	Decreases
Net income (loss)		X
Change in non-cash operating assets and liabilities	X	
Alternatively, "Accounts receivable and sales-type receivables"	X	

Part 4(c)

	Increases	Decreases	No Effect
Asset turnover (revenues / average assets)	X		
Net cash from operations			X
Receivables turnover (revenues /average gross receivables)			X
Allowance coverage (bad debts allowance/gross receivables)	X		

Part 4(d)

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

	Debit	Credit
Allowance for doubtful accounts	$2.2	
Gross accounts receivable		$2.2

Question 4(e)

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

(a) is false: The correct interest expense is $4.24 = (5%)(84.72)

(b) is true: See (a) above

(c) is true: The total expense if operating leases are NOT capitalized is the 2016 estimated payments, $26.5. The total expense if the leases are capitalized is $27.22 = $4.24 interest expense + $22.98 depreciation.

Question 4(f)

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

(a) is false: As discussed above, total expense would increase, so pretax profit would decrease and revenues would be same.

(b) is true: Assets and liabilities would increase by the same amount, $84.72, and the ratio is less than 1.

(c) is true: 2015 net income and average owners' equity would not be affected by capitalizing the operating leases at year end.

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.

	Debit	Credit
Special charges and restructuring costs	$21.4	
Workforce reduction liability		$19.7
Lease obligation termination liablity		$1.7

Part 4(h)

	Increases	Decreases	No Effect
Financial leverage (average assets / average owners' equity)	X		
Net cash from operations			X
Profit margin (pretax profit / revenues)		X	
Current ratio (current assets / current liabilities)		X	

Question 5

Parts 5(a)-5(c)

Key facts	
LIFO reserve: 12/31/2014	$172,108
LIFO reserve: 12/31/2015	$205,209
LIFO reserve: 2015 increase	$33,101
2015 CGS LIFO	$4,003,951
12/31/2015 retained earnings LIFO	$5,897,603
Tax rate	40%
Part 5(a)	
2015 CGS FIFO = 2015 CGS LIFO - 2015 LIFO reserve increase	$3,970,850
Part 5(b)	
12/31/2015 cumulative tax savings = LIFO reserve * tax rate	$82,083.60
Part 5(c)	
12/31/2015 retained earnings FIFO = (12/31/2015 retained earnings LIFO) + (LIFO reserve)(1-tax rate)	$6,020,728.40

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).

	Debit	Credit
Amortization expense	$22,306	
Intangibles accumulated amortization		$22,306

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.

	Debit	Credit
Goodwil impairment	$280,802	
Goodwill accumulated impairments		$280,802

Part 5(f)

Hershey Financial Statements

Balance Sheet

Line Items	Increases	Decreases
Goodwill		X
Retained earnings		X

Statement of Shareholders' Equity

Line Items	Increases	Decreases
Net income		X

Statement of Operations (Income Statement)

Line Items	Increases	Decreases
Goodwill and other intangible asset impairment charges	X	

Statement of Cash Flows

Line Items	Increases	Decreases
Net income		X
Non-cash business realignment and impairment charges	X	

Part 5(g)

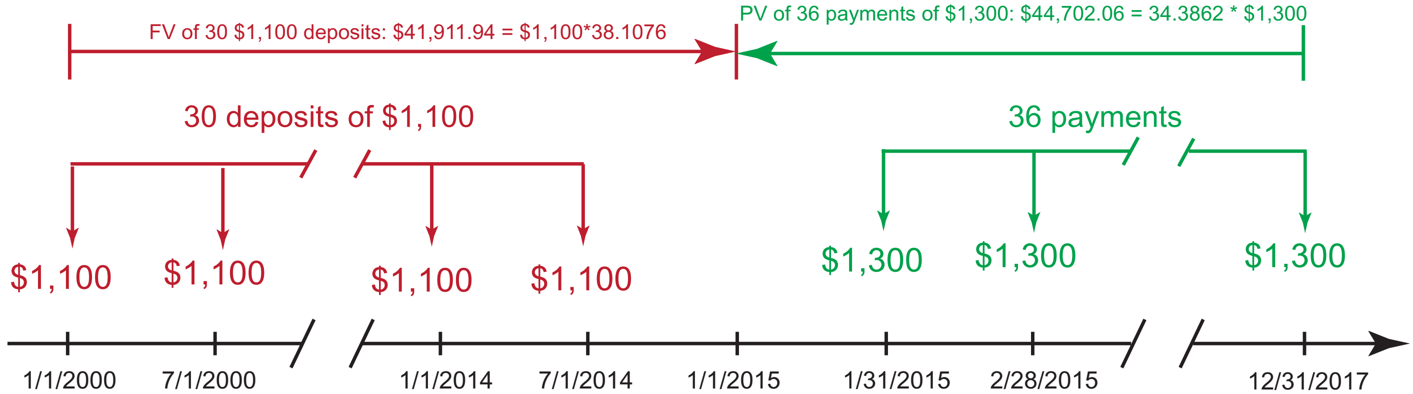
Record a journal entry that summarizes the entries Hershey recorded during the year ended December 31, 2015 to account for advertising expense.

	Debit	Credit
Advertising expense	$561,644	
Prepaid expenses: advertising		$8,193
Accrued liabilities: advertising		$337,945
Cash		$215,506

Question 6

How much must Jerry deposit on January 1, 2015 to ensure he has enough money to make all the future car payments?

Write your answer in this box: *$2,790.12*



Jerry's Car	
Savings account balance on January 1, 2015	
Semi-annual interest rate (3%/2)	1.50%
Number of periods	30
Future value of an annuity of $1 for 30 periods, compounded at 1.5% (deposits at start)	38.10176
Biannual deposits	$1,100
Savings account balance	$41,911.94
Required balance on January 1, 2015 to meet future payments	
Monthly interest rate (3%/12)	0.25%
Number of periods	36
Present value of annuity of $1 for 36 periods, discounted at .25% (payments at end of period)	34.3862
Monthly payments	$1,300
Required Savings Account balance	$44,702.06
Deposit Required on January 1, 2015 to meet future payments	$2,790.12