

Bischoff's Entries and Financial-Statement Effects Workbook

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INTRODUCTION

This Bischoff's Entries and Financial-Statement Effects Workbook will help you review key record-keeping entries and identify their effects on Bischoff's financial statements. There are six pages for each entry that ask you to:

- 1. Record the entry: Each entry has a brief description of the business context and you are asked to record the entry using the provided chart of accounts.
- 2. Identify the entry's affects on Bischoff's balance sheet line items and the direction of the effects.
- 3. Identify the entry's affects on Bischoff's income statement sheet line items and the direction of the effects.
- 4. Identify the entry's affects on Bischoff's statement of changes in owners' equity line items and the direction of the effects.
- 5. Identify the entry's affects on Bischoff's cash flow statement line items and the direction of the effects.
- 6. Extend the exercise using a real company's financial statements to identify line items directly affected by the entry and the direction of the effects. Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

How should you use this workbook? Practice. For each of the above, complete the provided template and check you answers on the next page. Knowing the entry is fundamental to identifying these effects.

These are the entries for Bischoff Global Sportswear (BGS). BGS is a fictitious manufacturing company we use throughout *Navigating Accounting* to help you become more adept at interpreting real companies' financial statements. BGS's accounting policies comply with International Financial Reporting Standards (IFRS). Like many real companies, when IFRS allows judgment or leeway in the implementation of a standard, BGS elects to comply with the equivalent U.S. GAAP standard that may be more specific, but importantly still complies with IFRS. In some cases, the difference between IFRS and U.S. GAAP results in different measures (numbers) for the entry; but the structure of the entry is exactly the same. In other cases, the entries and measures are different. When the difference is significant, you will see a brief note describing the key differences for the related entries.

As you study the entries, you may notice several common synonyms that differ for IFRS and U.S. GAAP. For example, IFRS companies typically disclose "share capital" which is equivalent to U.S. GAAP companies' "common stock" or "finance expense" versus "interest expense". The key is to interpret these in the context of the entry.

Caveat: Keep in mind these entries have a very brief description of the business context and don't provide a substitute for learning the broader concepts, including: how to apply the requisite judgments and accounting standards; how to determine or compute the measures (numbers); how to create financial statements from the entries; how the entries affect footnote disclosures; how to search for information in real companies' reports; and how to interpret or use the numbers. These are very important skills that build on the fundamental understanding of how to record entries and identify their financial-statement effects. See the related chapter videos, text, and exercises.

IFRS GAAP

The entries presented here comply with International Financial Reporting Standards (IFRS). When IFRS allows judgment or leeway in the implementation of a standard, the entries also comply with the equivalent U.S. GAAP standard that may be more specific, but importantly still complies with IFRS.

To learn more about the difference between IFRS and U.S. GAAP, see the related chapter videos. Typically, the last topic in the videos describe the differences, if any.

BASIC ENTRIES AND FINANCIAL-STATEMENT EFFECTS

BISCHOFF GLOBAL SPORTSWEAR CHART OF ACCOUNTS

ASSETS

| - C | | r | re | n | t. |
|-----|---|---|----|-----|----|
| | - | | | ••• | ۰. |

| U U | | | | | | | | |
|-----|---------|-------------------------------------|--|--|--|--|--|--|
| | AR | Accounts receivable | | | | | | |
| | С | Cash and cash equivalents | | | | | | |
| | Inven | Inventories | | | | | | |
| | PrEx | Prepaid expenses | | | | | | |
| | OCA | Other current assets | | | | | | |
| N | on-curr | ent | | | | | | |
| | PPE | Property, plant, and equipment, net | | | | | | |
| | | PPEhc PP&E (historical cost) | | | | | | |
| | | AcDep Accumulated depreciation | | | | | | |
| | ONCA | Other non-current assets | | | | | | |
| LIA | BILITIE | \$ | | | | | | |
| С | urrent | | | | | | | |
| | AP | Accounts payable | | | | | | |
| | AcrL | Accrued liabilities | | | | | | |
| | DivP | Dividend payable | | | | | | |
| | OCL | Other current liabilities | | | | | | |
| N | on-curr | ent | | | | | | |
| | LTD | Long-term debt | | | | | | |
| | ONCL | Other non-current liabilities | | | | | | |
| | | | | | | | | |

OWNERS' EQUITY

Permanent

| Permane | Permanent | | | | | | |
|-----------|---|--|--|--|--|--|--|
| RE | Retained earnings | | | | | | |
| SCap | Share capital | | | | | | |
| OPOE | Other permanent owners' equity | | | | | | |
| Net incom | ne | | | | | | |
| CGS | Cost of goods sold | | | | | | |
| DepEx | Depreciation expense | | | | | | |
| G/L | Gain/loss | | | | | | |
| | PPEGL Gain/Loss on PP&E disposals | | | | | | |
| | ONOGL Other non-operating gains/losses | | | | | | |
| IncS | Income summary | | | | | | |
| MSGA | GA Miscellaneous SG&A expense | | | | | | |
| Rev | Revenues, net | | | | | | |
| OSGA | Other SG&A expense | | | | | | |
| 001 | Other operating income net of expenses | | | | | | |
| ONOI | Other non-operating income net of expenses | | | | | | |
| | | | | | | | |

E1 Issued share capital for cash

During 2013, Bischoff Global Sportswear (BGS) issued common stock to its owners in exchange for \$10 million cash. ["Share capital" is also call "common stock" in this context.]

Record the entry in the space below:



BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION

| December 31, 2013 and December 31, 2012 | | |
|--|-------|-------|
| (In Millions) | | |
| Assets | 2013 | 2012 |
| Current | | |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | 84 | 66 |
| Inventories | 158 | 109 |
| Prepaid expenses | 10 | 20 |
| Other current assets | 219 | 158 |
| Total current assets Non-current | 502 | 366 |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | \$740 |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | \$740 |

| E1 Issued share capital for cash | | | | | | | | | |
|----------------------------------|--------|---|---------------|--------|--------------------------------|--------|--|--|--|
| Assets = | | = | = Owners' Eq. | | Debit | Credit | | | |
| + | С | = | + | SCap | Cash and cash equivalents \$10 | | | | |
| + | + \$10 | = | + | + \$10 | Share capital | \$10 | | | |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer on the next page.

| | | | CIAL POSITION | STATEMENTS OF FINA |
|----------|-----|-----------|---------------|--------------------|
| ecreases | Dec | Increases | | Line Items |
| | Ľ | | | |
| | Ľ | | | |
| | | | | |
| _ | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| For years ended December 31, 2012 and 2013 | | |
|--|-------|-------|
| (In Millions) | 2013 | 2012 |
| Net revenues | \$505 | \$440 |
| Cost of goods sold | (253) | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative | (117) | (105) |
| Total | (124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | \$113 | \$100 |
| | | |

| E1 Issued share capital for cash | | | | | | | | | |
|----------------------------------|-------------|-----------------|----------------------|------------------------------------|------------------------------------|---|--|--|--|
| Assets = Owners' Eq. | | | | | | Debit | Credit | | |
| С | = | + | SCap | | Cash and cash equivalents | \$10 | | | |
| + \$10 | = | + | + +\$10 | | Share capital | | \$10 | | |
| | Assets C | Assets = C = | Assets = Ov C = + | Assets = Owners' Eq. C = + SCap | Assets = Owners' Eq. C = + SCap | Assets = Owners' Eq. C = + SCap Cash and cash equivalents | Assets = Owners' Eq. Debit C = + SCap Cash and cash equivalents \$10 | | |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | OME | |
|----------------------------------|-----------|-----------|--------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Cash and cash equivalents | x | | | | |
| Share capital | x | | | | |
| | | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CHANGES IN EQUITY

| | Share | Retained | | |
|-------------------------|---------|----------|----------|-------|
| (In Millions) | Capital | Earnings | Reserves | Total |
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inc | ome | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inc | ome | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| E1 Issued share capital for cash | | | | | | | | | | | |
|----------------------------------|--------|---|----|------------|--|---------------------------|-------|--------|--|--|--|
| | Assets | = | ٥v | vners' Eq. | | | Debit | Credit | | | |
| + | С | = | + | SCap | | Cash and cash equivalents | \$10 | | | | |
| + | + \$10 | = | + | + + \$10 | | Share capital | | \$10 | | | |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | СОМЕ | |
|----------------------------------|-----------|-----------|-------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Cash and cash equivalents | x | | NONE | | |
| Share capital | X | | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | |
| Line Items | Increases | Decreases | | | |
| | | | | | |
| | | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

.....

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | | _ |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5 | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |

| E1 | E1 Issued share capital for cash | | | | | | | | | | | | |
|----|----------------------------------|---|----|------------|---------------------------|-------|--------|--|--|--|--|--|--|
| | Assets | = | Ov | vners' Eq. | | Debit | Credit | | | | | | |
| + | С | = | + | SCap | Cash and cash equivalents | \$10 | | | | | | | |
| + | + \$10 | = | + | + \$10 | Share capital | | \$10 | | | | | | |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | COME | |
|----------------------------------|-----------|-----------|--------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Cash and cash equivalents | x | | NONE | | |
| Share capital | x | | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Common stock issued | x | | | | |
| | | | | | |
| | | | | | |

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Complete Solution: E1 Issued share capital for cash

During 2013, Bischoff Global Sportswear (BGS) issued common stock to its owners in exchange for \$10 million cash. ["Share capital" is also call "common stock" in this context.]

Record the entry:

| E1 | E1 Issued share capital for cash | | | | | | | | | | | | |
|----|----------------------------------|---|----|------------|---------------------------|-------|--------|--|--|--|--|--|--|
| | Assets | = | Ov | vners' Eq. | | Debit | Credit | | | | | | |
| + | С | = | + | SCap | Cash and cash equivalents | \$10 | | | | | | | |
| + | + \$10 | = | + | + \$10 | Share capital | | \$10 | | | | | | |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | OME | |
|----------------------------------|-----------|-----------|--------------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Cash and cash equivalents | x | | NONE | | |
| Share capital | x | | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Common stock issued | x | | Proceeds from issue of share capital | x | |
| | | | | | |
| | | | | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

| SSETS | | | OWNER | S' EQUIT | Y | |
|-----------|----------|--|-------|----------|----------|------------------------------------|
| Current | | | Per | nanent | | |
| AR | Accou | nts receivable | | RE | Retaine | d earnings |
| | ARG | Accounts receivable, gross | | SCap | Share ca | apital |
| | Allbd | Allowance for bad debts | | | Other pe | ermanent owners' equity |
| | Alipri | Allowance for product returns: revenue component | Net | income | | |
| С | Cash | and cash equivalents | | CGS | Cost of | goods sold |
| Inv | en Inven | | | | | ation expense |
| | FGI | Finished goods inventories | | G/L | Gain/los | - |
| | Sldr | Segregated inventories: deferred revenue | | | | Gain/Loss on PP&E disposals |
| | Slprc | Segregated inventories: product returns allowance cost component | | | | . Other non-operating gains/losses |
| PrE | | d expenses | | IncS | | summary |
| oc | A Other | current assets | | MSGA | Miscella | neous SG&A expense |
| Non-curr | ent | | | Rev | Revenue | es, net |
| PP | E Prope | ty, plant, and equipment, net | | | Grev | Gross revenue |
| | PPEh | PP&E (historical cost) | | | PRCnR | Product returns contra revenue |
| | AcDe | Accumulated depreciation | | OSGA | Other S | G&A expense |
| ON | CA Other | non-current assets | | 001 | Other op | perating income net of expenses |
| ABILITIES | | | | ONOI | Other no | on-operating income net of expens |
| Current | | | | | | |
| AP | Accou | nts payable | | | | |
| Ac | rL Accru | d liabilities | | | | |
| Div | P Divide | nd payable | | | | |
| Dre | ev Defer | ed revenue | | | | |
| OC | L Other | current liabilities | | | | |
| Non-curr | ent | | | | | |
| LTI | D Long- | erm debt | | | | |
| | Ŭ | non-current liabilities | | | | |

E2 Issued non-current debt for cash

During 2013, BGS borrowed \$10 million cash from several banks and promised to repay this principal with interest over 5-10 years. Loan contracts specified that the borrower (BGS) issued debt to the lender (banks).

Record the entry in the space below:



BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION

| December 31, 2013 and December 31, 2012 | | |
|--|-------|-------|
| (In Millions) | | |
| Assets | 2013 | 2012 |
| Current | | |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | 84 | 66 |
| Inventories | 158 | 109 |
| Prepaid expenses | 10 | 20 |
| Other current assets | 219 | 158 |
| Total current assets Non-current | 502 | 366 |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | \$740 |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | \$740 |

| E2 | E2 Issued non-current debt for cash | | | | | | | | | | | |
|-----------|-------------------------------------|---|---|------------|--------------------------------|--------|--|--|--|--|--|--|
| 1 | Assets | = | L | iabilities | Debit | Credit | | | | | | |
| + | С | = | + | LTD | Cash and cash equivalents \$10 | | | | | | | |
| + | + \$10 | = | + | + \$10 | Long-term debt | \$10 | | | | | | |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | |
|----------------------------------|-----------|-----------|
| Line Items | Increases | Decreases |
| | | |
| | | |
| | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| Net revenues \$5 | 013 505 253) | 2012 \$440 (220) |
|--|---------------------------|-------------------------------|
| | | • |
| Cost of goods sold (2 | 253) | (220) |
| | | (220) |
| Gross profit 2 | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative (1 | 17) | (105) |
| Total (1 | 24) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit 1 | 28 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes 1 | 29 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) \$1 | 13 | \$100 |

| | E2 Issued non-current debt for cash | | | | | | | | | | | | | |
|---|-------------------------------------|--------|---|---|------------|---|---------------------------|-------|--------|--|--|--|--|--|
| L | | Assets | = | L | iabilities | [| | Debit | Credit | | | | | |
| | + | С | = | + | LTD | | Cash and cash equivalents | \$10 | | | | | | |
| | + | + \$10 | ш | + | + \$10 | | Long-term debt | | \$10 | | | | | |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | | |
|----------------------------------|-----------|-----------------------------------|------------|-----------|-----------|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| Cash and cash equivalents | x | | | | | |
| Long-term borrowings | х | | | | | |
| | | | | | | |
| | | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CHANGES IN EQUITY

| | Share | Retained | _ | |
|--------------------------|---------|----------|----------|-------|
| (In Millions) | Capital | Earnings | Reserves | Total |
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inco | ome | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inco | ome | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| E2 Issued non-current debt for cash | | | | | | | | | | | | |
|-------------------------------------|--------|---|---|------------|--|---------------------------|-------|--------|--|--|--|--|
| | Assets | = | L | iabilities | | | Debit | Credit | | | | |
| + | С | = | + | LTD | | Cash and cash equivalents | \$10 | | | | | |
| + | + \$10 | = | + | + \$10 | | Long-term debt | | \$10 | | | | |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | |
|----------------------------------|-----------|-----------------------------------|------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Cash and cash equivalents | x | | NONE | | |
| Long-term borrowings | x | | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | |
| Line Items | Increases | Decreases | | | |
| | | | | | |
| | | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

.....

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | | |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5 | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |

| E2 Issued non-current debt for cash | | | | | | | | | | | | | |
|-------------------------------------|--------|---|---|------------|--------------------------------|--------|--|--|--|--|--|--|--|
| | Assets | = | L | iabilities | Debit | Credit | | | | | | | |
| + | С | = | + | LTD | Cash and cash equivalents \$10 | | | | | | | | |
| + | + \$10 | = | + | + \$10 | Long-term debt | \$10 | | | | | | | |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | | |
|----------------------------------|-----------|-----------------------------------|-------------------------|-----------|-----------|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| Cash and cash equivalents | x | | NONE | | | |
| Long-term borrowings | x | | | | | |
| | | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| NONE | | | | | | |
| | | | | | | |
| | | | | | | |

Complete Solution: E2 Issued non-current debt for cash

During 2013, BGS borrowed \$10 million cash from several banks and promised to repay this principal with interest over 5-10 years. Loan contracts specified that the borrower (BGS) issued debt to the lender (banks).

Record the entry:

| E2 Issued non-current debt for cash | | | | | | | | | | | | | |
|-------------------------------------|--------|---|---|------------|--|---------------------------|-------|--------|--|--|--|--|--|
| | Assets | = | L | iabilities | | | Debit | Credit | | | | | |
| + | С | = | + | LTD | | Cash and cash equivalents | \$10 | | | | | | |
| + | + \$10 | = | + | + \$10 | | Long-term debt | | \$10 | | | | | |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | | |
|----------------------------------|-----------|-----------------------------------|--------------------------|-----------|-----------|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| Cash and cash equivalents | x | | NONE | | | |
| Long-term borrowings | x | | | | | |
| | | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| NONE | | | Proceeds from borrowings | x | | |
| | | | | | | |
| | | | | | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

| SSETS | | | OWNE | RS' EQUITY | (| | |
|-----------|-----------------------------|--|----------|------------|---------------|-----------------------------------|--|
| Current | | | Pe | ermanent | | | |
| AR | Accoun | ts receivable | | RE | Retained | d earnings | |
| | ARG | Accounts receivable, gross | | SCap | Share ca | apital | |
| | Allbd | Allowance for bad debts | | | Other pe | ermanent owners' equity | |
| | Allprr | Allowance for product returns: revenue component | Ne | et income | | | |
| С | Cash a | nd cash equivalents | | CGS | Cost of g | goods sold | |
| Inve | n Invento | | | | | ation expense | |
| | FGI | Finished goods inventories | | G/L | Gain/los | - | |
| | Sldr | Segregated inventories: deferred revenue | | | | Gain/Loss on PP&E disposals | |
| | Slprc | Segregated inventories: product returns allowance cost component | | | | Other non-operating gains/losse | |
| PrE: | | expenses | | IncS | | summary | |
| OC/ | Other c | urrent assets | | MSGA | Miscella | neous SG&A expense | |
| Non-curre | nt | | | Rev | Revenues, net | | |
| PPE | Propert | y, plant, and equipment, net | | | Grev | Gross revenue | |
| | PPEhc | PP&E (historical cost) | | | PRCnR | Product returns contra revenue | |
| | AcDep | Accumulated depreciation | | OSGA | Other So | G&A expense | |
| ONC | A Other n | on-current assets | | 001 | Other op | perating income net of expenses | |
| ABILITIES | | | | ONOI | Other no | on-operating income net of expens | |
| Current | | | | | | | |
| AP | Accoun | ts payable | | | | | |
| Acr | . Accrue | d liabilities | | | | | |
| Div | Dividen | d payable | | | | | |
| Drev | Deferre | d revenue | | | | | |
| OCL | . Other c | urrent liabilities | | | | | |
| Non-curre | nt | | <u> </u> | | | | |
| LTD | Long-te | rm debt | | | | | |
| | Ŭ | on-current liabilities | | | | | |

E3 Purchased PP&E with cash

During 2013, BGS purchased \$20 million of property, plant, and equipment with cash. PP&E are tangible assets used to support day-to-day business operations. Among other things, PP&E includes buildings, manufacturing equipment, furniture, computers, and automobiles.

Record the entry in the space below:



BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION

| December 31, 2013 and December 31, 2012 | | |
|--|-------|--------------|
| (In Millions) | | |
| Assets | 2013 | 2012 |
| Current | 624 | 640 |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | 84 | 66 |
| Inventories | 158 | 109 |
| Prepaid expenses | 10 | 20 |
| Other current assets | 219 | 158 |
| Total current assets Non-current | 502 | 366 |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | <u>\$740</u> |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | \$740 |
| | | |

| E3 | Purcha | sed | PP&E w | vith | cash | | |
|----|--------|-----|--------|------|---------------------------|--------|------|
| | Assets | | = | | Debit | Credit | |
| + | С | + | PPEhc | = | PP&E (historical cost) | \$20 | |
| + | -20 | + | 20 | = | Cash and cash equivalents | | \$20 |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | |
|----------------------------------|-----------|-----------|
| Line Items | Increases | Decreases |
| | | |
| | | |
| | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| For years ended December 31, 2012 and 2013 | | |
|--|-------|-------|
| (In Millions) | 2013 | 2012 |
| Net revenues | \$505 | \$440 |
| Cost of goods sold | (253) | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative | (117) | (105) |
| Total | (124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | \$113 | \$100 |
| | | |

| E3 | E3 Purchased PP&E with cash | | | | | | | | | | |
|----|-----------------------------|---|-------|---|---------------------------|--------|------|--|--|--|--|
| | Assets | | = | | Debit | Credit | | | | | |
| + | С | + | PPEhc | = | PP&E (historical cost) | \$20 | | | | | |
| + | -20 | + | 20 | = | Cash and cash equivalents | | \$20 | | | | |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | ОМЕ | |
|----------------------------------|-----------|-----------|--------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Cash and cash equivalents | | x | | | |
| Historical cost of PP&E | x | | , | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CHANGES IN EQUITY

| | Share | Retained | | |
|-------------------------|---------|----------|----------|-------|
| (In Millions) | Capital | Earnings | Reserves | Total |
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inc | ome | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inc | ome | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| E3 | E3 Purchased PP&E with cash | | | | | | | | | | |
|----|-----------------------------|---|-------|---|---------------------------|--------|------|--|--|--|--|
| | Assets | | = | | Debit | Credit | | | | | |
| + | С | + | PPEhc | = | PP&E (historical cost) | \$20 | | | | | |
| + | -20 | + | 20 | = | Cash and cash equivalents | | \$20 | | | | |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | СОМЕ | |
|----------------------------------|-----------|-----------|-------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Cash and cash equivalents | | x | NONE | | |
| Historical cost of PP&E | x | | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | |
| Line Items | Increases | Decreases | | | |
| | | | | | |
| | | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | | |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5 | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |

| E3 | Purcha | sed | PP&E w | vith | cash | | |
|----|--------|-----|--------|------|---------------------------|-------|--------|
| | Assets | | | | | Debit | Credit |
| + | С | + | PPEhc | = | PP&E (historical cost) | \$20 | |
| + | -20 | + | 20 | = | Cash and cash equivalents | | \$20 |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | OME | |
|----------------------------------|-----------|-----------|--------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Cash and cash equivalents | | x | NONE | | |
| Historical cost of PP&E | x | | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| NONE | | | | | |
| | | | | | |
| | | | | | |

Complete Solution: E3 Purchased PP&E with cash

During 2013, BGS purchased \$20 million of property, plant, and equipment with cash. PP&E are tangible assets used to support day-to-day business operations. Among other things, PP&E includes buildings, manufacturing equipment, furniture, computers, and automobiles.

Record the entry:

| Assets | | | | = | | Debit | Credit |
|--------|-----|---|-------|---|---------------------------|-------|--------|
| + | С | + | PPEhc | = | PP&E (historical cost) | \$20 | |
| + | -20 | + | 20 | = | Cash and cash equivalents | | \$20 |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | COME | |
|----------------------------------|-----------|-----------|---|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Cash and cash equivalents | | x | NONE | | |
| Historical cost of PP&E | x | | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| NONE | | | Payments for property, plant, and equipment | | x |
| | | | (Reported negative number decreases.) | | |
| | | | | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

| | | BISCHOFF GLOBAL SPORTSWE | AR CHARI | UF ACC | OUNTS | | |
|------------|---------|--|----------|--------|-------|-----------|--------------------------------------|
| SSETS | | | | OWNERS | EQUIT | Y | |
| Current | | | | Perm | anent | | |
| AR | Accoun | ts receivable | | | RE | Retained | d earnings |
| | ARG | Accounts receivable, gross | | | SCap | Share ca | apital |
| | Allbd | Allowance for bad debts | | | OPOE | Other pe | ermanent owners' equity |
| | Allprr | Allowance for product returns: revenue component | | Net i | ncome | | |
| С | Cash a | nd cash equivalents | | | CGS | Cost of g | goods sold |
| Inven | | | | | | | ation expense |
| | FGI | Finished goods inventories | | | G/L | Gain/los | - |
| | Sldr | Segregated inventories: deferred revenue | | | | | Gain/Loss on PP&E disposals |
| | Slprc | Segregated inventories: product returns allowance cost compone | t | | | | Other non-operating gains/losse |
| PrEx | Prepaid | expenses | | | IncS | | summary |
| OCA | Other c | urrent assets | | | MSGA | Miscella | neous SG&A expense |
| Non-curren | t | | | | Rev | Revenue | es, net |
| PPE | Propert | y, plant, and equipment, net | | | | Grev | Gross revenue |
| | PPEhc | PP&E (historical cost) | | | | PRCnR | Product returns contra revenue |
| | AcDep | Accumulated depreciation | | | OSGA | Other S | G&A expense |
| ONCA | Other n | on-current assets | | | 001 | Other op | perating income net of expenses |
| ABILITIES | | | | | ONOI | Other no | on-operating income net of expension |
| Current | | | | | | | |
| AP | Accoun | ts payable | | | | | |
| AcrL | Accrue | d liabilities | | | | | |
| DivP | Dividen | d payable | | | | | |
| Drev | Deferre | d revenue | | | | | |
| OCL | Other c | urrent liabilities | | | | | |
| Non-curren | t | | | | | | |
| LTD | Long-te | rm debt | | | | | |
| ONCL | Other n | on-current liabilities | | | | | |

Purchased merchandise on account **E4**

During 2013, BGS purchased \$80 million of merchandise from other companies on account and was invoiced upon delivery. It plans to resale this merchandise to customers for a profit. These products complement the ones BGS manufactures and allows BGS to meet customers' needs, which reduces the customers' transaction costs.

Record the entry in the space below:



BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION

| December 31, 2013 and December 31, 2012 | | |
|--|-------------|-------|
| (In Millions) | | |
| Assets | 2013 | 2012 |
| Current | * 04 | 640 |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | 84 | 66 |
| Inventories | 158 | 109 |
| Prepaid expenses | 10 | 20 |
| Other current assets | 219 | 158 |
| Total current assets Non-current | 502 | 366 |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | \$740 |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | \$740 |

| E4 Purchased merchandise on account for resale | | | | | | | | | |
|--|--------|---|---|------------|--|----------------------------|-------|--------|--|
| | Assets | = | L | iabilities | | | Debit | Credit | |
| + | FGI | Ш | + | AP | | Finished goods inventories | \$80 | | |
| + | 80 | = | + | 80 | | Accounts payable | | \$80 | |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | |
|----------------------------------|-----------|-----------|
| Line Items | Increases | Decreases |
| | | |
| | | |
| | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| For years ended December 31, 2012 and 2013 | | |
|--|-------|-------|
| (In Millions) | 2013 | 2012 |
| Net revenues | \$505 | \$440 |
| Cost of goods sold | (253) | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative | (117) | (105) |
| Total | (124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | \$113 | \$100 |
| | | |

| E4 Purchased merchandise on account for resale | | | | | | | | | | | |
|--|--------|---|---|------------|--------------------------------|-----|--------|--|--|--|--|
| | Assets | = | L | iabilities | Det | oit | Credit | | | | |
| + | FGI | Ш | + | AP | Finished goods inventories \$8 | 0 | | | | | |
| + | 80 | = | + | 80 | Accounts payable | | \$80 | | | | |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | OME | |
|----------------------------------|-----------|-----------|--------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Inventories Accounts payable | x | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CHANGES IN EQUITY

| (In Millions) | Share Capital | Retained Earnings | Reserves | Total |
|-------------------------|------------------|----------------------|----------|-------|
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inc | ome | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inc | ome | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| E4 | Purchas | ed | me | rchandis | e | on account for resale | | |
|----|---------|-------|---------------------|-------------------------|---|---|---|---|
| | Assets | = | L | iabilities | Í | | Debit | Credit |
| + | FGI | = | + | AP | Í | Finished goods inventories | \$80 | |
| + | 80 | = | + | 80 | | Accounts payable | | \$80 |
| | | + FGI | Assets = + FGI = | Assets = L + FGI = + | Assets = Liabilities + FGI = + AP | Assets = Liabilities + FGI = + AP | + FGI = + AP Finished goods inventories | Assets = Liabilities + FGI = + AP Finished goods inventories \$80 |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | СОМЕ | |
|----------------------------------|-----------|-----------|-------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Inventories | x | | NONE | | |
| Accounts payable | x | | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | |
| Line Items | Increases | Decreases | | | |
| | | | | | |
| | | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | | |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5 | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |

| | E4 Purchased merchandise on account for resale | | | | | | | | | | | | |
|---|--|-----|---|---|-------|--------|----------------------------|------|------|--|--|--|--|
| L | Assets = Liabilities | | | | Debit | Credit | | | | | | | |
| L | + | FGI | = | + | AP | | Finished goods inventories | \$80 | | | | | |
| | + | 80 | = | + | 80 | | Accounts payable | | \$80 | | | | |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | OME | |
|----------------------------------|-----------|-----------|--------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Inventories | x | | NONE | | |
| Accounts payable | х | | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| NONE | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

Complete Solution: E4 Purchased merchandise on account for resale

During 2013, BGS purchased \$80 million of merchandise from other companies on account and was invoiced upon delivery. It plans to resale this merchandise to customers for a profit. These products complement the ones BGS manufactures and allows BGS to meet customers' needs, which reduces the customers' transaction costs.

Record the entry:

| E4 | Purchas | sed | me | rchandis | e | on account for resale | | |
|----|----------------------|-----|----|----------|-------|----------------------------|------|------|
| | Assets = Liabilities | | | | Debit | Credit | | |
| + | FGI | = | + | AP | | Finished goods inventories | \$80 | |
| + | 80 | = | + | 80 | | Accounts payable | | \$80 |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | СОМЕ | |
|----------------------------------|-----------|-----------|--|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Inventories | x | | NONE | | |
| Accounts payable | x | | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| NONE | | | Inventories | | x |
| | | | (Reported negative number decreases.) Accounts payable (Reported negative number increases.) | x | |
| | | | (Reported negative number increases.) | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

| | | | BISCHOFF GLOBAL SPORTSWEAR | CHART O | FACC | DUNTS | | |
|------------|--------|-----------|--|---------|--------|-------|-----------|-------------------------------------|
| SSETS | | | | ov | VNERS' | EQUIT | Y | |
| Curren | it | | | | Perm | anent | | |
| 4 | ٩R | Accounts | s receivable | | | RE | Retained | d earnings |
| | | ARG | Accounts receivable, gross | | | SCap | Share ca | apital |
| | | Allbd | Allowance for bad debts | | | OPOE | Other pe | ermanent owners' equity |
| | | Allprr | Allowance for product returns: revenue component | | Net in | come | | |
| C | 2 | Cash an | d cash equivalents | | | CGS | Cost of g | goods sold |
| 1 | nven | Inventori | es | | | DepEx | Deprecia | ation expense |
| | | FGI | Finished goods inventories | | | G/L | Gain/los | s |
| | | Sldr | Segregated inventories: deferred revenue | | | | | Gain/Loss on PP&E disposals |
| | | Slprc | Segregated inventories: product returns allowance cost component | | | | | Other non-operating gains/losses |
| _ | | Prepaid | expenses | | | IncS | | summary |
| C | CA | Other cu | rrent assets | | | MSGA | Miscella | neous SG&A expense |
| Non-cu | urrent | | | | | Rev | Revenue | es, net |
| F | PPE | Property | , plant, and equipment, net | | | | Grev | Gross revenue |
| | | PPEhc | PP&E (historical cost) | | | | PRCnR | Product returns contra revenue |
| | | AcDep | Accumulated depreciation | | | OSGA | Other So | G&A expense |
| C | ONCA | Other no | n-current assets | | | 001 | Other op | perating income net of expenses |
| IABILITIES | S | | | | | ONOI | Other no | on-operating income net of expenses |
| Curren | it | | | | | | | |
| 4 | ٩P | Accounts | s payable | | | | | |
| 4 | AcrL | Accrued | liabilities | | | | | |
| ī | DivP | Dividend | payable | | | | | |
| | Drev | Deferred | revenue | | | | | |
| c | CL | Other cu | rrent liabilities | | | | | |
| Non-cu | urrent | | | | | | | |
| l. | TD | Long-ter | m debt | | | | | |
| c c | ONCL | Other no | n-current liabilities | | | | | |

E5 Paid invoices due

During 2013, BGS paid suppliers \$225 million for goods and services previously purchased on account. Among other things, these include merchandise purchased for resale, materials purchased for manufacturing, advertising services, and utilities. BGS's policy is to pay invoices just in time to avoid penalties.

Record the entry in the space below:



BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION

| December 31, 2013 and December 31, 2012 | | |
|--|-------|-------|
| (In Millions) | | |
| Assets | 2013 | 2012 |
| Current | | |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | 84 | 66 |
| Inventories | 158 | 109 |
| Prepaid expenses | 10 | 20 |
| Other current assets | 219 | 158 |
| Total current assets Non-current | 502 | 366 |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | \$740 |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | \$740 |

| E5 | Paid invo | oic | es | due | | |
|----|-----------|-----|---------------|---------|---------------------------|--------|
| A | Assets : | | = Liabilities | | Debit | Credit |
| + | С | = | + | AP | Accounts payable \$225 | |
| + | - \$225 | = | + | - \$225 | Cash and cash equivalents | \$225 |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer on the next page.

| | | | CIAL POSITION | STATEMENTS OF FINA |
|----------|-----|-----------|---------------|--------------------|
| ecreases | Dec | Increases | | Line Items |
| | Ľ | | | |
| | Ľ | | | |
| | | | | |
| _ | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| For years ended December 31, 2012 and 2013 | | |
|--|-------|-------|
| (In Millions) | 2013 | 2012 |
| Net revenues | \$505 | \$440 |
| Cost of goods sold | (253) | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative | (117) | (105) |
| Total | (124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | \$113 | \$100 |

| E5 | i Paid inv | oic | es | due | | | |
|----|------------|-----|----|------------|---------------|------------------|--------|
| | Assets | = | L | iabilities | | Debit | Credit |
| + | С | = | + | AP | Accounts paya | ble \$225 | |
| + | - \$225 | = | + | - \$225 | Cash and | cash equivalents | \$225 |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INCOME | | | | |
|----------------------------------|-----------|-----------|-----------------------------------|-----------|-----------|--|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | | |
| Accounts payable | | x x | | | | | |
| | | | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CHANGES IN EQUITY

| | Share | Retained | | |
|-------------------------|---------|----------|----------|-------|
| (In Millions) | Capital | Earnings | Reserves | Total |
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inc | ome | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inc | ome | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| E5 | E5 Paid invoices due | | | | | | | | | | | | |
|----|----------------------|---|-------------|------|--|---------------------------|--------|--|--|--|--|--|--|
| / | Assets | = | Liabilities | | | Debit | Credit | | | | | | |
| + | С | = | + | + AP | | Accounts payable \$225 | | | | | | | |
| + | - \$225 | = | + - \$225 | | | Cash and cash equivalents | \$225 | | | | | | |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | СОМЕ | |
|----------------------------------|-----------|-----------|-------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Accounts payable | | x | NONE | | |
| Cash and cash equivalents | | x | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | |
| Line Items | Increases | Decreases | | | |
| | | | | | |
| | | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | | |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5 | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |

| E5 | E5 Paid invoices due | | | | | | | | | | | | | |
|----|----------------------|---|-----------|------------|---------------------------|--------|--|--|--|--|--|--|--|--|
| | Assets | = | L | iabilities | Debit | Credit | | | | | | | | |
| + | С | = | + | AP | Accounts payable \$225 | | | | | | | | | |
| + | - \$225 | = | + - \$225 | | Cash and cash equivalents | \$225 | | | | | | | | |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | OME | |
|----------------------------------|-----------|-----------|--------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Accounts payable | | x | NONE | | |
| Cash and cash equivalents | | X | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| NONE | | | | | |
| | | | | | |
| | | | | | |

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Complete Solution: E5 Paid invoices due

During 2013, BGS paid suppliers \$225 million for goods and services previously purchased on account. Among other things, these include merchandise purchased for resale, materials purchased for manufacturing, advertising services, and utilities. BGS's policy is to pay invoices just in time to avoid penalties.

Record the entry:

| E5 | | | | | | |
|----|---------|---|---|------------|---------------------------|--------|
| | Assets | = | L | iabilities | Debit | Credit |
| + | С | = | + | AP | Accounts payable \$225 | |
| + | - \$225 | = | + | - \$225 | Cash and cash equivalents | |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | COME | |
|----------------------------------|-----------|-----------|--|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Accounts payable | | x | NONE | | |
| Cash and cash equivalents | | x | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| NONE | | | Accounts payable | | X |
| | | | (Reported negative number decreases.) Net cash provided by (used in) operations | | x |
| | | | | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

| SETS | | | OWNEDS | | | |
|-------------|---------|--|--------|-------|-----------|------------------------------------|
| | | | OWNERS | | r | |
| Current | | | Perm | anent | | |
| AR | | ts receivable | | RE | | d earnings |
| | ARG | Accounts receivable, gross | | SCap | Share ca | |
| | Allbd | Allowance for bad debts | | | Other pe | ermanent owners' equity |
| | Allprr | Allowance for product returns: revenue component | Net i | ncome | | |
| С | Cash a | nd cash equivalents | | CGS | Cost of g | goods sold |
| Inven | Invento | ries | | DepEx | Deprecia | ation expense |
| | FGI | Finished goods inventories | | G/L | Gain/los | |
| | Sldr | Segregated inventories: deferred revenue | | | - | Gain/Loss on PP&E disposals |
| | Slprc | Segregated inventories: product returns allowance cost component | | | ONOGL | Other non-operating gains/losses |
| PrEx | Prepaid | expenses | | IncS | | summary |
| OCA | Other c | urrent assets | | MSGA | Miscella | neous SG&A expense |
| Non-current | | | | Rev | Revenue | es, net |
| PPE | Propert | y, plant, and equipment, net | | | Grev | Gross revenue |
| | PPEhc | PP&E (historical cost) | | | | Product returns contra revenue |
| | AcDep | Accumulated depreciation | | | Other So | G&A expense |
| ONCA | Other n | on-current assets | | 001 | Other op | perating income net of expenses |
| ABILITIES | | | | ONOI | Other no | on-operating income net of expense |
| Current | | | | | | |
| AP | Accoun | ts payable | | | | |
| AcrL | Accrue | l liabilities | | | | |
| DivP | Dividen | d payable | | | | |
| Drev | Deferre | d revenue | | | | |
| OCL | Other c | urrent liabilities | | | | |
| Non-current | | | | | | |
| LTD | Long-te | rm debt | | | | |
| | | | | | | |

E6a Recognized revenue when goods were delivered

During 2013, BGS recognized \$415 million of revenues when goods were delivered to customers, which was the same time customers were billed for their purchases on account. For these sales, BGS concluded it met all of the IFRS criteria for revenue recognition when goods were delivered.

Record the entry in the space below:



BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION

| December 31, 2013 and December 31, 2012 | | |
|--|-------------|-------|
| (In Millions) | | |
| Assets | 2013 | 2012 |
| Current | 60 4 | |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | 84 | 66 |
| Inventories | 158 | 109 |
| Prepaid expenses | 10 | 20 |
| Other current assets | 219 | 158 |
| Total current assets Non-current | 502 | 366 |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | \$740 |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | \$740 |

| E6a Recognized revenue when goods were delivered | | | | | | | | | | | | | |
|--|---------|---------------|---|-----------|--|---------------------|--------|-------|--|--|--|--|--|
| | Assets | = Owners' Eq. | | | | Debit | Credit | | | | | | |
| + | AR | Ш | + | Rev | | Accounts receivable | \$415 | | | | | | |
| + | + \$415 | I | + | + + \$415 | | Revenues, net | | \$415 | | | | | |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | |
|----------------------------------|-----------|-----------|
| Line Items | Increases | Decreases |
| | | |
| | | |
| | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| Net revenues \$5 | 013 505 253) | 2012 \$440 (220) |
|--|---------------------------|-------------------------------|
| | | • |
| Cost of goods sold (2 | 253) | (220) |
| | | (220) |
| Gross profit 2 | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative (1 | 17) | (105) |
| Total (1 | 24) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit 1 | 28 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes 1 | 29 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) \$1 | 13 | \$100 |

| E6 | E6a Recognized revenue when goods were delivered | | | | | | | | | | | |
|----|--|---|------------|-----------|--|---------------------|--------|-------|--|--|--|--|
| | Assets = Ov | | wners' Eq. | | | Debit | Credit | | | | | |
| + | AR | Ш | + | Rev | | Accounts receivable | \$415 | | | | | |
| + | + \$415 | = | + | + + \$415 | | Revenues, net | | \$415 | | | | |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INCOME | | | | | |
|----------------------------------|-----------|-----------|-----------------------------------|-----------|-----------|--|--|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | | | |
| Accounts receivable, net | x | | | | | | | |
| | | | | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CHANGES IN EQUITY

| | Share | Retained | | |
|--------------------------|---------|----------|----------|-------|
| (In Millions) | Capital | Earnings | Reserves | Total |
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inco | me | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inco | me | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| E6 | a Recogr | nize | ed I | revenue v | vł | nen goods were deliv | ered | |
|-----------|----------|------|------|------------|----|----------------------|-------|--------|
| | Assets | = | Ov | wners' Eq. | | | Debit | Credit |
| + | AR | = | + | Rev | | Accounts receivable | \$415 | |
| + | + \$415 | = | + | + \$415 | | Revenues, net | | \$415 |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INCOME | | | | | |
|----------------------------------|-----------|-----------|-----------------------------------|-----------|-----------|--|--|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | | | |
| Accounts receivable, net | x | | Net revenues | x | | | | |
| Retained earnings | x | | | | | | | |
| · | | | | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | | | | |
| Line Items | Increases | Decreases | | | | | | |
| | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | | |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5 | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |

| E6 | a Recogi | nize | ed I | evenue v | hen goods were delive | ered | |
|----------------------|----------|------|------|------------|-----------------------|-------|--------|
| Assets = Owners' Eq. | | | O١ | vners' Eq. | | Debit | Credit |
| + | AR | = | + | Rev | Accounts receivable | \$415 | |
| + | + \$415 | = | + | + \$415 | Revenues, net | | \$415 |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | COME | |
|----------------------------------|-----------|-----------|--------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Accounts receivable, net | x | | Net revenues | x | |
| Retained earnings | x | | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Profit (loss) | x | | | | |
| | | | | | |
| | | | | | |

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Complete Solution: E6a Recognized revenue when goods were delivered

During 2013, BGS recognized \$415 million of revenues when goods were delivered to customers, which was the same time customers were billed for their purchases on account. For these sales, BGS concluded it met all of the IFRS criteria for revenue recognition when goods were delivered.

Record the entry:

| E6 | a Recogr | nize | E6a Recognized revenue when goods were delivered | | | | | | | | | | | |
|-----------|----------|------|--|---------|--|---------------------|--------|-------|--|--|--|--|--|--|
| | Assets | 0 | vners' Eq. | | | Debit | Credit | | | | | | | |
| + | AR | Ш | + | Rev | | Accounts receivable | \$415 | | | | | | | |
| + | + \$415 | = | + | + \$415 | | Revenues, net | | \$415 | | | | | | |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | COME | |
|----------------------------------|-----------|-----------|---------------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Accounts receivable, net | x | | Net revenues | x | |
| Retained earnings | x | | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Profit (loss) | x | | Net profit | x | |
| | | | Accounts receivable | | x |
| | | | (Reported negative number decreases.) | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

| SSETS | | | OWNERS | ' EQUIT | Y | |
|------------|-----------|--|--------|---------|-----------|------------------------------------|
| Current | | | Perm | anent | | |
| AR | Accoun | ts receivable | | RE | Retained | d earnings |
| | ARG | Accounts receivable, gross | | SCap | Share ca | |
| | Allbd | Allowance for bad debts | | OPOE | Other pe | ermanent owners' equity |
| | Allprr | Allowance for product returns: revenue component | Net i | ncome | | |
| С | Cash a | nd cash equivalents | | CGS | Cost of g | goods sold |
| Inve | n Invento | ries | | DepEx | Deprecia | ation expense |
| | FGI | Finished goods inventories | | G/L | Gain/los | s |
| | Sldr | Segregated inventories: deferred revenue | | | PPEGL | Gain/Loss on PP&E disposals |
| | Siprc | Segregated inventories: product returns allowance cost component | | | ONOGL | Other non-operating gains/losses |
| PrEx | Prepaid | expenses | | IncS | | summary |
| OCA | Other c | urrent assets | | MSGA | Miscella | neous SG&A expense |
| Non-currer | nt | | | Rev | Revenue | es, net |
| PPE | Propert | y, plant, and equipment, net | | | Grev | Gross revenue |
| | PPEhc | PP&E (historical cost) | | | PRCnR | Product returns contra revenue |
| | AcDep | Accumulated depreciation | | OSGA | Other So | G&A expense |
| ONC | A Other n | on-current assets | | 001 | Other op | perating income net of expenses |
| ABILITIES | | | | ONOI | Other no | on-operating income net of expense |
| Current | | | | | | |
| AP | Accoun | ts payable | | | | |
| AcrL | Accrue | liabilities | | | | |
| DivP | Dividen | d payable | | | | |
| Drev | Deferre | d revenue | | | | |
| OCL | Other c | urrent liabilities | | | | |
| Non-currer | nt | | | | | |
| LTD | Long-te | rm debt | | | | |
| | | | | | | |

E6b Recognize product cost when goods were delivered

During 2013, BGS recognized \$208 million of cost of goods sold when goods were delivered to customers. This occurred at the same time revenues were recognized in entry E6a. Entries E6a and E6b could have been combined.

Record the entry in the space below:



BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION

| December 31, 2013 and December 31, 2012 | | |
|--|-------|-------|
| (In Millions) | | |
| Assets | 2013 | 2012 |
| Current | | |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | 84 | 66 |
| Inventories | 158 | 109 |
| Prepaid expenses | 10 | 20 |
| Other current assets | 219 | 158 |
| Total current assets Non-current | 502 | 366 |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | \$740 |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | \$740 |

| l | E6b Recognize product cost when goods were delivered | | | | | | | | | | |
|---|--|---------|---|----|------------|----------------------------|-------|--------|--|--|--|
| L | | Assets | = | Ov | wners' Eq. | | Debit | Credit | | | |
| L | + | FGI | Ш | - | CGS | Cost of goods sold | \$208 | | | | |
| | + | - \$208 | = | - | + \$208 | Finished goods inventories | | \$208 | | | |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | |
|----------------------------------|-----------|-----------|
| Line Items | Increases | Decreases |
| | | |
| | | |
| | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| For years ended December 31, 2012 and 2013 | | |
|--|-------|-------|
| (In Millions) | 2013 | 2012 |
| Net revenues | \$505 | \$440 |
| Cost of goods sold | (253) | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative | (117) | (105) |
| Total | (124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | \$113 | \$100 |

| l | E6b Recognize product cost when goods were delivered | | | | | | | | | | | |
|---|--|---------|---|----|------------|----------------------------|-------|--------|--|--|--|--|
| | | Assets | Ш | Ov | vners' Eq. | | Debit | Credit | | | | |
| l | + | FGI | Ш | 1 | CGS | Cost of goods sold | \$208 | | | | | |
| | + | - \$208 | = | - | + \$208 | Finished goods inventories | | \$208 | | | | |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | |
|----------------------------------|-----------|-----------------------------------|------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Inventories Retained earnings | | x x | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CHANGES IN EQUITY

| (In Millions) | Share Capital | Retained Earnings | Reserves | Total |
|-------------------------|------------------|----------------------|----------|-------|
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inc | ome | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inc | ome | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| E6 | E6b Recognize product cost when goods were delivered | | | | | | | | | | | |
|----|--|---|----|------------|----------------------------|-------|--------|--|--|--|--|--|
| | Assets | Ш | Ov | vners' Eq. | | Debit | Credit | | | | | |
| + | FGI | Ш | 1 | CGS | Cost of goods sold | \$208 | | | | | | |
| + | - \$208 | = | - | + \$208 | Finished goods inventories | | \$208 | | | | | |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | |
|----------------------------------|-----------|-----------------------------------|---|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Inventories | | X | Cost of goods sold (Reported negative number decreases.) | | x |
| Retained earnings | | x | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | |
| Line Items | Increases | Decreases | | | |
| | | | | | |
| | | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | | |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5 | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |

| E6b Recognize product cost when goods were delivered | | | | | | | | | | | | |
|--|---------|---|----|------------|--------------------------|-------|--------|--|--|--|--|--|
| | Assets | = | Ov | vners' Eq. | | Debit | Credit | | | | | |
| + | FGI | = | I. | CGS | Cost of goods sold | \$208 | | | | | | |
| + | - \$208 | = | I. | + \$208 | Finished goods inventori | ies | \$208 | | | | | |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INCOME | | | | |
|----------------------------------|-----------|-----------|---|-----------|-----------|--|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | | |
| Inventories | | x | Cost of goods sold (Reported negative number decreases.) | | x | | |
| Retained earnings | | x | (reported regarine named, devicable) | | | | |
| | | | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | | |
| Profit (loss) | | x | | | | | |
| | | | | | | | |
| | | | | | | | |

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Complete Solution: E6b Recognize product cost when goods were delivered

During 2013, BGS recognized \$208 million of cost of goods sold when goods were delivered to customers. This occurred at the same time revenues were recognized in entry E6a. Entries E6a and E6b could have been combined.

Record the entry:

| Е | E6b Recognize product cost when goods were delivered | | | | | | | | | | | | | | |
|---|--|---|---|----------------------------|--|--------------------|-------|--------|--|--|--|--|--|--|--|
| | Assets = Owners' Eq. | | | | | | Debit | Credit | | | | | | | |
| + | + FGI | = | - | - CGS | | Cost of goods sold | \$208 | | | | | | | | |
| 4 | + - \$208 = - + \$208 | | | Finished goods inventories | | \$208 | | | | | | | | | |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | |
|----------------------------------|-----------|-----------------------------------|---|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Inventories Retained earnings | | x | Cost of goods sold (Reported negative number decreases.) | | x |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | Increases | Decreases | STATEMENT OF CASH FLOWS | Increases | Decreases |
| | Increases | Decleases | Line items | Increases | Decleases |
| Profit (loss) | | х | Net profit | | x |
| | | | Inventories | x | |
| | | | (Reported negative number increases.) | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

| ASSETS | | | OWNER | S' EQUIT | Y | |
|------------|-----------|--|-------|----------|----------|------------------------------------|
| Current | | | Peri | nanent | | |
| AR | Accoun | ts receivable | | RE | Retaine | d earnings |
| | ARG | Accounts receivable, gross | | SCap | Share c | |
| | Allbd | Allowance for bad debts | | OPOE | Other pe | ermanent owners' equity |
| | Allprr | Allowance for product returns: revenue component | Net | income | | |
| С | Cash a | nd cash equivalents | | CGS | Cost of | goods sold |
| Inve | n Invento | ries | | DepEx | Depreci | ation expense |
| | FGI | Finished goods inventories | | G/L | Gain/los | • |
| | Sldr | Segregated inventories: deferred revenue | | | | Gain/Loss on PP&E disposals |
| | Slprc | Segregated inventories: product returns allowance cost component | | | | . Other non-operating gains/losse |
| PrEx | | expenses | | IncS | | summary |
| OCA | Other c | urrent assets | | MSGA | Miscella | neous SG&A expense |
| Non-curre | nt | | | Rev | Revenu | es, net |
| PPE | Propert | y, plant, and equipment, net | | | Grev | Gross revenue |
| | PPEhc | PP&E (historical cost) | | | PRCnR | Product returns contra revenue |
| | | Accumulated depreciation | | OSGA | | G&A expense |
| ONC | A Other n | on-current assets | | 001 | Other of | perating income net of expenses |
| IABILITIES | | | | ONOI | Other no | on-operating income net of expense |
| Current | | | | · | | |
| AP | Accoun | ts payable | | | | |
| AcrL | Accrue | liabilities | | | | |
| DivP | Dividen | d payable | | | | |
| Drev | Deferre | d revenue | | | | |
| OCL | Other c | urrent liabilities | | | | |
| Non-curre | nt | | | | | |
| LTD | Long-te | rm debt | | | | |
| ONC | I Other n | on-current liabilities | | | | |

E7 Collected amounts from customers

During 2013, BGS collected \$380 million from customers who had been billed earlier when goods were delivered. BGS recognizes revenue when it concludes the IFRS revenue recognition criteria are met, which can occur at times other than when cash is collected. For this reason, revenue is recorded separately from collections.

Record the entry in the space below:



BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION

| December 31, 2013 and December 31, 2012 | | |
|--|-------|--------------|
| (In Millions) | | |
| Assets | 2013 | 2012 |
| Current | 624 | 640 |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | 84 | 66 |
| Inventories | 158 | 109 |
| Prepaid expenses | 10 | 20 |
| Other current assets | 219 | 158 |
| Total current assets Non-current | 502 | 366 |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | <u>\$740</u> |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | \$740 |
| | | |

| 6 | E7 Collected amounts due from customers | | | | | | | | | | | | | |
|---|---|-----|---|------|-------|----------------------------|-------|-------|--|--|--|--|--|--|
| | Assets | | = | | Debit | Credit | | | | | | | | |
| | + | С | + | ARG | = | Cash and cash equivalents | \$380 | | | | | | | |
| | + | 380 | + | -380 | = | Accounts receivable, gross | | \$380 | | | | | | |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | |
|----------------------------------|-----------|-----------|
| Line Items | Increases | Decreases |
| | | |
| | | |
| | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| For years ended December 31, 2012 and 2013 | | |
|--|-------|-------|
| (In Millions) | 2013 | 2012 |
| Net revenues | \$505 | \$440 |
| Cost of goods sold | (253) | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative | (117) | (105) |
| Total | (124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | \$113 | \$100 |
| | | |

| E7 | E7 Collected amounts due from customers | | | | | | | | | | | | | |
|----|---|------|------|---|----------------------------|-------|--------|--|--|--|--|--|--|--|
| | As | sets | | = | | Debit | Credit | | | | | | | |
| + | С | + | ARG | = | Cash and cash equivalents | \$380 | | | | | | | | |
| + | 380 | + | -380 | = | Accounts receivable, gross | | \$380 | | | | | | | |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | |
|----------------------------------|-----------|-----------------------------------|------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Cash and cash equivalents | x | | | | |
| Accounts receivable, net | | x | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CHANGES IN EQUITY

| | Share | Retained | | |
|-------------------------|---------|----------|----------|-------|
| (In Millions) | Capital | Earnings | Reserves | Total |
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inc | ome | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inc | ome | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| E | E7 Collected amounts due from customers | | | | | | | | | | | | | |
|---|---|-----|------|------|---|----------------------------|-------|--------|--|--|--|--|--|--|
| | | As | sets | | = | | Debit | Credit | | | | | | |
| | ÷ | С | + | ARG | = | Cash and cash equivalents | \$380 | | | | | | | |
| | + | 380 | + | -380 | = | Accounts receivable, gross | | \$380 | | | | | | |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | COME | |
|----------------------------------|-----------|-----------|-------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Cash and cash equivalents | x | | NONE | | |
| Accounts receivable, net | | x | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | |
| Line Items | Increases | Decreases | | | |
| | | | | | |
| | | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | | |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5 | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |
| | | |

| | As | sets | | = | | Debit | Credit |
|---|-----|------|------|---|----------------------------|-------|--------|
| + | С | + | ARG | = | Cash and cash equivalents | \$380 | |
| + | 380 | + | -380 | = | Accounts receivable, gross | | \$380 |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | COME | |
|--|-----------|-----------|---------------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Cash and cash equivalents | x | | NONE | | |
| Accounts receivable, net | | x | | | |
| | | | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| STATEMENT OF CHANGES IN EQUITY Line Items | Increases | Decreases | STATEMENT OF CASH FLOWS Line Items | Increases | Decreases |
| | Increases | Decreases | | Increases | Decreases |
| Line Items | | Decreases | | Increases | Decreases |

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Complete Solution: E7 Collected amounts due from customers

During 2013, BGS collected \$380 million from customers who had been billed earlier when goods were delivered. BGS recognizes revenue when it concludes the IFRS revenue recognition criteria are met, which can occur at times other than when cash is collected. For this reason, revenue is recorded separately from collections.

Record the entry:

| Assets | | | | = | [| Debit | Credit |
|--------|---|---|-----|---|---------------------------|-------|--------|
| + | С | + | ARG | = | Cash and cash equivalents | \$380 | |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | СОМЕ | |
|----------------------------------|-----------|-----------|--|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Cash and cash equivalents | x | | NONE | | |
| Accounts receivable, net | | x | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| NONE | | | Accounts receivable | x | |
| | | | (Reported negative number increases.) Net cash provided by (used in) operations | x | |
| | | | | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

| SETS | | | OWNERS | FOURT | ~ | |
|-------------|---------|--|--------|-------|----------|------------------------------------|
| | | | | | T . | |
| Current | | | Pern | anent | | |
| AR | | ts receivable | | RE | | d earnings |
| | ARG | Accounts receivable, gross | | SCap | Share c | |
| | Allbd | Allowance for bad debts | | OPOE | Other pe | ermanent owners' equity |
| | Allprr | Allowance for product returns: revenue component | Net i | ncome | | |
| С | | nd cash equivalents | | CGS | | goods sold |
| Inven | Invento | | | | | ation expense |
| | FGI | Finished goods inventories | | G/L | Gain/los | |
| | Sldr | Segregated inventories: deferred revenue | | | | Gain/Loss on PP&E disposals |
| | Slprc | Segregated inventories: product returns allowance cost component | | _ | | Other non-operating gains/losses |
| PrEx | | expenses | | IncS | | summary |
| OCA | | urrent assets | | MSGA | | neous SG&A expense |
| Non-current | | | | Rev | Revenue | es, net |
| PPE | Propert | y, plant, and equipment, net | | | Grev | Gross revenue |
| | PPEhc | PP&E (historical cost) | | | PRCnR | Product returns contra revenue |
| | AcDep | Accumulated depreciation | | OSGA | Other S | G&A expense |
| ONCA | Other n | on-current assets | | 001 | Other op | perating income net of expenses |
| BILITIES | | | | ONOI | Other no | on-operating income net of expense |
| Current | | | _ | | | |
| AP | Accoun | ts payable | | | | |
| AcrL | Accrue | l liabilities | | | | |
| DivP | Dividen | d payable | | | | |
| Drev | Deferre | d revenue | | | | |
| OCL | Other c | urrent liabilities | | | | |
| Non-current | | | _ | | | |
| LTD | Long-te | rm debt | | | | |
| ONCL | Other n | on-current liabilities | | | | |

E8 Paid previously accrued expenses not invoiced

During 2013, BGS paid \$10 million for previously accrued expenses that are never invoiced. For example, BGS paid employees for work performed during the last few days of 2012. The related expense and obligation had been accrued in a 2012 yearend adjusting entry.

Record the entry in the space below:



BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION

| December 31, 2013 and December 31, 2012 | | |
|--|-------|-------|
| (In Millions) | | |
| Assets | 2013 | 2012 |
| Current | | |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | 84 | 66 |
| Inventories | 158 | 109 |
| Prepaid expenses | 10 | 20 |
| Other current assets | 219 | 158 |
| Total current assets Non-current | 502 | 366 |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | \$740 |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | \$740 |

| | E 8 | Paid pre | vio | us | ly accrue | d | expenses not invoiced | | |
|---|------------|----------|-----|----|------------|---|---------------------------|-------|--------|
| l | | Assets | = | L | iabilities | | | Debit | Credit |
| l | + | С | = | + | AcrL | | Accrued liabilities | \$10 | |
| l | + | - \$10 | = | + | - \$10 | | Cash and cash equivalents | | \$10 |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | |
|----------------------------------|-----------|-----------|
| Line Items | Increases | Decreases |
| | | |
| | | |
| | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| For years ended December 31, 2012 and 2013 | | |
|--|-------|-------|
| (In Millions) | 2013 | 2012 |
| Net revenues | \$505 | \$440 |
| Cost of goods sold | (253) | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative | (117) | (105) |
| Total | (124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | \$113 | \$100 |
| | | |

| | E8 Paid previously accrued expenses not invoiced | | | | | | | | | | | |
|----|--|--------|---|---|------------|---------------------------|-------|--------|--|--|--|--|
| Iſ | 1 | Assets | = | L | iabilities | | Debit | Credit | | | | |
| | + | С | = | + | AcrL | Accrued liabilities | \$10 | | | | | |
| | + | - \$10 | = | + | - \$10 | Cash and cash equivalents | | \$10 | | | | |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | | |
|----------------------------------|-----------|-----------------------------------|------------|-----------|-----------|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| Cash and cash equivalents | | x | | | | |
| Accrued liabilities | | X | | | | |
| | | | | | | |
| | | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CHANGES IN EQUITY

| | Share | Retained | _ | |
|--------------------------|---------|----------|----------|-------|
| (In Millions) | Capital | Earnings | Reserves | Total |
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inco | ome | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inco | ome | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| l | E8 | Paid pre | vio | us | ly accrue | d | expenses not invoiced | | |
|---|-----------|----------|-----|----|------------|---|---------------------------|-------|--------|
| l | | Assets | = | L | iabilities | | | Debit | Credit |
| | + | С | = | + | AcrL | | Accrued liabilities | \$10 | |
| l | + | - \$10 | = | + | - \$10 | | Cash and cash equivalents | | \$10 |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | СОМЕ | |
|----------------------------------|-----------|-----------|-------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Cash and cash equivalents | | x | NONE | | |
| Accrued liabilities | | x | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | |
| Line Items | Increases | Decreases | | | |
| | | | | | |
| | | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

.....

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | | |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5 | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |

| E 8 | Paid pre | vio | us | ly accrue | d | expenses not invoiced | | |
|------------|----------|-----|----|------------|---|---------------------------|-------|--------|
| | Assets | = | L | iabilities | | | Debit | Credit |
| + | С | Ш | + | AcrL | | Accrued liabilities | \$10 | |
| + | - \$10 | = | + | - \$10 | | Cash and cash equivalents | | \$10 |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | OME | |
|----------------------------------|-----------|-----------|--------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Cash and cash equivalents | | x | NONE | | |
| Accrued liabilities | | x | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| NONE | | | | | |
| | | | | | |
| | | | | | |

Complete Solution: E8 Paid previously accrued expenses not invoiced

During 2013, BGS paid \$10 million for previously accrued expenses that are never invoiced. For example, BGS paid employees for work performed during the last few days of 2012. The related expense and obligation had been accrued in a 2012 year-end adjusting entry.

Record the entry:

| E8 | Paid pre | vio | us | ly accrue | d ex | penses not invoiced | | |
|-----------|----------|-----|----|------------|------|---------------------------|-------|--------|
| | Assets | = | L | iabilities | | | Debit | Credit |
| + | С | = | + | AcrL | , | Accrued liabilities | \$10 | |
| + | - \$10 | = | + | - \$10 | | Cash and cash equivalents | | \$10 |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | COME | |
|----------------------------------|-----------|-----------|--|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Cash and cash equivalents | | x | NONE | | |
| Accrued liabilities | | x | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| NONE | | | Accrued liabilities | | x |
| | | | (Reported negative number decreases.) Net cash provided by (used in) operations | | x |
| | | | | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

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| ASSETS | | | | OWNER | S' EQUIT | Y | |
|------------|--------|----------|--|-------|----------|----------|--------------------------------|
| Curre | nt | | | Per | nanent | | |
| | AR | Account | s receivable | | RE | Retaine | d earnings |
| | | ARG | Accounts receivable, gross | | SCap | Share ca | apital |
| | | Allbd | Allowance for bad debts | | OPOE | Other pe | ermanent owners' equity |
| | | Allprr | Allowance for product returns: revenue component | Net | income | | |
| | с | Cash an | d cash equivalents | | CGS | Cost of | goods sold |
| | Inven | Inventor | ies | | DepEx | Deprecia | ation expense |
| | | FGI | Finished goods inventories | | G/L | Gain/los | |
| | | Sldr | Segregated inventories: deferred revenue | | | | Gain/Loss on PP&E disposa |
| | | Slprc | Segregated inventories: product returns allowance cost component | | | | . Other non-operating gains/lo |
| | PrEx | Prepaid | expenses | | IncS | | summary |
| | OCA | Other cu | urrent assets | | MSGA | Miscella | neous SG&A expense |
| Non-c | urrent | | | | Rev | Revenue | es, net |
| | PPE | Property | /, plant, and equipment, net | | | Grev | Gross revenue |
| | | PPEhc | PP&E (historical cost) | | | | Product returns contra reven |
| | | AcDep | Accumulated depreciation | | OSGA | Other S | G&A expense |
| | ONCA | Other no | on-current assets | | 001 | Other op | perating income net of expense |
| LIABILITIE | S | | | | ONOI | Other no | on-operating income net of exp |
| Curre | nt | | | | | | |
| | AP | Account | s payable | | | | |
| | AcrL | Accrued | liabilities | | | | |
| | DivP | Dividend | d payable | | | | |
| | Drev | Deferred | d revenue | | | | |
| | OCL | Other cu | urrent liabilities | | | | |
| Non-c | urrent | | | | | | |
| | LTD | Long-ter | m debt | | | | |
| | ONCL | Ū | on-current liabilities | | | | |

Received invoices for previously E9 accrued expenses

During 2013, BGS received \$7 million of invoices for services received and previously expensed in 2012. For example, at the end of 2012, BGS recorded an adjusting entry to expense advertisements that ran the last day of 2012. At that time, BGS was obligated to pay the advertiser but had not been invoiced.

Record the entry in the space below:

BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION

| December 31, 2013 and December 31, 2012 | | |
|--|-------------|-------|
| (In Millions) | | |
| Assets | 2013 | 2012 |
| Current | 66 4 | |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | 84 | 66 |
| Inventories | 158 | 109 |
| Prepaid expenses | 10 | 20 |
| Other current assets | 219 | 158 |
| Total current assets Non-current | 502 | 366 |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | \$740 |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | \$740 |

| E | Re | eceived ii | ۱vo | ices for p | reviously accrued expenses | | |
|---|----|------------|--------|------------|----------------------------|-------|--------|
| = | | Liab | ilitie | S | | Debit | Credit |
| = | + | AP | + | AcrL | Accrued liabilities | \$7 | |
| = | + | + \$7 | + | - \$7 | Accounts payable | | \$7 |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer on the next page.

| | | | CIAL POSITION | STATEMENTS OF FINA |
|----------|-----|-----------|---------------|--------------------|
| ecreases | Dec | Increases | | Line Items |
| | | | | |
| | Ľ | | | |
| | | | | |
| _ | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| For years ended December 31, 2012 and 2013 | | |
|--|-------|-------|
| (In Millions) | 2013 | 2012 |
| Net revenues | \$505 | \$440 |
| Cost of goods sold | (253) | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative | (117) | (105) |
| Total | (124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | \$113 | \$100 |
| | | |

| E9 | Re | ceived ir | ۱vo | ices for p | reviously accrued expenses | | |
|-----------|----|-----------|--------|------------|----------------------------|-------|--------|
| = | | Liab | ilitie | s | | Debit | Credit |
| = | + | AP | + | AcrL | Accrued liabilities | \$7 | |
| = | + | + \$7 | + | - \$7 | Accounts payable | | \$7 |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INCOME | | | | | |
|--------------------------------------|-----------|-----------|-----------------------------------|-----------|-----------|--|--|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | | | |
| Accounts payable Accrued liabilities | x | | | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CHANGES IN EQUITY

| (In Millions) | Share Capital | Retained Earnings | Reserves | Total |
|--------------------------|------------------|----------------------|----------|-------|
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inco | me | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inco | me | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| E9 | Re | ceived in | ۱vo | ices for p | reviously accrued expenses | | |
|----|----|-----------|--------|------------|----------------------------|-------|--------|
| П | | Liab | ilitie | S | | Debit | Credit |
| = | + | AP | + | AcrL | Accrued liabilities | \$7 | |
| = | + | + \$7 | + | - \$7 | Accounts payable | | \$7 |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INCOME | | | | |
|----------------------------------|-----------|-----------|-----------------------------------|-----------|-----------|--|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | | |
| Accounts payable | x | | NONE | | | | |
| Accrued liabilities | | x | | | | | |
| <u></u> . | | | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | | | |
| Line Items | Increases | Decreases | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |

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BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | | |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5 | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |

| E9 | E9 Received invoices for previously accrued expenses | | | | | | | | |
|-----------|--|-------|--------|-------|---------------------|-------|--------|--|--|
| = | | Liab | ilitie | S | | Debit | Credit | | |
| = | + | AP | + | AcrL | Accrued liabilities | \$7 | | | |
| = | + | + \$7 | + | - \$7 | Accounts payable | | \$7 | | |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INCOME | | | | | |
|----------------------------------|-----------|-----------|-----------------------------------|-----------|-----------|--|--|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | | | |
| Accounts payable | x | | NONE | | | | | |
| Accrued liabilities | | x | | | | | | |
| | | | | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | | | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | | | |
| NONE | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |

Complete Solution: E9 Received invoices for previously accrued expenses

During 2013, BGS received \$7 million of invoices for services received and previously expensed in 2012. For example, at the end of 2012, BGS recorded an adjusting entry to expense advertisements that ran the last day of 2012. At that time, BGS was obligated to pay the advertiser but had not been invoiced.

Record the entry:

| E9 | E9 Received invoices for previously accrued expenses | | | | | | | | |
|-----------|--|-------|---------|-------|---------------------|-------|--------|--|--|
| н | | Liab | oilitie | S | | Debit | Credit | | |
| = | + | AP | + | AcrL | Accrued liabilities | \$7 | | | |
| = | + | + \$7 | + | - \$7 | Accounts payable | | \$7 | | |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INCOME | | | | | |
|----------------------------------|-----------|-----------|--|-----------|-----------|--|--|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | | | |
| Accounts payable | x | | NONE | | | | | |
| Accrued liabilities | | x | | | | | | |
| | | | | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | | | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | | | |
| NONE | | | Accounts payable | x | | | | |
| | | | (Reported negative number increases.) Accrued liabilities | | x | | | |
| | | | (Reported negative number decreases.) | | | | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

| | | | | 05 4 00 | | | |
|-------------|-----------------------------|--|--------------|---------|-------|----------|--------------------------------------|
| | | BISCHOFF GLOBAL SPOR | ISWEAR CHART | OF ACC | OUNIS | | |
| ASSETS | | | | OWNERS | EQUIT | Y | |
| Current | | | | Perm | anent | | |
| AR | Accourt | ts receivable | | | RE | Retained | d earnings |
| | ARG | Accounts receivable, gross | | | SCap | Share ca | apital |
| | Allbd | Allowance for bad debts | | | OPOE | Other pe | ermanent owners' equity |
| | Allprr | Allowance for product returns: revenue component | | Net in | ncome | | |
| С | | nd cash equivalents | | | CGS | | goods sold |
| Inven | | | | | | | ation expense |
| | FGI | Finished goods inventories | | | G/L | Gain/los | |
| | Sldr | Segregated inventories: deferred revenue | | | | | Gain/Loss on PP&E disposals |
| | Slprc | Segregated inventories: product returns allowance cost con | nponent | | | | Other non-operating gains/losses |
| PrEx | | expenses | | | IncS | | summary |
| OCA | | urrent assets | | | MSGA | | neous SG&A expense |
| Non-current | t | | | | Rev | Revenue | es, net |
| PPE | | y, plant, and equipment, net | | | | Grev | Gross revenue |
| | | PP&E (historical cost) | | | | | Product returns contra revenue |
| | | Accumulated depreciation | | | | | G&A expense |
| ONCA | Other n | on-current assets | | | 001 | Other op | perating income net of expenses |
| IABILITIES | | | | | ONOI | Other no | on-operating income net of expension |
| Current | | | | | | | |
| AP | Accour | ts payable | | | | | |
| AcrL | Accrue | d liabilities | | | | | |
| DivP | Dividen | d payable | | | | | |
| Drev | Deferre | d revenue | | | | | |
| OCL | Other c | urrent liabilities | | | | | |
| Non-current | t | | | | | | |
| LTD | Long-te | rm debt | | | | | |
| ONCL | Other n | on-current liabilities | | | | | |

E10 Recognized expenses when invoiced

During 2013, BGS recognized \$20 million of expenses for services received and invoiced, but not paid during 2013. For example, BGS recognized expense during 2013 when it received invoices for advertising services received during 2013.

Record the entry in the space below:



BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION

| December 31, 2013 and December 31, 2012 | | |
|--|-------------|-------|
| (In Millions) | | |
| Assets | 2013 | 2012 |
| Current | * •• | |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | 84 | 66 |
| Inventories | 158 | 109 |
| Prepaid expenses | 10 | 20 |
| Other current assets | 219 | 158 |
| Total current assets Non-current | 502 | 366 |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | \$740 |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | \$740 |

| E10 | E10 Recognized expenses when invoiced | | | | | | | | | | | |
|-----|---------------------------------------|------------|----|-----------|--|----------------------------|-------|--------|--|--|--|--|
| = | L | iabilities | 0 | wners' Eq | | | Debit | Credit | | | | |
| = | + | AP | I. | MSGA | | Miscellaneous SG&A expense | \$20 | | | | | |
| = | + | + \$20 | 1 | + \$20 | | Accounts payable | | \$20 | | | | |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | |
|----------------------------------|-----------|-----------|
| Line Items | Increases | Decreases |
| | | |
| | | |
| | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| For years ended December 31, 2012 and 2013 | | |
|--|-------|-------|
| (In Millions) | 2013 | 2012 |
| Net revenues | \$505 | \$440 |
| Cost of goods sold | (253) | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative | (117) | (105) |
| Total | (124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | \$113 | \$100 |
| | | |

| E1 | E10 Recognized expenses when invoiced | | | | | | | | | | | |
|----|---------------------------------------|------------|----|-----------|--|----------------------------|-------|--------|--|--|--|--|
| = | L | iabilities | 0 | wners' Eq | | | Debit | Credit | | | | |
| = | + | AP | I. | MSGA | | Miscellaneous SG&A expense | \$20 | | | | | |
| = | + | + \$20 | - | + \$20 | | Accounts payable | | \$20 | | | | |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | | |
|------------------------------------|-----------|-----------------------------------|------------|-----------|-----------|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| Accounts payable Retained earnings | × | | | | | |
| | | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CHANGES IN EQUITY

| | Share | Retained | | |
|-------------------------|---------|----------|----------|-------|
| (In Millions) | Capital | Earnings | Reserves | Total |
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inc | ome | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inc | ome | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| E10 | E10 Recognized expenses when invoiced | | | | | | | | | | |
|-----|---------------------------------------|---|-----------|--|----------------------------|-------|--------|--|--|--|--|
| = | Liabilities | 0 | wners' Eq | | | Debit | Credit | | | | |
| = + | AP | - | MSGA | | Miscellaneous SG&A expense | \$20 | | | | | |
| = + | + \$20 | - | + \$20 | | Accounts payable | | \$20 | | | | |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | |
|----------------------------------|-----------|-----------------------------------|---|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Accounts payable | x | | Other selling, general, and administrative (Reported negative number decreases.) | | x |
| Retained earnings | | x | · · · · · · · · · · · · · · · · · · · | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | |
| Line Items | Increases | Decreases | | | |
| | | | | | |
| | | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | | |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5 | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |

| L | E10 Recognized expenses when invoiced | | | | | | | | | | | |
|---|---------------------------------------|---|------------|---|-----------|--|----------------------------|-------|--------|--|--|--|
| | П | L | iabilities | 0 | wners' Eq | | | Debit | Credit | | | |
| | = | + | AP | - | MSGA | | Miscellaneous SG&A expense | \$20 | | | | |
| | = | + | + \$20 | - | + \$20 | | Accounts payable | | \$20 | | | |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | | |
|----------------------------------|-----------|-----------------------------------|---|-----------|-----------|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| Accounts payable | x | | Other selling, general, and administrative (Reported negative number decreases.) | | x | |
| Retained earnings | | x | | | | |
| | | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| Profit (loss) | | x | | | | |
| | | | | | | |
| | | | | | | |

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Complete Solution: E10 Recognized expenses when invoiced

During 2013, BGS recognized \$20 million of expenses for services received and invoiced, but not paid during 2013. For example, BGS recognized expense during 2013 when it received invoices for advertising services received during 2013.

Record the entry:

| E10 Recognized expenses when invoiced | | | | | | | | | |
|---------------------------------------|-------------|--------|------------|--------|--|----------------------------|-------|--------|--|
| = | Liabilities | | Owners' Eq | | | | Debit | Credit | |
| = | + | AP | - | MSGA | | Miscellaneous SG&A expense | \$20 | | |
| = | + | + \$20 | - | + \$20 | | Accounts payable | | \$20 | |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | | |
|----------------------------------|-----------|-----------------------------------|--|-----------|-----------|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| Accounts payable | x | | Other selling, general, and administrative (Reported negative number decreases.) | | x | |
| Retained earnings | | x | | | | |
| | | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| Profit (loss) | | x | Net profit | | x | |
| | | | Accounts payable | x | | |
| | | | (Reported negative number increases.) | | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

| SSETS | | | OWNERS | ' EQUIT | Y | |
|-------------|---------|--|--------|---------------------------------|-----------|------------------------------------|
| Current | | | Perm | anent | | |
| AR | Accoun | ts receivable | | RE | Retained | d earnings |
| | ARG | Accounts receivable, gross | | SCap | Share ca | apital |
| | Allbd | Allowance for bad debts | | OPOE | Other pe | ermanent owners' equity |
| | Allprr | Allowance for product returns: revenue component | Net i | ncome | | |
| С | Cash a | nd cash equivalents | | CGS | Cost of g | goods sold |
| Inven | Invento | | | | | ation expense |
| | FGI | Finished goods inventories | | G/L | Gain/los | . |
| | Sldr | Segregated inventories: deferred revenue | | | | Gain/Loss on PP&E disposals |
| | Slprc | Segregated inventories: product returns allowance cost component | | | ONOGL | Other non-operating gains/losses |
| PrEx | Prepaid | expenses | | IncS | | summary |
| OCA | Other c | urrent assets | | MSGA Miscellaneous SG&A expense | | |
| Non-current | | | | Rev Revenues, net | | |
| PPE | Propert | y, plant, and equipment, net | | | Grev | Gross revenue |
| | PPEhc | PP&E (historical cost) | | | PRCnR | Product returns contra revenue |
| | | Accumulated depreciation | | OSGA | Other So | G&A expense |
| ONCA | Other n | on-current assets | | 001 | Other op | perating income net of expenses |
| IABILITIES | | | | ONOI | Other no | on-operating income net of expense |
| Current | | | | | | |
| AP | Accoun | ts payable | | | | |
| AcrL | Accrue | d liabilities | | | | |
| DivP | Dividen | d payable | | | | |
| Drev | Deferre | d revenue | | | | |
| OCL | Other c | urrent liabilities | | | | |
| Non-current | | | _ | | | |
| LTD | Long-te | rm debt | | | | |
| ONCL | Other n | on-current liabilities | | | | |

E11 Paid expenses when recognized

During 2013, BGS recognized \$30 million of expenses when it paid for services received in 2013. For example, BGS recognized an expense when it paid employees in 2013 for services performed during 2013. Office supplies purchased with cash is another example of a non-invoiced expense recognized when paid.

Record the entry in the space below:



BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION

| December 31, 2013 and December 31, 2012 | | |
|--|-------------|--------------|
| (In Millions) | | |
| Assets | 2013 | 2012 |
| Current | AA 4 | |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | 84 | 66 |
| Inventories | 158 | 109 |
| Prepaid expenses | 10 | 20 |
| Other current assets | 219 | 158 |
| Total current assets Non-current | 502 | 366 |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | \$740 |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | <u>\$740</u> |

| l | E11 Paid expenses when recognized | | | | | | | | |
|---|-----------------------------------|--------|---|----|-------------|--|----------------------------|-------|--------|
| l | Assets | | = | 0 | Owners' Eq. | | | Debit | Credit |
| l | + | С | = | I. | MSGA | | Miscellaneous SG&A expense | \$30 | |
| | + | - \$30 | = | - | + \$30 | | Cash and cash equivalents | | \$30 |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | | | | | |
|----------------------------------|-----------|-----------|--|--|--|--|--|
| Line Items | Increases | Decreases | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| For years ended December 31, 2012 and 2013 | | |
|--|-------|-------|
| (In Millions) | 2013 | 2012 |
| Net revenues | \$505 | \$440 |
| Cost of goods sold | (253) | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative | (117) | (105) |
| Total | (124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | \$113 | \$100 |

| | E1 | 1 Paid ex | cpe | nse | es when r | ec | ognized | | |
|---|----|-----------|-----|-----|------------|----|----------------------------|-------|--------|
| | | Assets | = | ٥v | vners' Eq. | | | Debit | Credit |
| L | + | С | = | I. | MSGA | | Miscellaneous SG&A expense | \$30 | |
| | + | - \$30 | = | - | + \$30 | | Cash and cash equivalents | | \$30 |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | OME | |
|----------------------------------|-----------|-----------|--------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Cash and cash equivalents | | x | | | |
| Retained earnings | | х | | | |
| | | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CHANGES IN EQUITY

| (In Millions) | Share Capital | Retained Earnings | Reserves | Total |
|-------------------------|------------------|----------------------|----------|-------|
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inc | ome | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inc | ome | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| E | 1 | 1 Paid ex | cpe | nse | es when r | ecognized | |
|---|---|-----------|-----|-----|------------|---------------------------------|--------|
| | 1 | Assets | = | ٥v | wners' Eq. | Debit | Credit |
| + | F | С | = | I. | MSGA | Miscellaneous SG&A expense \$30 | |
| + | F | - \$30 | = | - | + \$30 | Cash and cash equivalents | \$30 |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INCOME | | | | |
|----------------------------------|-----------|-----------|--|-----------|-----------|--|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | | |
| Cash and cash equivalents | | x | Other selling, general, and administrative | | x | | |
| Retained earnings | | x | (Reported negative number decreases.) | | | | |
| | | | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | | | |
| Line Items | Increases | Decreases | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

.....

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | | |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5 | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |
| | | |

| E1 | 1 Paid ex | cpe | nse | es when r | 'e(| cognized | | |
|-----------|-----------|-----|-----|------------|-----|----------------------------|-------|--------|
| | Assets | = | Ov | vners' Eq. | | | Debit | Credit |
| + | С | = | - | MSGA | | Miscellaneous SG&A expense | \$30 | |
| + | - \$30 | = | - | + \$30 | | Cash and cash equivalents | | \$30 |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | COME | |
|--|-----------|----------------|---|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Cash and cash equivalents Retained earnings | | x | Other selling, general, and administrative (Reported negative number decreases.) | | x |
| | | | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| STATEMENT OF CHANGES IN EQUITY Line Items | Increases | Decreases | STATEMENT OF CASH FLOWS Line Items | Increases | Decreases |
| | Increases | Decreases x | | Increases | Decreases |
| Line Items | Increases | | | Increases | Decreases |

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Complete Solution: E11 Paid expenses when recognized

During 2013, BGS recognized \$30 million of expenses when it paid for services received in 2013. For example, BGS recognized an expense when it paid employees in 2013 for services performed during 2013. Office supplies purchased with cash is another example of a non-invoiced expense recognized when paid.

Record the entry:

| E1 | 1 Paid ex | pe | nse | es when r | e | cognized | | |
|-----------|-----------|----|-----|------------|---|----------------------------|-------|--------|
| | Assets | П | Ov | wners' Eq. | | | Debit | Credit |
| + | С | = | - | MSGA | | Miscellaneous SG&A expense | \$30 | |
| + | - \$30 | = | - | + \$30 | | Cash and cash equivalents | | \$30 |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INCOME | | | | |
|----------------------------------|-----------|-----------|---|-----------|-----------|--|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | | |
| Cash and cash equivalents | | x | Other selling, general, and administrative (Reported negative number decreases.) | | x | | |
| Retained earnings | | x | (, | | | | |
| | | | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | | |
| Profit (loss) | | x | Net profit | | x | | |
| | | | Net cash provided by (used in) operations | | x | | |
| | | | | | | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

| SSETS | | | OWNER | S' EQUIT | Y | |
|------------|-------------|--|-------|----------|----------|-----------------------------------|
| Current | | | Per | nanent | | |
| AR | Account | ts receivable | | RE | Retaine | d earnings |
| | ARG | Accounts receivable, gross | | SCap | Share c | |
| | Allbd | Allowance for bad debts | | OPOE | Other pe | ermanent owners' equity |
| | Allprr | Allowance for product returns: revenue component | Net | income | | |
| С | Cash ar | nd cash equivalents | | CGS | Cost of | goods sold |
| Inve | n Invento | ries | | DepEx | Deprecia | ation expense |
| | FGI | Finished goods inventories | | G/L | Gain/los | |
| | Sldr | Segregated inventories: deferred revenue | | | - | Gain/Loss on PP&E disposals |
| | Slprc | Segregated inventories: product returns allowance cost component | | | ONOGL | . Other non-operating gains/losse |
| PrEx | | expenses | | IncS | | summary |
| OCA | Other c | urrent assets | | MSGA | Miscella | neous SG&A expense |
| Non-curre | nt | | | Rev | Revenue | es, net |
| PPE | Propert | y, plant, and equipment, net | | | Grev | Gross revenue |
| | | PP&E (historical cost) | | | | Product returns contra revenue |
| | | Accumulated depreciation | | | Other S | G&A expense |
| ONC | A Other n | on-current assets | | 001 | Other op | perating income net of expenses |
| IABILITIES | | | | ONOI | Other no | on-operating income net of exper |
| Current | | | | | | |
| AP | Account | ts payable | | | | |
| AcrL | . Accrueo | liabilities | | | | |
| DivP | Dividen | d payable | | | | |
| Drev | Deferre | d revenue | | | | |
| OCL | Other c | urrent liabilities | | | | |
| Non-curre | nt | | | | | |
| LTD | Long-te | rm debt | | | | |
| ONC | 0.046.00.00 | on-current liabilities | | | | |

E12 Prepaid future expenses

During 2013, BGS paid \$20 million in advance for services it had not yet received when the payments were made. For example, BGS paid advertisers to create advertisements before the advertisements were created and BGS paid rent before benefiting from the use of buildings.

Record the entry in the space below:



BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION

| December 31, 2013 and December 31, 2012 | | |
|--|-------|-------|
| (In Millions) | | |
| Assets | 2013 | 2012 |
| Current | | |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | 84 | 66 |
| Inventories | 158 | 109 |
| Prepaid expenses | 10 | 20 |
| Other current assets | 219 | 158 |
| Total current assets Non-current | 502 | 366 |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | \$740 |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | \$740 |

| E12 Prepaid future expenses | | | | | | | | | |
|-----------------------------|--------|------|--------|---|---------------------------|--------|--|--|--|
| | As | sets | | = | Debit | Credit | | | |
| + | С | + | PrEx | = | Prepaid expenses \$20 | | | | |
| + | - \$20 | + | + \$20 | = | Cash and cash equivalents | \$20 | | | |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer on the next page.

| | | | CIAL POSITION | STATEMENTS OF FINA |
|----------|-----|-----------|---------------|--------------------|
| ecreases | Dec | Increases | | Line Items |
| | Ľ | | | |
| | Ľ | | | |
| | | | | |
| _ | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| For years ended December 31, 2012 and 2013 | | |
|--|-------|-------|
| (In Millions) | 2013 | 2012 |
| Net revenues | \$505 | \$440 |
| Cost of goods sold | (253) | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative | (117) | (105) |
| Total | (124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | \$113 | \$100 |
| | | |

| E1 | E12 Prepaid future expenses | | | | | | | | | |
|----|-----------------------------|------|--------|---|-------------------------------|--------|--|--|--|--|
| | As | sets | | = | Debit | Credit | | | | |
| + | С | + | PrEx | = | Prepaid expenses \$20 | | | | | |
| + | - \$20 | + | + \$20 | = | Cash and cash equivalents \$2 | | | | | |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | ОМЕ | |
|----------------------------------|-----------|-----------|--------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Cash and cash equivalents | | x | | | |
| Prepaid expenses | x | | | | |
| | | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CHANGES IN EQUITY

| | Share | Retained | | |
|-------------------------|---------|----------|----------|-------|
| (In Millions) | Capital | Earnings | Reserves | Total |
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inc | ome | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inc | ome | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| E12 Prepaid future expenses | | | | | | | | | |
|-----------------------------|--------|------|--------|---|--------------------------------|-------|--------|--|--|
| | As | sets | | = | | Debit | Credit | | |
| + | С | + | PrEx | = | Prepaid expenses | \$20 | | | |
| + | - \$20 | + | + \$20 | = | Cash and cash equivalents \$20 | | \$20 | | |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | COME | |
|----------------------------------|-----------|-----------|-------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Cash and cash equivalents | | x | NONE | | |
| Prepaid expenses | x | | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | |
| Line Items | Increases | Decreases | | | |
| | | | | | |
| | | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | | _ |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5 | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |

| E12 Prepaid future expenses | | | | | | | | | | |
|-----------------------------|--------|------|--------|---|---------------------------|--------|--|--|--|--|
| | Ass | sets | | = | Debit | Credit | | | | |
| + | С | + | PrEx | = | Prepaid expenses \$20 | | | | | |
| + | - \$20 | + | + \$20 | = | Cash and cash equivalents | | | | | |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | COME | |
|--|-----------|-----------|---------------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Cash and cash equivalents | | x | NONE | | |
| Prepaid expenses | x | | | | |
| | | | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| STATEMENT OF CHANGES IN EQUITY Line Items | Increases | Decreases | STATEMENT OF CASH FLOWS Line Items | Increases | Decreases |
| | Increases | Decreases | | Increases | Decreases |
| Line Items | | Decreases | | Increases | Decreases |

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Complete Solution: E12 Prepaid future expenses

During 2013, BGS paid \$20 million in advance for services it had not yet received when the payments were made. For example, BGS paid advertisers to create advertisements before the advertisements were created and BGS paid rent before benefiting from the use of buildings.

Record the entry:

| E12 Prepaid future expenses | | | | | | | | | | |
|-----------------------------|--------|------|--------|---|---------------------------|--------|--|--|--|--|
| | Ass | sets | | = | Debit | Credit | | | | |
| + | С | + | PrEx | = | Prepaid expenses \$20 | | | | | |
| + | - \$20 | + | + \$20 | = | Cash and cash equivalents | | | | | |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | OME | |
|----------------------------------|-----------|-----------|---|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Cash and cash equivalents | | x | NONE | | |
| Prepaid expenses | x | | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| NONE | | | Prepaid expenses | | x |
| | | | Net cash provided by (used in) operations | | x |
| | | | | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

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| ASSETS | | | | OWNERS | ' EQUIT | Y | |
|-------------|-------|----------|--|--------|---------|----------|---|
| Curren | t | | | Pern | anent | | |
| 4 | R | Account | s receivable | | RE | Retaine | d earnings |
| | | ARG | Accounts receivable, gross | | SCap | Share ca | apital |
| | | Allbd | Allowance for bad debts | | OPOE | Other pe | ermanent owners' equity |
| | | Allprr | Allowance for product returns: revenue component | Net i | ncome | | |
| c | ; | Cash an | d cash equivalents | | CGS | Cost of | goods sold |
| li li | nven | Inventor | ies | | DepEx | Deprecia | ation expense |
| | | FGI | Finished goods inventories | | G/L | Gain/los | |
| | | Sldr | Segregated inventories: deferred revenue | | | | Gain/Loss on PP&E disposal |
| | | Slprc | Segregated inventories: product returns allowance cost component | | | | Other non-operating gains/log |
| ÷ | rEx | | expenses | | IncS | | summary |
| C | AOC | Other cu | irrent assets | | MSGA | Miscella | neous SG&A expense |
| Non-cu | rrent | | | | Rev | Revenue | es, net |
| F | PE | Property | , plant, and equipment, net | | | Grev | Gross revenue |
| | | PPEhc | PP&E (historical cost) | | | | Product returns contra reven |
| | | | Accumulated depreciation | | OSGA | | G&A expense |
| c | NCA | Other no | on-current assets | | 001 | Other op | perating income net of expense |
| LIABILITIES | ; | | | | ONOI | Other no | on-operating income net of exp |
| Curren | t | | | | | | |
| 4 | νP | Account | s payable | | | | |
| 4 | crL | Accrued | liabilities | | | | |
| | DivP | Dividend | l payable | | | | |
| |)rev | Deferred | I revenue | | | | |
| c | CL | Other cu | rrent liabilities | | | | |
| Non-cu | rrent | | | | | | |
| Γ | TD | Long-ter | m debt | | | | |
| - | | <u> </u> | on-current liabilities | | | | |

E13 Recognized expenses before invoiced

At the end of interim reporting periods during 2013, BGS recognized a total of \$3 million of expense for services performed during the periods for which BGS had not yet received invoices by the end of the periods and the timing and amount to be paid in the future was known. For example, advertisements ran on the last day of an interim period for which the fees were known.

Record the entry in the space below:



BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION

| December 31, 2013 and December 31, 2012 | | |
|--|-------------|-------|
| (In Millions) | | |
| Assets | 2013 | 2012 |
| Current | * •• | |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | 84 | 66 |
| Inventories | 158 | 109 |
| Prepaid expenses | 10 | 20 |
| Other current assets | 219 | 158 |
| Total current assets Non-current | 502 | 366 |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | \$740 |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | \$740 |

| E13 Recognized expenses before invoiced | | | | | | | | | | |
|---|---|------------|---|-----------|-------------|-----------------|-------|--------|--|--|
| = | L | iabilities | 0 | wners' Eq | | | Debit | Credit | | |
| = | + | AcrL | - | MSGA | Viscellaneo | us SG&A expense | \$3 | | | |
| = | + | + \$3 | - | + \$3 | Accrue | d liabilities | | \$3 | | |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | |
|----------------------------------|-----------|-----------|
| Line Items | Increases | Decreases |
| | | |
| | | |
| | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| For years ended December 31, 2012 and 2013 | | |
|--|-------|-------|
| (In Millions) | 2013 | 2012 |
| Net revenues | \$505 | \$440 |
| Cost of goods sold | (253) | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative | (117) | (105) |
| Total | (124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | \$113 | \$100 |
| | | |

| E13 Recognized expenses before invoiced | | | | | | | | | | | |
|---|---|------------|---|-----------|----------------------------|-------|--------|--|--|--|--|
| = | L | iabilities | 0 | wners' Eq | | Debit | Credit | | | | |
| П | + | AcrL | - | MSGA | Miscellaneous SG&A expense | \$3 | | | | | |
| = | + | + \$3 | - | + \$3 | Accrued liabilities | | \$3 | | | | |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | |
|---------------------------------------|-----------|-----------------------------------|------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Accrued liabilities Retained earnings | × | × | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CHANGES IN EQUITY

| | Share | Retained | | |
|-------------------------|---------|----------|----------|-------|
| (In Millions) | Capital | Earnings | Reserves | Total |
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inc | ome | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inc | ome | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| = Liabilities Owners' Eq Debit | Credit |
|--|--------|
| | orcuit |
| = + AcrL - MSGA Miscellaneous SG&A expense \$3 | |
| = + + \$3 - + \$3 Accrued liabilities | \$3 |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | |
|----------------------------------|-----------|-----------------------------------|---|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Accrued liabilities | x | | Other selling, general, and administrative (Reported negative number decreases.) | | x |
| Retained earnings | | x | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | |
| Line Items | Increases | Decreases | | | |
| | | | | | |
| | | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

.....

| (In Millions)20132012Cash flows from operating activitiesNet profit\$89\$76Adjustments(Gain) loss on sale of PP&E(3)(3)Depreciation3228 |
|---|
| Net profit\$89\$76Adjustments(Gain) loss on sale of PP&E(3)(3) |
| Adjustments (Gain) loss on sale of PP&E (3) (3) |
| (Gain) loss on sale of PP&E (3) (3) |
| |
| Depreciation 32 28 |
| |
| Accounts receivable 0 (38) |
| Inventories (32) (36) |
| Prepaid expenses 15 13 |
| Accounts payable (22) (21) |
| Accrued liabilities (12) (10) |
| Other |
| Net cash provided by (used in) operations9625 |
| Cash flows from investing activities |
| Payments for property, plant, and equipment (20) (17) |
| Proceeds from disposal of property, plant, and equipment 15 14 |
| Other investing cash flows (80) (37) |
| Net cash provided by (used in) investing activities (85) (40) |
| Cash flows from financing activities |
| Proceeds from issue of share capital 10 7 |
| Proceeds from borrowings 10 9 |
| Payment of dividends (20) (18) |
| Other financing cash flows 5 4 |
| Net cash provided by (used in) financing activities 5 2 |
| Net increase (decrease) in cash during year 16 (13) |
| Other 2 2 |
| Cash and Cash equivalents at start of year 13 24 |
| Cash and Cash equivalents at end of year \$31 \$13 |

| | E13 Recognized expenses before invoiced | | | | | | | | | | | | | |
|---|---|---|------------|---|-----------|--|----------------------------|-------|--------|--|--|--|--|--|
| L | = | L | iabilities | O | wners' Eq | | | Debit | Credit | | | | | |
| L | = | + | AcrL | - | MSGA | | Miscellaneous SG&A expense | \$3 | | | | | | |
| L | = | + | + \$3 | - | + \$3 | | Accrued liabilities | | \$3 | | | | | |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | |
|----------------------------------|-----------|-----------------------------------|---|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Accrued liabilities | x | | Other selling, general, and administrative (Reported negative number decreases.) | | x |
| Retained earnings | | x | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Profit (loss) | | x | | | |
| | | | | | |
| | | | | | |

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Complete Solution: E13 Recognized expenses before invoiced

At the end of interim reporting periods during 2013, BGS recognized a total of \$3 million of expense for services performed during the periods for which BGS had not yet received invoices by the end of the periods and the timing and amount to be paid in the future was known. For example, advertisements ran on the last day of an interim period for which the fees were known.

Record the entry:

| | E13 Recognized expenses before invoiced | | | | | | | | | | | | |
|---|---|------------------------|-------|---|-------|-------|----------------------------|-----|-----|--|--|--|--|
| L | = | Liabilities Owners' Eq | | | | Debit | Credit | | | | | | |
| L | = | + | AcrL | - | MSGA | | Miscellaneous SG&A expense | \$3 | | | | | |
| L | = | + | + \$3 | - | + \$3 | | Accrued liabilities | | \$3 | | | | |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | OME | |
|----------------------------------|-----------|-----------|---|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Accrued liabilities | x | | Other selling, general, and administrative (Reported negative number decreases.) | | x |
| Retained earnings | | x | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Profit (loss) | | x | Net profit | | x |
| | | | Accrued liabilities (Reported negative number increases.) | x | |
| | | | (reported negative number Increases.) | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

89

| ASSETS | | | | OWNERS | ' EQUIT' | Y | |
|------------|--------|----------|--|--------|----------|-----------|---------------------------------|
| Curren | t | | | Pern | anent | | |
| 4 | ٨R | Account | s receivable | | RE | Retained | d earnings |
| | | ARG | Accounts receivable, gross | | SCap | Share ca | |
| | | Allbd | Allowance for bad debts | | OPOE | Other pe | ermanent owners' equity |
| | | Allprr | Allowance for product returns: revenue component | Net i | ncome | | |
| c | : | Cash an | d cash equivalents | | CGS | Cost of g | goods sold |
| h | nven | Inventor | ies | | DepEx | Deprecia | ation expense |
| | | FGI | Finished goods inventories | | G/L | Gain/los | s |
| | | Sldr | Segregated inventories: deferred revenue | | | PPEGL | Gain/Loss on PP&E disposals |
| | | Slprc | Segregated inventories: product returns allowance cost component | | | ONOGL | Other non-operating gains/los |
| F | PrEx | Prepaid | expenses | | IncS | Income | summary |
| c | DCA | Other cu | irrent assets | | MSGA | Miscella | neous SG&A expense |
| Non-cu | irrent | | | | Rev | Revenue | es, net |
| F | PE | Property | r, plant, and equipment, net | | | Grev | Gross revenue |
| | | PPEhc | PP&E (historical cost) | | | PRCnR | Product returns contra revenu |
| | | | Accumulated depreciation | | OSGA | Other So | G&A expense |
| c | ONCA | Other no | on-current assets | | 001 | Other op | perating income net of expense |
| IABILITIES | 5 | | | | ONOI | Other no | on-operating income net of expe |
| Curren | t | | | | | | |
| 4 | ١P | Account | s payable | | | | |
| 4 | AcrL | Accrued | liabilities | | | | |
| | DivP | Dividend | l payable | | | | |
| | Drev | Deferred | I revenue | | | | |
| c | DCL | Other cu | Irrent liabilities | | | | |
| Non-cu | irrent | | | | | | |
| Ī. | TD | Long-ter | m debt | | | | |
| | | Ū | on-current liabilities | | | | |

E14 Recognized expenses previously prepaid

At the end of interim reporting periods during 2013, BGS rec-ognized a total of \$25 million of expense for services performed during the interim periods that were prepaid prior to receiv-ing the services. For example, BGS recognized rent expense at month-end, when the monthly rent was prepaid at the start of the month.

Record the entry in the space below:



BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION

| December 31, 2013 and December 31, 2012 | | |
|--|-------------|-------|
| (In Millions) | | |
| Assets | 2013 | 2012 |
| Current | AA 4 | |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | 84 | 66 |
| Inventories | 158 | 109 |
| Prepaid expenses | 10 | 20 |
| Other current assets | 219 | 158 |
| Total current assets Non-current | 502 | 366 |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | \$740 |
| Liabilities and Stockholders' Equity Liabilities Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | \$740 |

| E1 | E14 Recognized expenses previously prepaid | | | | | | | | | | | |
|----|--|---|----|------------|--|----------------------------|-------|--------|--|--|--|--|
| | Assets | = | 0\ | wners' Eq. | | | Debit | Credit | | | | |
| + | PrEx | = | I. | MSGA | | Miscellaneous SG&A expense | \$25 | | | | | |
| + | - \$25 | = | - | + \$25 | | Prepaid expenses | | \$25 | | | | |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer on the next page.

| | | | CIAL POSITION | STATEMENTS OF FINA |
|----------|-----|-----------|---------------|--------------------|
| ecreases | Dec | Increases | | Line Items |
| | Ľ | | | |
| | Ľ | | | |
| | | | | |
| _ | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| For years ended December 31, 2012 and 2013 | | |
|--|-------|-------|
| (In Millions) | 2013 | 2012 |
| Net revenues | \$505 | \$440 |
| Cost of goods sold | (253) | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative | (117) | (105) |
| Total | (124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | \$113 | \$100 |
| | | |

| | E14 Recognized expenses previously prepaid | | | | | | | | | | | |
|---|--|--------|---|----|------------|---------------------------------|--------|--|--|--|--|--|
| | | Assets | = | Ov | wners' Eq. | Debit | Credit | | | | | |
| I | + | PrEx | = | 1 | MSGA | Miscellaneous SG&A expense \$25 | | | | | | |
| | + | - \$25 | = | - | + \$25 | Prepaid expenses | \$25 | | | | | |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | |
|----------------------------------|-----------|-----------------------------------|------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Prepaid expenses | | x | | | |
| Retained earnings | | x | | | |
| | | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CHANGES IN EQUITY

| (In Millions) | Share Capital | Retained Earnings | Reserves | Total |
|--------------------------|------------------|----------------------|----------|-------|
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | - | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inco | ome | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inco | ome | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| E1 | 4 Recog | nize | ed e | expenses | р | reviously prepaid | | |
|----|---------|------|------|------------|---|----------------------------|-------|--------|
| | Assets | = | Ov | vners' Eq. | | | Debit | Credit |
| + | PrEx | = | I. | MSGA | | Miscellaneous SG&A expense | \$25 | |
| + | - \$25 | = | - | + \$25 | | Prepaid expenses | | \$25 |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | ОМЕ | |
|------------------------------------|-----------|-----------|--|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Prepaid expenses Retained earnings | | x | Other selling, general, and administrative (Reported negative number decreases.) | | × |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | |
| Line Items | Increases | Decreases | | | |
| | | | | | |
| | | | | | |
| | | | | | |

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BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | | |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5 | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |

| | E1 | 4 Recogi | nize | ed e | expenses | viously prepaid | | |
|---|----|----------|------|------|------------|----------------------|--------------|--------|
| l | | Assets | = | 0\ | wners' Eq. | | Debit | Credit |
| l | + | PrEx | = | I. | MSGA | Miscellaneous SG&A e | expense \$25 | |
| | + | - \$25 | = | - | + \$25 | Prepaid expenses | | \$25 |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | COME | |
|----------------------------------|-----------|-----------|---|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Prepaid expenses | | x | Other selling, general, and administrative (Reported negative number decreases.) | | x |
| Retained earnings | | x | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Profit (loss) | | x | | | |
| | | | | | |
| | | | | | |

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Complete Solution: E14 Recognized expenses previously prepaid

At the end of interim reporting periods during 2013, BGS recognized a total of \$25 million of expense for services performed during the interim periods that were prepaid prior to receiving the services. For example, BGS recognized rent expense at month-end, when the monthly rent was prepaid at the start of the month.

Record the entry:

| E1 | 4 Recogr | ize | ed e | expenses | P | previously prepaid | | |
|-----------|----------|-----|------|------------|---|----------------------------|-------|--------|
| | Assets | = | Ov | vners' Eq. | | | Debit | Credit |
| + | PrEx | = | - | MSGA | | Miscellaneous SG&A expense | \$25 | |
| + | - \$25 | = | - | + \$25 | | Prepaid expenses | | \$25 |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | OME | |
|----------------------------------|-----------|-----------|---|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Prepaid expenses | | x | Other selling, general, and administrative (Reported negative number decreases.) | | x |
| Retained earnings | | х | · · · · · · · · · · · · · · · · · · · | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Profit (loss) | | x | Net profit | | x |
| | | | Prepaid expenses | x | |
| | | | | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

| | | | BISC | CHOFF GLOBAL SPORTSWE | | | | | |
|-----------|-------|----------|-----------------------------------|---------------------------------|----------|--------|--------|-----------|--------------------------------------|
| | | | DISC | HOFF GLOBAL SPORTSWE | AR CHARI | OF ACC | 001413 | | |
| SSETS | | | | | | OWNERS | EQUIT | Y | |
| Current | | | | | | Perm | anent | | |
| AF | 2 | Account | s receivable | | | | RE | Retained | d earnings |
| | 1 | ARG | Accounts receivable, gross | | | | SCap | Share ca | apital |
| | 1 | Allbd | Allowance for bad debts | | | | OPOE | Other pe | ermanent owners' equity |
| | | Allprr | Allowance for product returns: re | evenue component | | Net in | ncome | | |
| С | (| Cash ar | d cash equivalents | | | | CGS | Cost of g | goods sold |
| Inv | ven l | Inventor | es | | | | DepEx | Deprecia | ation expense |
| | | FGI | Finished goods inventories | | | | G/L | Gain/los | s |
| | | Sldr | Segregated inventories: deferred | d revenue | | | | PPEGL | Gain/Loss on PP&E disposals |
| | | Slprc | Segregated inventories: product | returns allowance cost componer | nt | | | ONOGL | Other non-operating gains/losse |
| Pr | Ex I | Prepaid | expenses | | | | IncS | Income | summary |
| 00 | A (| Other cu | rrent assets | | | | MSGA | Miscella | neous SG&A expense |
| Non-cur | rent | | | | | | Rev | Revenue | es, net |
| PF | Έl | Property | , plant, and equipment, net | | | | | Grev | Gross revenue |
| | | PPEhc | PP&E (historical cost) | | | | | PRCnR | Product returns contra revenue |
| | | AcDep | Accumulated depreciation | | | | OSGA | Other So | G&A expense |
| 01 | ICA (| Other no | n-current assets | | | | 001 | Other op | perating income net of expenses |
| ABILITIES | | | | | | | ONOI | Other no | on-operating income net of expension |
| Current | | | | | | | | | |
| AF | , , | Account | s payable | | | | | | |
| Ac | rL / | Accrued | liabilities | | | | | | |
| Di | VP I | Dividend | payable | | | | | | |
| Dr | ev I | Deferred | revenue | | | | | | |
| 00 | L (| Other cu | rrent liabilities | | | | | | |
| Non-cur | rent | | | | | | | | |
| LT | DI | Long-tei | m debt | | | | | | |
| 01 | ICL (| Other no | n-current liabilities | | | | | | |

E15 Recognized depreciation expense

At the end of interim reporting periods during 2013, BGS recognized a total of \$7 million of expense that represented the portion of the historical cost of PP&E used up during the interim periods.

Record the entry in the space below:



BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION

| December 31, 2013 and December 31, 2012 | | |
|--|-------------|-------|
| (In Millions) | | |
| Assets | 2013 | 2012 |
| Current | AA 4 | |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | 84 | 66 |
| Inventories | 158 | 109 |
| Prepaid expenses | 10 | 20 |
| Other current assets | 219 | 158 |
| Total current assets Non-current | 502 | 366 |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | \$740 |
| Liabilities and Stockholders' Equity Liabilities Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | \$740 |

| E1 | 5 Recogr | nize | ed o | depreciat | io | n expense | | |
|----|----------|-------------------|-----------------------|---|---|---|--|---|
| | Assets | = | 0\ | wners' Eq. | | | Debit | Credit |
| - | AcDep | = | - | DepEx | | Depreciation expense | \$7 | |
| - | + \$7 | = | - | + \$7 | | Accumulated deprecia | ation | \$7 |
| | | Assets - AcDep | Assets = - AcDep = | Assets = Ov - AcDep = - | Assets = Owners' Eq. - AcDep = - DepEx | Assets = Owners' Eq. - AcDep = - DepEx | - AcDep = - DepEx Depreciation expense | Assets = Owners' Eq. - AcDep = - DepEx Depreciation expense \$7 |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer on the next page.

| | | | CIAL POSITION | STATEMENTS OF FINA |
|----------|-----|-----------|---------------|--------------------|
| ecreases | Dec | Increases | | Line Items |
| | Ľ | | | |
| | Ľ | | | |
| | | | | |
| _ | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| For years ended December 31, 2012 and 2013 | | |
|--|-------|-------|
| (In Millions) | 2013 | 2012 |
| Net revenues | \$505 | \$440 |
| Cost of goods sold | (253) | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative | (117) | (105) |
| Total | (124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | \$113 | \$100 |

| E1 | E15 Recognized depreciation expense | | | | | | | | | | | | | |
|----|-------------------------------------|---|----|------------|--|--------------------------|--------|--|--|--|--|--|--|--|
| | Assets | = | Ov | vners' Eq. | | Debit | Credit | | | | | | | |
| - | AcDep | Ш | 1 | DepEx | | Depreciation expense \$7 | | | | | | | | |
| - | + \$7 | = | - | + \$7 | | Accumulated depreciation | \$7 | | | | | | | |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INCOME | | | | | |
|---|-----------|-----------|-----------------------------------|-----------|-----------|--|--|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | | | |
| Less accumulated depreciation (Reported negative number decreases.) Retained earnings | | x x | | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CHANGES IN EQUITY

| (In Millions) | Share Capital | Retained Earnings | Reserves | Total |
|--------------------------|------------------|----------------------|----------|-------|
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inco | me | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inco | me | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| E1 | 15 Recogi | nize | ed o | depreciat | io | n expense | | |
|----|-----------|------|------|------------|----|-----------------------|-------|--------|
| | Assets | = | 0\ | wners' Eq. | | | Debit | Credit |
| - | AcDep | = | - | DepEx | | Depreciation expense | \$7 | |
| - | + \$7 | = | - | + \$7 | | Accumulated depreciat | ion | \$7 |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | COME | |
|---|-----------|-----------|---|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Less accumulated depreciation (Reported negative number decreases.) Retained earnings | | x x | Depreciation (Reported negative number decreases.) | | × |
| STATEMENT OF CHANGES IN EQUITY | | | | | |
| Line Items | Increases | Decreases | | | |
| | | | | | |
| | | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | | _ |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5_ | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |

| E1 | 5 Recogr | nize | ed o | depreciat | ic | on expense | |
|----|----------|------|------|------------|----|--------------------------|--------|
| | Assets | = | 0\ | wners' Eq. | | Debit | Credit |
| 1 | AcDep | = | - | DepEx | | Depreciation expense \$7 | |
| - | + \$7 | = | - | + \$7 | | Accumulated depreciation | \$7 |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | OME | |
|----------------------------------|-----------|-----------|---|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Less accumulated depreciation | | × | Depreciation (Reported negative number decreases.) | | x |
| Retained earnings | | х | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Profit (loss) | | x | | | |
| | | | | | |
| | | | | | |

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Complete Solution: E15 Recognized depreciation expense

At the end of interim reporting periods during 2013, BGS recognized a total of \$7 million of expense that represented the portion of the historical cost of PP&E used up during the interim periods.

Record the entry:

| E15 Recognized depreciation expense | | | | | | | | | | | | | |
|-------------------------------------|--------|---|----|------------|--------------------------|--------|--|--|--|--|--|--|--|
| | Assets | Ш | Ov | vners' Eq. | Debit | Credit | | | | | | | |
| - | AcDep | = | - | DepEx | Depreciation expense \$7 | | | | | | | | |
| - | + \$7 | = | - | + \$7 | Accumulated depreciation | \$7 | | | | | | | |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | COME | |
|---|-----------|-----------|---|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Less accumulated depreciation (Reported negative number decreases.) Retained earnings | | x x | Depreciation (Reported negative number decreases.) | | x |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Profit (loss) | | x | Net profit | | x |
| | | | Depreciation | x | |
| | | | | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

| SSETS | | | OWNER | | v | |
|-------------|---------|--|-------|--------|----------|------------------------------------|
| Current | | | | nanent | · | |
| AR | Accoun | ts receivable | | RE | Retaine | d earnings |
| | ARG | Accounts receivable, gross | | SCap | | |
| | Allbd | Allowance for bad debts | | OPOE | Other pe | ermanent owners' equity |
| | Allprr | Allowance for product returns: revenue component | Net | income | | |
| С | Cash a | nd cash equivalents | | CGS | Cost of | goods sold |
| Inven | Invento | ries | | DepEx | Deprecia | ation expense |
| | FGI | Finished goods inventories | | G/L | Gain/los | s |
| | Sldr | Segregated inventories: deferred revenue | | | PPEGL | Gain/Loss on PP&E disposals |
| | Siprc | Segregated inventories: product returns allowance cost component | | | ONOGL | . Other non-operating gains/losses |
| PrEx | Prepaid | expenses | | IncS | | summary |
| OCA | Other c | urrent assets | | MSGA | Miscella | neous SG&A expense |
| Non-current | | | | Rev | Revenue | es, net |
| PPE | Propert | y, plant, and equipment, net | | | Grev | Gross revenue |
| | PPEhc | PP&E (historical cost) | | | PRCnR | Product returns contra revenue |
| | AcDep | Accumulated depreciation | | OSGA | Other S | G&A expense |
| ONCA | Other n | on-current assets | | 001 | Other op | perating income net of expenses |
| ABILITIES | | | | ONOI | Other no | on-operating income net of expense |
| Current | | | | | | |
| AP | Accoun | ts payable | | | | |
| AcrL | Accrue | d liabilities | | | | |
| DivP | Dividen | d payable | | | | |
| Drev | Deferre | d revenue | | | | |
| OCL | Other c | urrent liabilities | | | | |
| Non-current | | | | | | |
| LTD | Long-te | rm debt | | | | |
| ONCL | Other n | on-current liabilities | | | | |

E16 Sold PP&E for cash

During 2013, BGS received \$15 million cash when it sold a building with \$20 million of historical cost and \$8 of accumulated depreciation. Consistent with an IFRS option, BGS does not recognize unrealized gains associated with PP&E.

Record the entry in the space below:



BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION

| December 31, 2013 and December 31, 2012 | | |
|--|-------|-------|
| (In Millions) Assets Current | 2013 | 2012 |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | 84 | 66 |
| Inventories | 158 | 109 |
| Prepaid expenses | 10 | 20 |
| Other current assets | 219 | 158 |
| Total current assets | 502 | 366 |
| Non-current | 002 | |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | \$740 |
| Liabilities and Stockholders' Equity Liabilities Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | \$740 |

| | E1 | 6 Sold P | P&E | E for cash | | | | | | _ | | |
|---|----|----------|-----|------------|---|-------|---|---|-----------|---------------------------|-------|--------|
| L | | | | Assets | | | = | 0 | wners' Eq | | Debit | Credit |
| L | + | С | + | PPEhc | - | AcDep | = | + | PPEGL | Cash and cash equivalents | \$15 | |
| | + | + \$15 | + | - \$20 | - | - \$8 | = | + | + \$3 | Accumulated depreciation | \$8 | |
| Ľ | | | | | | | | | | PP&E (historical cost) | | \$20 |
| | | | | | | | | | | Gain on PP&E disposals | | \$3 |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Four lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | |
|----------------------------------|-----------|-----------|
| Line Items | Increases | Decreases |
| | | |
| | | |
| | | |
| | | |
| | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| (In Millions)2013Net revenues\$505Cost of goods sold(253)Gross profit252Selling, general, and administrative expenses: | \$440 (220) 220 |
|--|------------------------------|
| Cost of goods sold(253)Gross profit252 | (220) 220 |
| Gross profit 252 | 220 |
| | - <u> </u> |
| Selling, general, and administrative expenses: | (6) |
| | (6) |
| Depreciation (7) | |
| Other selling, general, and administrative (117) | (105) |
| Total (124) | (111) |
| Other operating income and (expense): | |
| Gain (loss) on sale of building 3 | 3 |
| Other (3) | (3) |
| Total 0 | 0 |
| Operating profit 128 | 109 |
| Other income and (expenses) 1 | 1 |
| Profit before taxes 129 | 110 |
| Income tax expense (40) | (34) |
| Net profit (loss) 89 | 76 |
| Other comprehensive income 24 | 24 |
| Comprehensive income (loss) \$113 | \$100 |

| E1 | 6 Sold Pl | P&E | E for cash | | | | | | | | |
|----|-----------|-----|------------|---|-------|---|---|-----------|---------------------------|-------|--------|
| | | | Assets | | | = | 0 | wners' Eq | | Debit | Credit |
| + | С | + | PPEhc | - | AcDep | = | + | PPEGL | Cash and cash equivalents | \$15 | |
| + | + \$15 | + | - \$20 | - | - \$8 | = | + | + \$3 | Accumulated depreciation | \$8 | |
| | | | | | | | | | PP&E (historical cost) | | \$20 |
| | | | | | | | | | Gain on PP&E disposals | | \$3 |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Four lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INCOME | | | | |
|--|-----------|-----------|-----------------------------------|-----------|-----------|--|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | | |
| Cash and cash equivalents | x | | | | | | |
| Historical cost of PP&E | | x | | | | | |
| Less accumulated depreciation | x | | | | | | |
| (Reported negative number increases.) Retained earnings | x | | | | | | |
| | | | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CHANGES IN EQUITY

| | Share | Retained | _ | |
|--------------------------|---------|----------|----------|-------|
| (In Millions) | Capital | Earnings | Reserves | Total |
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inco | ome | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inco | ome | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| E1 | 6 Sold P | P&E | E for cash | | | | | | | | |
|----|----------|-----|------------|---|-------|---|---|-----------|---------------------------|-------|--------|
| | | | Assets | | | = | 0 | wners' Eq | | Debit | Credit |
| + | С | + | PPEhc | - | AcDep | = | + | PPEGL | Cash and cash equivalents | \$15 | |
| + | + \$15 | + | - \$20 | - | - \$8 | = | + | + \$3 | Accumulated depreciation | \$8 | |
| | | | | | | | | | PP&E (historical cost) | | \$20 |
| | | | | | | | | | Gain on PP&E disposals | | \$3 |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INCOME | | | | |
|--|-----------|-----------|-----------------------------------|-----------|-----------|--|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | | |
| Cash and cash equivalents | x | | Gain (loss) on sale of building | x | | | |
| Historical cost of PP&E | | x | | | | | |
| Less accumulated depreciation (Reported negative number increases.) | x | | | | | | |
| Retained earnings | x | | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | | | |
| Line Items | Increases | Decreases | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | | |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5 | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |
| | | |

| | | | | | = | 0 | wners' Eq | | Debit | Credit |
|--------|---|--------|---------|-------|---|---|-----------|---------------------------|--|--|
| С | + | PPEhc | - | AcDep | = | + | PPEGL | Cash and cash equivalents | \$15 | |
| + \$15 | + | - \$20 | • | - \$8 | = | + | + \$3 | Accumulated depreciation | \$8 | |
| | | | | | | | | PP&E (historical cost) | | \$20 |
| | | | - Theme | | | | | | + \$15 + - \$20 \$8 = + + \$3 Accumulated depreciation | + \$15 + - \$20 \$8 = + + \$3 Accumulated depreciation \$8 |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | OME | |
|--|-----------|-----------|---------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Cash and cash equivalents | x | | Gain (loss) on sale of building | x | |
| Historical cost of PP&E | | x | | | |
| Less accumulated depreciation | x | | | | |
| (Reported negative number increases.) Retained earnings | x | | | | |
| STATEMENT OF CHANGES IN EQUITY | | 2 | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Profit (loss) | х | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

Complete Solution: E16 Sold PP&E for cash

During 2013, BGS received \$15 million cash when it sold a building with \$20 million of historical cost and \$8 of accumulated depreciation. Consistent with an IFRS option, BGS does not recognize unrealized gains associated with PP&E.

Record the entry:

| C + PPEhc - AcD | = + PPEGL (| ash and cash equivalents \$15 |
|-------------------|-------------|-------------------------------|
| \$15 + - \$20 \$8 | = + +\$3 A | ccumulated depreciation \$8 |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | | |
|--|-----------|-----------------------------------|--|-----------|-----------|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| Cash and cash equivalents | x | | Gain (loss) on sale of building | x | | |
| Historical cost of PP&E | | x | | | | |
| Less accumulated depreciation (Reported negative number increases.) | x | | | | | |
| Retained earnings | x | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| Profit (loss) | x | | Net profit | x | | |
| | | | (Gain) loss on sale of PP&E (Reported negative number decreases.) | | x | |
| | | | Proceeds from disposal of property, plant, and equipment | x | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

| SSETS | | | 0 | WNERS | FOUIT | v | | |
|------------|-----------|--|---|-------|-------|----------------------------|----------------------------------|--|
| Current | | | Ŭ | | anent | | | |
| AR | Accoun | ts receivable | | | RE | Retainer | d earnings | |
| | ARG | Accounts receivable, gross | | | SCap | Share ca | | |
| | Allbd | Allowance for bad debts | | | | | ermanent owners' equity | |
| | Allprr | Allowance for product returns: revenue component | | | ncome | | | |
| С | Cash a | nd cash equivalents | | | CGS | Cost of | goods sold | |
| Inven | Invento | ries | | | DepEx | Deprecia | ation expense | |
| | FGI | Finished goods inventories | | | G/L | Gain/los | is | |
| | Sldr | Segregated inventories: deferred revenue | | | | PPEGL | Gain/Loss on PP&E disposals | |
| | Slprc | Segregated inventories: product returns allowance cost component | | | | ONOGL | Other non-operating gains/loss | |
| PrEx | Prepaid | expenses | | | | Income summary | | |
| OCA | Other c | urrent assets | | | | Miscellaneous SG&A expense | | |
| Non-curren | t | | | | Rev | Revenue | es, net | |
| PPE | Propert | y, plant, and equipment, net | | | | Grev | Gross revenue | |
| | PPEhc | PP&E (historical cost) | | | | PRCnR | Product returns contra revenue | |
| | AcDep | Accumulated depreciation | | | OSGA | Other So | G&A expense | |
| ONC | A Other n | on-current assets | | | 001 | Other op | perating income net of expenses | |
| IABILITIES | | | | | ONOI | Other no | on-operating income net of exper | |
| Current | | | | | | | | |
| AP | Accoun | ts payable | | | | | | |
| AcrL | Accrue | liabilities | | | | | | |
| DivP | Dividen | d payable | | | | | | |
| Drev | Deferre | d revenue | | | | | | |
| OCL | Other c | urrent liabilities | | | | | | |
| Non-curren | t | | | | | | | |
| LTD | Long-te | rm debt | | | | | | |
| ONC | Ŭ | on-current liabilities | | | | | | |

E17 Declared dividends on share capital

During 2013, BGS declared \$25 million of common stock dividends. When dividends are declared by a company's board of directors, the company is obligated to pay shareholders the declared amount at a future date. ["Share capital" is also call "common stock" in this context.]

Record the entry in the space below:



BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION

| December 31, 2013 and December 31, 2012 | | |
|--|-------------|-------|
| (In Millions) | | |
| Assets | 2013 | 2012 |
| Current | * 04 | 640 |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | 84 | 66 |
| Inventories | 158 | 109 |
| Prepaid expenses | 10 | 20 |
| Other current assets | 219 | 158 |
| Total current assets Non-current | 502 | 366 |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | \$740 |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | \$740 |

| E1 | E17 Declared dividends on share capital | | | | | | | | | |
|-----------|---|------------|---|-----------|-------------------|-------|--------|--|--|--|
| = | L | iabilities | 0 | wners' Eq | | Debit | Credit | | | |
| = | + | DivP | + | RE | Retained earnings | \$25 | | | | |
| = | + | + \$25 | + | - \$25 | Dividend payable | | \$25 | | | |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | |
|----------------------------------|-----------|-----------|
| Line Items | Increases | Decreases |
| | | |
| | | |
| | | |
| | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| For years ended December 31, 2012 and 2013 | | |
|--|-------|-------|
| (In Millions) | 2013 | 2012 |
| Net revenues | \$505 | \$440 |
| Cost of goods sold | (253) | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative | (117) | (105) |
| Total | (124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | \$113 | \$100 |

| E1 | E17 Declared dividends on share capital | | | | | | | | | |
|-----------|---|------------|---|-----------|-------------------|-------|--------|--|--|--|
| = | L | iabilities | 0 | wners' Eq | | Debit | Credit | | | |
| = | + | DivP | + | RE | Retained earnings | \$25 | | | | |
| = | + | + \$25 | + | - \$25 | Dividend payable | | \$25 | | | |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | ОМЕ | |
|----------------------------------|-----------|-----------|--------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Dividends payable | x | | | | |
| Retained earnings | | x | | | |
| | | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CHANGES IN EQUITY

| | Share | Retained | _ | |
|--------------------------|---------|----------|----------|-------|
| (In Millions) | Capital | Earnings | Reserves | Total |
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inco | me | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inco | me | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| E | E17 Declared dividends on share capital | | | | | | | | | |
|---|---|---|------------|---|-----------|-------------------|-------|--------|--|--|
| - | - | L | iabilities | 0 | wners' Eq | | Debit | Credit | | |
| - | = | + | DivP | + | RE | Retained earnings | \$25 | | | |
| - | = | + | + \$25 | + | - \$25 | Dividend payable | | \$25 | | |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | СОМЕ | |
|----------------------------------|-----------|-----------|-------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Dividends payable | x | | NONE | | |
| Retained earnings | | x | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | |
| Line Items | Increases | Decreases | | | |
| | | | | | |
| | | | | | |
| | | | | | |

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BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | | |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5 | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |

| E17 Declared dividends on share capital | | | | | | | | | |
|---|---|------------|---|-----------|-------------------|-------|--------|--|--|
| = | L | iabilities | 0 | wners' Eq | | Debit | Credit | | |
| = | + | DivP | + | RE | Retained earnings | \$25 | | | |
| = | + | + \$25 | + | - \$25 | Dividend payable | | \$25 | | |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INCOME | | | | | |
|---|-----------|-----------|-----------------------------------|-----------|-----------|--|--|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | | | |
| Dividends payable | x | | NONE | | | | | |
| Retained earnings | | x | | | | | | |
| | | | . <u></u> | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | | | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | | | |
| | | | | | | | | |
| Dividends declared | | x | | | | | | |
| Dividends declared (Negatively reported number decreases.) | | x | | | | | | |

Complete Solution: E17 Declared dividends on share capital

During 2013, BGS declared \$25 million of common stock dividends. When dividends are declared by a company's board of directors, the company is obligated to pay shareholders the declared amount at a future date. ["Share capital" is also call "common stock" in this context.]

Record the entry:

| E17 Declared dividends on share capital | | | | | | | | | |
|---|---|------------|---|-----------|--|-------------------|-------|--------|--|
| = | L | iabilities | 0 | wners' Eq | | | Debit | Credit | |
| = | + | DivP | + | RE | | Retained earnings | \$25 | | |
| = | + | + \$25 | + | - \$25 | | Dividend payable | | \$25 | |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INCOME | | | | | |
|---|-----------|-----------|-----------------------------------|-----------|-----------|--|--|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | | | |
| Dividends payable | x | | NONE | | | | | |
| Retained earnings | | x | | | | | | |
| | | | | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | | | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | | | |
| Dividends declared | | x | NONE | | | | | |
| (Negatively reported number decreases.) | | | | | | | | |
| | | | | | | | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

| SSETS | | | OWNERS | | Y | |
|------------|---------|--|--------|-------|----------|-------------------------------------|
| Current | | | | anent | | |
| AR | Accoun | ts receivable | l I | RE | Retained | d earnings |
| | ARG | Accounts receivable, gross | | SCap | Share ca | apital |
| | Allbd | Allowance for bad debts | | OPOE | Other pe | ermanent owners' equity |
| | Allprr | Allowance for product returns: revenue component | Net i | ncome | | |
| С | Cash a | nd cash equivalents | | CGS | Cost of | goods sold |
| Inven | Invento | ries | | DepEx | Deprecia | ation expense |
| | FGI | Finished goods inventories | | G/L | Gain/los | s |
| | Sldr | Segregated inventories: deferred revenue | | | PPEGL | Gain/Loss on PP&E disposals |
| | Slprc | Segregated inventories: product returns allowance cost component | | | ONOGL | Other non-operating gains/losses |
| PrEx | Prepaid | expenses | | IncS | | summary |
| OCA | Other c | urrent assets | | MSGA | Miscella | neous SG&A expense |
| Non-curren | t | | | Rev | Revenue | es, net |
| PPE | Propert | y, plant, and equipment, net | | | Grev | Gross revenue |
| | PPEhc | PP&E (historical cost) | | | PRCnR | Product returns contra revenue |
| | AcDep | Accumulated depreciation | | OSGA | Other So | G&A expense |
| ONC | Other n | on-current assets | | 001 | Other op | perating income net of expenses |
| IABILITIES | | | | ONOI | Other no | on-operating income net of expenses |
| Current | | | | | | |
| AP | Accoun | ts payable | | | | |
| AcrL | Accrue | d liabilities | | | | |
| DivP | Dividen | d payable | | | | |
| Drev | Deferre | d revenue | | | | |
| OCL | Other c | urrent liabilities | | | | |
| Non-curren | t | | | | | |
| LTD | Long-te | rm debt | | | | |
| ONCI | Other n | on-current liabilities | | | | |

E18 Paid dividends on share capital

During 2013, BGS paid \$20 million of previously declared common stock dividends. ["Share capital" is also call "common stock" in this context.]

Record the entry in the space below:



BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION

| December 31, 2013 and December 31, 2012 | | |
|--|-------|--------------|
| (In Millions) | | |
| Assets | 2013 | 2012 |
| Current | ••• | |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | 84 | 66 |
| Inventories | 158 | 109 |
| Prepaid expenses | 10 | 20 |
| Other current assets | 219 | 158 |
| Total current assets Non-current | 502 | 366 |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | <u>\$740</u> |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | \$740 |

| E1 | E18 Paid dividends on share capital | | | | | | | | | | | | |
|----|-------------------------------------|---|---|------------|--|---------------------|--------|--------|--|--|--|--|--|
| | Assets | = | L | iabilities | | | Debit | Credit | | | | | |
| + | С | = | + | DivP | | Dividend payable | \$20 | | | | | | |
| + | - \$20 | = | + | - \$20 | | Cash and cash equiv | alents | \$20 | | | | | |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer on the next page.

| | | | CIAL POSITION | STATEMENTS OF FINA |
|----------|-----|-----------|---------------|--------------------|
| ecreases | Dec | Increases | | Line Items |
| | Ľ | | | |
| | Ľ | | | |
| | | | | |
| _ | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| For years ended December 31, 2012 and 2013 | | |
|--|-------|-------|
| (In Millions) | 2013 | 2012 |
| Net revenues | \$505 | \$440 |
| Cost of goods sold | (253) | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative | (117) | (105) |
| Total | (124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | \$113 | \$100 |

| E1 | E18 Paid dividends on share capital | | | | | | | | | | | | |
|----|-------------------------------------|---|---|------------|---|---------------------------|--------|--|--|--|--|--|--|
| | Assets | = | L | iabilities | Ī | Debit | Credit | | | | | | |
| + | С | = | + | DivP | Î | Dividend payable \$20 | | | | | | | |
| + | - \$20 | = | + | - \$20 | | Cash and cash equivalents | \$20 | | | | | | |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | | |
|---|-----------|-----------------------------------|------------|-----------|-----------|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| Cash and cash equivalents Dividends payable | | x x | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CHANGES IN EQUITY

| (In Millions) | Share Capital | Retained Earnings | Reserves | Total |
|--------------------------|------------------|----------------------|----------|-------|
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inco | me | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inco | me | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| E | E18 Paid dividends on share capital | | | | | | | | | | | | |
|---|-------------------------------------|---|---|------------|---|---------------------------|--------|--|--|--|--|--|--|
| | Assets | = | L | iabilities | | Debi | Credit | | | | | | |
| + | С | = | + | DivP | | Dividend payable \$20 | | | | | | | |
| + | - \$20 | = | + | - \$20 | I | Cash and cash equivalents | | | | | | | |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | СОМЕ | |
|----------------------------------|-----------|-----------|-------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Cash and cash equivalents | | x | NONE | | |
| Dividends payable | | x | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | |
| Line Items | Increases | Decreases | | | |
| | | | | | |
| | | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | 10 | _ |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5_ | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |

| E18 Paid dividends on share capital | | | | | | | | | | | | |
|-------------------------------------|--------|---|---|------------|--|-------------------|----------|--------|--|--|--|--|
| / | Assets | = | L | iabilities | | | Debit | Credit | | | | |
| + | С | = | + | DivP | | Dividend payable | \$20 | | | | | |
| + | - \$20 | = | + | - \$20 | | Cash and cash equ | ivalents | \$20 | | | | |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | | |
|----------------------------------|-----------|-----------------------------------|-------------------------|-----------|-----------|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| Cash and cash equivalents | | x | NONE | | | |
| Dividends payable | | X | | | | |
| | | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| NONE | | | | | | |
| | | | | | | |
| | | | | | | |

Complete Solution: E18 Paid dividends on share capital During 2013, BGS paid \$20 million of previously declared common stock dividends. ["Share capital" is also call "common stock" in this context.]

Record the entry:

| E18 Paid dividends on share capital | | | | | | | | | | | | |
|-------------------------------------|--------|---|---|------------|-------------------------------|--------|--|--|--|--|--|--|
| 1 | Assets | = | L | iabilities | Debit | Credit | | | | | | |
| + | С | = | + | DivP | Dividend payable \$20 | | | | | | | |
| + | - \$20 | = | + | - \$20 | Cash and cash equivalents \$2 | | | | | | | |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | |
|----------------------------------|-----------|-----------------------------------|---------------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Cash and cash equivalents | | x | NONE | | |
| Dividends payable | | x | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| NONE | | | Payment of dividends | | x |
| | | | (Reported negative number decreases.) | | |
| | | | | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

Revenue and Receivables Entries and Financial-Statement Effects

Related entries:

In addition to the entries in this section, you may want to review the following entries related to this chapter that were covered earlier in this workbook:

E6a Recognized revenue when goods were deliveredpage 35E6b Recognize product cost when goods were deliveredpage 41E7 Collected amounts due from customerspage 47

| | | BISCHOFF GLOBAL SPO | ORTSWEAR CHAP | RT OF ACC | OUNTS | | |
|------------|-----------|--|---------------|-----------|-------|-----------|-----------------------------------|
| SETS | | | | OWNERS | EQUIT | Y | |
| Current | | | | Perm | anent | | |
| AR | Accoun | ts receivable | | | RE | Retained | l earnings |
| | ARG | Accounts receivable, gross | | | SCap | Share ca | pital |
| | Allbd | Allowance for bad debts | | | OPOE | Other pe | rmanent owners' equity |
| | Allprr | Allowance for product returns: revenue component | | Net in | ncome | | |
| С | Cash a | nd cash equivalents | | | CGS | Cost of g | joods sold |
| Inven | Invento | ries | | | DepEx | Deprecia | ition expense |
| | FGI | Finished goods inventories | | | G/L | Gain/loss | 8 |
| | Sldr | Segregated inventories: deferred revenue | | | | PPEGL | Gain/Loss on PP&E disposals |
| | Siprc | Segregated inventories: product returns allowance cost | component | | | ONOGL | Other non-operating gains/losse |
| PrEx | | expenses | | | IncS | Income s | |
| OCA | Other c | urrent assets | | | MSGA | Miscellar | neous SG&A expense |
| Non-curren | t | | | | Rev | Revenue | es, net |
| PPE | Propert | y, plant, and equipment, net | | | | Grev | Gross revenue |
| | PPEhc | PP&E (historical cost) | | | | PRCnR | Product returns contra revenue |
| | AcDep | Accumulated depreciation | | | OSGA | Other SC | G&A expense |
| ONC | A Other n | on-current assets | | | 001 | Other op | erating income net of expenses |
| ABILITIES | | | | | ONOI | Other no | n-operating income net of expense |
| Current | | | | | | | |
| AP | Accoun | ts payable | | | | | |
| AcrL | Accrue | liabilities | | | | | |
| DivP | Dividen | d payable | | | | | |
| Drev | Deferre | d revenue | | | | | |
| OCL | Other c | urrent liabilities | | | | | |
| Non-curren | t | | | | | | |
| LTD | Long-te | rm debt | | | | | |
| ONCL | . Other n | on-current liabilities | | | | | |

E19a Deferred revenue when goods were delivered

During 2013, BGS deferred recognizing \$100 million of revenues when goods were delivered to customers, which was the same time cash was collected from customers. For these sales, BGS concluded it had not yet met all of the IFRS criteria for revenue recognition when goods were delivered. For example, BGS defers revenue when it can't reliably estimate product returns.

Record the entry in the space below:



BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION

| December 31, 2013 and December 31, 2012 | | | | | | | | | |
|--|-------------|-------|--|--|--|--|--|--|--|
| (In Millions) | | | | | | | | | |
| Assets | 2013 | 2012 | | | | | | | |
| Current | AA 4 | | | | | | | | |
| Cash and cash equivalents | \$31 | \$13 | | | | | | | |
| Accounts receivable, net | 84 | 66 | | | | | | | |
| Inventories | 158 | 109 | | | | | | | |
| Prepaid expenses | 10 | 20 | | | | | | | |
| Other current assets | 219 | 158 | | | | | | | |
| Total current assets Non-current | 502 | 366 | | | | | | | |
| Property, plant, and equipment: | | | | | | | | | |
| Historical cost of PP&E | 264 | 220 | | | | | | | |
| Less accumulated depreciation | (70) | (45) | | | | | | | |
| Net | 194 | 175 | | | | | | | |
| Other non-current assets | 233 | 199 | | | | | | | |
| Total non-current assets | 427 | 374 | | | | | | | |
| Total assets | \$929 | \$740 | | | | | | | |
| Liabilities and Stockholders' Equity | | | | | | | | | |
| Liabilities | | | | | | | | | |
| Current | | | | | | | | | |
| Accounts payable | 25 | 35 | | | | | | | |
| Accrued liabilities | 14 | 20 | | | | | | | |
| Dividends payable | 12 | 7 | | | | | | | |
| Other current liabilities | 58 | 61 | | | | | | | |
| Total current liabilities | 109 | 123 | | | | | | | |
| Non-current | | | | | | | | | |
| Long-term borrowings | 105 | 60 | | | | | | | |
| Other non-current liabilities | 102 | 71 | | | | | | | |
| Total non-current liabilities | 207 | 131 | | | | | | | |
| Total liabilities | 316 | 254 | | | | | | | |
| Stockholders' equity | | | | | | | | | |
| Share capital | 253 | 214 | | | | | | | |
| Retained earnings | 310 | 239 | | | | | | | |
| Reserves | 50 | 33 | | | | | | | |
| Total stockholders' equity | 613 | 486 | | | | | | | |
| Total liabilities and stockholders' equity | \$929 | \$740 | | | | | | | |

| | E19a Deferred revenue when goods were delivered | | | | | | | | | | | | | |
|---|---|---------|---|---|------------|--|---------------------------|-------|--------|--|--|--|--|--|
| | | Assets | = | L | iabilities | | | Debit | Credit | | | | | |
| L | + | С | Ш | + | Drev | | Cash and cash equivalents | \$100 | | | | | | |
| | + | + \$100 | = | + | + \$100 | | Deferred revenue | | \$100 | | | | | |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer on the next page.

| | | | CIAL POSITION | STATEMENTS OF FINA |
|----------|-----|-----------|---------------|--------------------|
| ecreases | Dec | Increases | | Line Items |
| | Ľ | | | |
| | Ľ | | | |
| | | | | |
| _ | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| For years ended December 31, 2012 and 2013 | | |
|--|-------|-------|
| (In Millions) | 2013 | 2012 |
| Net revenues | \$505 | \$440 |
| Cost of goods sold | (253) | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative | (117) | (105) |
| Total | (124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | \$113 | \$100 |
| | | |

| E19a Deferred revenue when goods were delivered | | | | | | | | | | | | | |
|---|-------------|---------------------------|-------|--------|--|--|--|--|--|--|--|--|--|
| Assets = | Liabilities | | Debit | Credit | | | | | | | | | |
| + C = + | Drev | Cash and cash equivalents | \$100 | | | | | | | | | | |
| + + \$100 = + | + \$100 | Deferred revenue | | \$100 | | | | | | | | | |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | | |
|---|-----------|-----------------------------------|------------|-----------|-----------|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| Cash and cash equivalents | х | | | | | |
| Other current liabilities (Deferred revenue liability) | X | | | | | |
| | | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CHANGES IN EQUITY

| | Share | Retained | | |
|--------------------------|---------|----------|----------|-------|
| (In Millions) | Capital | Earnings | Reserves | Total |
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inco | ome | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inco | ome | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| E19a | E19a Deferred revenue when goods were delivered | | | | | | | | | | | | | |
|------|---|---|---|------------|--|---------------------------|-------|--------|--|--|--|--|--|--|
| As | sets | = | L | iabilities | | | Debit | Credit | | | | | | |
| + | С | = | + | Drev | | Cash and cash equivalents | \$100 | | | | | | | |
| + + | · \$100 | = | + | + \$100 | | Deferred revenue | | \$100 | | | | | | |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | |
|----------------------------------|-----------|-----------------------------------|------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Cash and cash equivalents | x | | NONE | | |
| Other current liabilities | х | | | | |
| (Deferred revenue liability) | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | |
| Line Items | Increases | Decreases | | | |
| | | | | | |
| | | | | | |
| | | | | | |

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BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | | |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5 | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |
| | | |

| E19a Deferred revenue when goods were delivered | | | | | | | | | | | |
|---|---------|---|---|---------|--------|---------------------------|-------|-------|--|--|--|
| Assets = Liabilities | | | | Debit | Credit | | | | | | |
| + | С | Ш | + | Drev | | Cash and cash equivalents | \$100 | | | | |
| + | + \$100 | П | + | + \$100 | | Deferred revenue | | \$100 | | | |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | |
|---|-----------|-----------------------------------|-------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Cash and cash equivalents | x | | NONE | | |
| Other current liabilities (Deferred revenue liability) | х | | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| NONE | | | | | |
| | | | | | |
| | | | | | |

Complete Solution: E19a Deferred revenue when goods were delivered

During 2013, BGS deferred recognizing \$100 million of revenues when goods were delivered to customers, which was the same time cash was collected from customers. For these sales, BGS concluded it had not yet met all of the IFRS criteria for revenue recognition when goods were delivered. For example, BGS defers revenue when it can't reliably estimate product returns.

Record the entry:

| E19a Deferred revenue when goods were delivered | | | | | | | | | | | |
|---|---------|------------|-----|------------|--------------------------------|-------|--|--|--|--|--|
| Assets = Liabilities | | iabilities | Det | oit Credit | | | | | | | |
| + | С | = | + | Drev | Cash and cash equivalents \$10 | 0 | | | | | |
| + | + \$100 | = | + | + \$100 | Deferred revenue | \$100 | | | | | |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | | |
|---|-----------|-----------------------------------|---|-----------|-----------|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| Cash and cash equivalents | x | | NONE | | | |
| Other current liabilities (Deferred revenue liability) | x | | | | | |
| | | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| NONE | | | Other (Deferred revenue liability) | X | | |
| | | | Net cash provided by (used in) operations | x | | |
| | | | | | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

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| ASSETS | | | | OWNERS | ' EQUIT | Y | |
|-------------|--------|----------|--|--------|---------|-----------|--------------------------------|
| Curren | t | | | Pern | nanent | | |
| 4 | ٨R | Account | is receivable | | RE | Retained | d earnings |
| | | ARG | Accounts receivable, gross | | SCap | Share ca | apital |
| | | Allbd | Allowance for bad debts | | OPOE | Other pe | ermanent owners' equity |
| | | Allprr | Allowance for product returns: revenue component | Net i | ncome | | |
| c | ; | Cash an | nd cash equivalents | | CGS | Cost of g | goods sold |
| h | nven | Inventor | ies | | DepEx | Deprecia | ation expense |
| | | FGI | Finished goods inventories | | G/L | Gain/los | s |
| | | Sldr | Segregated inventories: deferred revenue | | | | Gain/Loss on PP&E disposal |
| | | Slprc | Segregated inventories: product returns allowance cost component | | | | Other non-operating gains/lo |
| F | PrEx | Prepaid | expenses | | IncS | | summary |
| c | DCA | Other cu | urrent assets | | MSGA | Miscella | neous SG&A expense |
| Non-cu | irrent | | | | Rev | Revenue | es, net |
| F | PPE | Property | y, plant, and equipment, net | | | Grev | Gross revenue |
| | | | PP&E (historical cost) | | | | Product returns contra reven |
| | | | Accumulated depreciation | | | | G&A expense |
| C | DNCA | Other no | on-current assets | | 001 | Other op | perating income net of expense |
| LIABILITIES | 8 | | | | ONOI | Other no | on-operating income net of exp |
| Curren | t | | | | | | |
| 4 | ١P | Account | is payable | | | | |
| 4 | AcrL | Accrued | liabilities | | | | |
| C | DivP | Dividend | d payable | | | | |
| C | Drev | Deferred | d revenue | | | | |
| C | DCL | Other cu | urrent liabilities | | | | |
| Non-cu | irrent | | | | | | |
| Ī. | TD | Long-ter | rm debt | | | | |
| | | <u> </u> | on-current liabilities | | | | |

E19b Deferred cost of goods sold when goods were delivered

During 2013, BGS deferred recognizing \$50 million of cost of goods sold when goods were delivered to customers. This occurred at the same time revenues were deferred in entry E19a. BGS's policy is to segregate the cost of delivered inventories from other inventories when revenues are deferred.

Record the entry in the space below:



BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION

| December 31, 2013 and December 31, 2012 | | |
|--|-------|-------|
| (In Millions) Assets | 2013 | 2012 |
| Current | 2013 | |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | 84 | 66 |
| Inventories | 158 | 109 |
| Prepaid expenses | 10 | 20 |
| Other current assets | 219 | 158 |
| Total current assets | 502 | 366 |
| Non-current | | |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | \$740 |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | \$740 |
| | | |

| E1 | E19b Deferred CGS when goods were delivered | | | | | | | | | | | |
|----|---|---|--------|---|--|-------|--------|--|--|--|--|--|
| | Assets | | | = | | Debit | Credit | | | | | |
| + | FGI | + | Sldr | = | Segregated inventories: deferred revenue | \$50 | | | | | | |
| + | - \$50 | + | + \$50 | = | Finished goods inventories | | \$50 | | | | | |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | |
|----------------------------------|-----------|-----------|
| Line Items | Increases | Decreases |
| | | |
| | | |
| | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| For years ended December 31, 2012 and 2013 | | |
|--|-------|-------|
| (In Millions) | 2013 | 2012 |
| Net revenues | \$505 | \$440 |
| Cost of goods sold | (253) | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative | (117) | (105) |
| Total | (124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | \$113 | \$100 |

| E1 | E19b Deferred CGS when goods were delivered | | | | | | | | | | | |
|--------|---|---|--------|---|--|-------|--------|--|--|--|--|--|
| Assets | | | | = | | Debit | Credit | | | | | |
| + | FGI | + | Sldr | = | Segregated inventories: deferred revenue | \$50 | | | | | | |
| + | - \$50 | + | + \$50 | = | Finished goods inventories | | \$50 | | | | | |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | |
|--|-----------|-----------------------------------|------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Inventories (Net zero effect. NONE is also acceptable.) | x | x | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CHANGES IN EQUITY

| (In Millions) | Share Capital | Retained Earnings | Reserves | Total |
|--------------------------|------------------|----------------------|----------|-------|
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inco | me | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inco | me | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| E19 | 9b Defer | red | CGS wi | hen | goods were delivered | | |
|-----|----------|------|--------|-----|--|-------|--------|
| | Ass | sets | | = | | Debit | Credit |
| + | FGI | + | Sldr | = | Segregated inventories: deferred revenue | \$50 | |
| + | - \$50 | + | + \$50 | = | Finished goods inventories | | \$50 |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | COME | |
|---|-----------|-----------|-------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Inventories | х | x | NONE | | |
| (Net zero effect. NONE is also acceptable.) | | | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | |
| Line Items | Increases | Decreases | | | |
| | | | | | |
| | | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | | _ |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5 | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |

| L | E1 | 9b Defer | rec | I CGS w | hen | goods were delivered | | |
|---|----|----------|------|---------|-----|--|-------|--------|
| L | | As | sets | | = | | Debit | Credit |
| L | + | FGI | + | Sldr | = | Segregated inventories: deferred revenue | \$50 | |
| L | + | - \$50 | + | + \$50 | = | Finished goods inventories | | \$50 |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | COME | |
|--|-----------|-----------|---------------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Inventories (Net zero effect. NONE is also acceptable.) | x | x | NONE | | |
| | | | | | |
| | | | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| STATEMENT OF CHANGES IN EQUITY Line Items | Increases | Decreases | STATEMENT OF CASH FLOWS Line Items | Increases | Decreases |
| | Increases | Decreases | | Increases | Decreases |
| Line Items | | Decreases | | Increases | Decreases |

Complete Solution: E19b Deferred cost of goods sold when goods were delivered During 2013, BGS deferred recognizing \$50 million of cost of goods sold when goods were delivered to customers. This occurred at the same time revenues were deferred in entry E19a. BGS's policy is to segregate the cost of delivered inventories from other inventories when revenues are deferred.

Record the entry:

| | As | sets | | = | | Debit | Credit |
|---|-----|------|------|---|--|-------|--------|
| + | FGI | + | Sldr | = | Segregated inventories: deferred revenue | \$50 | |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | СОМЕ | |
|--|-----------|-----------|--|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Inventories (Net zero effect. NONE is also acceptable.) | | | NONE | | |
| STATEMENT OF CHANGES IN EQUITY Line Items | Increases | Decreases | STATEMENT OF CASH FLOWS Line Items | Increases | Decreases |
| NONE | | | Inventories (Net zero effect. NONE is also acceptable.) | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

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| Current AP Accounts payable AcrL Accrued liabilities DivP Dividend payable Drev Deferred revenue OCL Other current liabilities | ASSETS | | | | OWNER | S' EQUIT | Y | |
|--|-------------|-------|----------|--|-------|----------|----------|---|
| ARG Accounts receivable, gross Allbd Allowance for bad debts Allprr Allowance for product returns: revenue component C Cash and cash equivalents Inven Inventories FGI Finished goods inventories deferred revenue Stdr Segregated inventories: product returns allowance cost component OCA Other current assets Non-current PPE Property, plant, and equipment, net PPE Property, plant, and equipment, net Grev PPE Property, plant, and equipment, net PRCnR PPE Property, plant, and equipment, net PRCnR ONCA Other non-current assets LIABILITIES ONI Current AP AP Accounts payable AcrL Accrued liabilities Dive Dividend payable Drev Deferred revenue OCL Other current liabilities Non-current AP | Current | t | | | Peri | nanent | | |
| Alibd Allowance for bad debts Alibd Allowance for bad debts Alipr Allowance for product returns: revenue component C Cash and cash equivalents Inven Inventories FGI Finished goods inventories: deferred revenue Slprc Segregated inventories: deferred revenue Slprc Segregated inventories: product returns allowance cost component PrEx Prepaid expenses ONCA Other current assets Non-current PPE Property, plant, and equipment, net PPE Property, plant, and equipment, net ORCA ONCA Other one-current assets Current AccDep Accured liabilities Dive Dive Divdend payable Acrt. Accounts payable Acrt. Accurrent liabilities Dive Divdend revenue OC Other current liabilities Dive Diver orient liabilities | A | R | Account | ts receivable | | RE | Retaine | d earnings |
| Aligr Aliowance for product returns: revenue component C Cash and cash equivalents Inven Inventories FGI Finished goods inventories Sldr Segregated inventories: deferred revenue Sldr Segregated inventories: product returns allowance cost component PrEx Prepaid expenses OCA Other current assets Non-current PPE for porty, plant, and equipment, net PPE Property, plant, and equipment, net PPE coduct terturns costs ONCA Other non-current assets LIABILITIES Current AP Accounts payable AcrL Accrued liabilities DivP Divdend payable AcrL Accruent liabilities DivP Divdend payable Acruent liabilities DivP OC Other current liabilities DivP Divdend payable Accounts name OC OC Other current liabilities | | | ARG | Accounts receivable, gross | | SCap | Share c | apital |
| C Cash and cash equivalents Inven Inventories FGI Finished goods inventories Stdr Segregated inventories: deferred revenue Stdr Segregated inventories: product returns allowance cost component PrEx Prepaid expenses OCA Other current assets PPE Property, plant, and equipment, net PPEC Gross revenue PPE Property, plant, and equipment, net Grev PPE Accumulated depreciation ONCA ONCA Other non-ourrent assets LIABILITIES ONOI Current AP Accounts payable DivP Arct Accured liabilities DivP Divdend payable DivP Divdend payable DivP Divdend revenue OCL Other current liabilities | | | Allbd | Allowance for bad debts | | OPOE | Other pe | ermanent owners' equity |
| Inven Inventories FGI Finished goods inventories Sidr Segregated inventories: deferred revenue Sipr Segregated inventories: product returns allowance cost component PrEx Prepaid expenses OCA Other current assets PPE Property, plant, and equipment, net PPE Ror Prevent PPE Property, plant, and equipment, net PPE Cross revenue PPE Accumulated depreciation ONCA ONCA Other non-current assets LIABILITIES ONI Other non-current isbilities Dive Dividend payable Acrt Accounts payable Acrt Accruent liabilities Dive Dividend payable Drev Deferred revenue OCL Other current liabilities Non-current Current | | | Allprr | Allowance for product returns: revenue component | Net | income | | |
| FGI Finished goods inventories: Sldr Segregated inventories: Slprc Segregated inventories: PrEx Prepaid expenses OCA Other current assets Non-current PPE PPEh PPSE (historical cost) PPEh PPSE (historical cost) ONCA Other non-current assets ONCA Other non-current assets LIABILITIES ONOGI Current AP AP Accounts payable AcrL Accured liabilities DivP Divdend payable DivP Divdend payable OCL Other runnent liabilities Non-current AP | c | ; | Cash ar | nd cash equivalents | | CGS | Cost of | goods sold |
| Sidr Segregated inventories: deferred revenue Sidr Segregated inventories: product returns allowance cost component PrEx Prepaid expenses OCA Other current assets Non-current PPE for poperty, plant, and equipment, net PPE hc PP8Ch (historical cost) ACDep Accumulated depreciation ONCA Other non-current assets LIABILITIES Current AP Accounts payable AcrL Accured liabilities DivP Dividend payable OCL Other ourrent liabilities Non-current Non-current | Ir | nven | Inventor | ries | | DepEx | Depreci | ation expense |
| Siprc Segregated inventories: product returns allowance cost component PrEx Prepaid expenses OCA Other current assets PPE Property, plant, and equipment, net PPE (not property, plant, and equipment, net Grev ONCA Other non-current assets Current Grev AP Accounts payable AcrL Accrued liabilities Dive Dividend payable Drev Deferred revenue OCL Other current liabilities Non-current Non-current | | | FGI | | | G/L | | |
| PrEx Prepaid expenses OCA Other current assets Non-current PPE Property, plant, and equipment, net PPEhc PP&E (historical cost) AcDep Accumulated depreciation ONCA Other non-current assets LIABILITIES ONO Current AP Arc Accumts payable AcrL Accrued liabilities DivP Divdend payable Drev Deferred revenue OCL Other current liabilities Non-current | | | Sidr | | | | PPEGL | Gain/Loss on PP&E disposa |
| OCA Other current assets Non-current PPE Property, plant, and equipment, net PPE product returns cost) AcDep Accumulated depreciation ONCA Other non-current assets LIABILITIES Current AP Accounts payable AcrL Accrued liabilities DivP Divdend payable OCL Other overnett liabilities Non-current Non-current | | | Siprc | Segregated inventories: product returns allowance cost component | | | ONOGL | Other non-operating gains/l |
| Non-current PPE PPE hroperty, plant, and equipment, net PRCnR AcDep Accounds depreciation ONCA Other non-current assets OUT Current AP Accounts payable DivP Dividend payable DivP Deferred revenue OCL Other current liabilities Non-current | P | rEx | Prepaid | expenses | | | | |
| PPE Property, plant, and equipment, net PPE Property, plant, and equipment, net PPE Construction AcDep Accumulated depreciation ONCA Other non-current assets LIABILITIES Current AP Accounts payable AcrL Accrued liabilities DivP Divdend payable Drev Deferred revenue OCL Other runent liabilities Non-current | 0 | CA | Other cu | urrent assets | | MSGA | Miscella | neous SG&A expense |
| PPEhc PPEAc PPEAc <td< td=""><td>Non-cu</td><td>rrent</td><td></td><td></td><td></td><td>Rev</td><td>Revenu</td><td>es, net</td></td<> | Non-cu | rrent | | | | Rev | Revenu | es, net |
| AcDep Accumulated depreciation ONCA Other non-current assets LIABILITIES OI Current AP Accude liabilities ONOI DivP Divdend payable Drev Deferred revenue OCL Other current liabilities Non-current Other current | P | PE | Property | y, plant, and equipment, net | | | Grev | Gross revenue |
| ONCA Other non-current assets LIABILITIES Current AP Accounts payable AcrL Accrued liabilities DivP Dividend payable Drev Defer revenue OCL Other current liabilities | | | PPEhc | PP&E (historical cost) | | | PRCnR | Product returns contra reve |
| LIABILITIES Current AP Accounts payable AcrL Accrued liabilities DivP Dividend payable Drev Deferred revenue OCL Other current liabilities Non-current | | | | | | | | |
| Current AP Accounts payable AcrL Accrued liabilities DivP Dividend payable Drev Deferred revenue OcL Other current liabilities | 0 | NCA | Other ne | on-current assets | | 001 | Other of | perating income net of expens |
| AP Accounts payable AcrL Accrued liabilities DivP Dividend payable Drev Deferred revenue OcL Other current liabilities | LIABILITIES | ; | | | | ONOI | Other no | on-operating income net of ex |
| AcrL Accrued liabilities DivP Dividend payable Drev Deferred revenue OcL Other current liabilities | Current | t | | | | | | |
| DivP Dividend payable Drev Deferred revenue OCL Other current liabilities Non-current | A | νP | Account | ts payable | | | | |
| Drev Deferred revenue OCL Other current liabilities Non-current | A | crL | Accrueo | liabilities | | | | |
| OCL Other current liabilities Non-current | D |)ivP | Dividen | d payable | | | | |
| Non-current | D |)rev | Deferre | d revenue | | | | |
| | 0 | CL | Other cu | urrent liabilities | | | | |
| | Non-cu | rrent | | | | | | |
| | | TD | Long-te | rm debt | | | | |
| | U | NCL | | on-current liabilities | | | | |

E20a Recognized previously deferred revenue

During 2013, BGS recognized \$110 million of previously deferred revenues when it concluded it had met all of the IFRS criteria for revenue recognition.

Record the entry in the space below:



BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION

| December 31, 2013 and December 31, 2012 | | |
|--|-------------|-------|
| (In Millions) | | |
| Assets | 2013 | 2012 |
| Current | * 04 | 640 |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | 84 | 66 |
| Inventories | 158 | 109 |
| Prepaid expenses | 10 | 20 |
| Other current assets | 219 | 158 |
| Total current assets Non-current | 502 | 366 |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | \$740 |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | \$740 |

| E2 | 0a | Recogni | zed | previous | ł | y deferred revenue | | |
|----|----|------------|-----|-----------|---|--------------------|-------|--------|
| = | L | iabilities | 0 | wners' Eq | | | Debit | Credit |
| = | + | Drev | + | Grev | | Deferred revenue | \$110 | |
| = | + | - \$110 | + | + \$110 | | Gross revenue | | \$110 |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer on the next page.

| | | | CIAL POSITION | STATEMENTS OF FINA |
|----------|-----|-----------|---------------|--------------------|
| ecreases | Dec | Increases | | Line Items |
| | Ľ | | | |
| | Ľ | | | |
| | | | | |
| _ | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| For years ended December 31, 2012 and 2013 | | |
|--|-------|-------|
| (In Millions) | 2013 | 2012 |
| Net revenues | \$505 | \$440 |
| Cost of goods sold | (253) | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative | (117) | (105) |
| Total | (124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | \$113 | \$100 |
| | | |

| 20 | a I | Recogniz | zed | previous | ily | deferred revenue | | |
|-------------|-----|------------|---------------|--------------------------------|---|---|--------------------------------|---|
| Liabilities | | iabilities | Owners' Eq | | | | Debit | Credit |
| | + | Drev | + | Grev | | Deferred revenue | \$110 | |
| | + | - \$110 | + | + \$110 | | Gross revenue | | \$110 |
| | 20 | T | E Liabilities | E Liabilities Ov E + Drev + | Liabilities Owners' Eq + Drev + Grev | Liabilities Owners' Eq + Drev + Grev | + Drev + Grev Deferred revenue | Liabilities Owners' Eq Debit + Drev + Grev Deferred revenue \$110 |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | ОМЕ | |
|--|-----------|-----------|--------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Other current liabilities (Deferred revenue liability) Retained earnings | □ × | × | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CHANGES IN EQUITY

| (In Millions) | Share Capital | Retained Earnings | Reserves | Total |
|--------------------------|------------------|----------------------|----------|-------|
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inco | ome | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inco | ome | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| | E2 | 0a | Recogniz | zed | previous | ly deferred revenue | | |
|---|----|---------------|----------|------------|----------|---------------------|-------|--------|
| L | = | = Liabilities | | Owners' Eq | | | Debit | Credit |
| L | = | + | Drev | + | Grev | Deferred revenue | \$110 | |
| L | = | + | - \$110 | + | + \$110 | Gross revenue | | \$110 |
| L | | | | | | | | |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | COME | |
|---|-----------|-----------|-------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Other current liabilities (Deferred revenue liability) | | X | Net revenues | X | |
| Retained earnings | x | | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | |
| Line Items | Increases | Decreases | | | |
| | | | | | |
| | | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

| Cash flows from operating activitiesNet profit\$89Adjustments(Gain) loss on sale of PP&E(Gain) loss on sale of PP&E(3)(Gain) loss on sale of PP&E(3)Depreciation32Accounts receivable0Inventories(32)Inventories(32)Accounts payable(22)Accrued liabilities(12)Other29Accrued liabilities(12)Other29Payments for property, plant, and equipment(20)Proceeds from disposal of property, plant, and equipment(20)Other investing cash flows(80)Net cash provided by (used in) investing activities(80)Payments for property, plant, and equipment(20)Other investing cash flows(80)Net cash provided by (used in) investing activities(85)Other investing cash flows(80)Net cash provided by (used in) investing activities(85)Quest from financing activities(85)Other financing cash flows5At cash provided by (used in) financing activities5Other financing cash flows5At increase (decrease) in cash during year16Other22 | For years ended December 31, 2012 and 2013 | | |
|---|---|------|------|
| Net profit Adjustments\$89\$76Adjustments(Gain) loss on sale of PP&E(3)(3)Depreciation3228Accounts receivable0(38)Inventories(32)(36)Prepaid expenses1513Accounts payable(22)(21)Accrued liabilities(12)(10)Other2916Net cash provided by (used in) operations9625Cash flows from investing activities9625Payments for property, plant, and equipment(20)(17)Proceeds from disposal of property, plant, and equipment1514Other investing cash flows(80)(37)Net cash provided by (used in) investing activities(85)(40)Cash flows from financing activities09Proceeds from borrowings107Proceeds from borrowings109Payment of dividends(20)(18)Other financing cash flows54Net cash provided by (used in) financing activities52Net cash provided by (used in) financing activities52Cash and Cash equivalents at start of year16(13)Other222Cash and Cash equivalents at start of year1324 <th>(In Millions)</th> <th>2013</th> <th>2012</th> | (In Millions) | 2013 | 2012 |
| Adjustments(Gain) loss on sale of PP&E(3)(Gain) loss on sale of PP&E(3)(Gain) loss on sale of PP&E(3)Depreciation32Accounts receivable0(32)(36)Prepaid expenses151513Accounts payable(22)(21)Accrued liabilities(12)(10)Other2916100Other9625Cash flows from investing activitiesPayments for property, plant, and equipment(20)Other investing cash flows(80)Other investing cash flows(80)Other investing cash flows(80)Other investing cash flows(85)Proceeds from financing activities(85)Proceeds from borrowings10Proceeds from borrowings10994Payment of dividends(20)Other financing cash flows5410Net cash provided by (used in) financing activities522Net cash provided by (used in) financing activities522Net cash provided by (used in) financing activities522Net cash provided by (used in) financing activities522Cash and Cash equivalents at start of year1324 | Cash flows from operating activities | | |
| (Gain) loss on sale of PP&E(3)(3)Depreciation3228Accounts receivable0(38)Inventories(32)(36)Prepaid expenses1513Accounts payable(22)(21)Accrued liabilities(12)(10)Other2916Net cash provided by (used in) operations9625Cash flows from investing activities9625Payments for property, plant, and equipment(20)(17)Proceeds from disposal of property, plant, and equipment1514Other investing cash flows(80)(37)Net cash provided by (used in) investing activities(85)(40)Cash flows from financing activities(85)(40)Cash flows from borrowings109Proceeds from borrowings109Payment of dividends(20)(18)Other financing cash flows54Net cash provided by (used in) financing activities52Net increase (decrease) in cash during year16(13)Other222Cash and Cash equivalents at start of year1324 | Net profit | \$89 | \$76 |
| Depreciation3228Accounts receivable0(38)Inventories(32)(36)Prepaid expenses1513Accounts payable(22)(21)Accrued liabilities(12)(10)Other2916Net cash provided by (used in) operations9625Cash flows from investing activities9625Payments for property, plant, and equipment(20)(17)Proceeds from disposal of property, plant, and equipment1514Other investing cash flows(80)(37)Net cash provided by (used in) investing activities(85)(40)Cash flows from financing activities(85)(40)Cash flows from binancing activities107Proceeds from issue of share capital107Proceeds from borrowings109Payment of dividends(20)(18)Other financing cash flows54Net cash provided by (used in) financing activities52Net increase (decrease) in cash during year16(13)Other222Cash and Cash equivalents at start of year1324 | Adjustments | | |
| Accounts receivable0(38) (32)Inventories(32)(36)Prepaid expenses1513Accounts payable(22)(21)Accrued liabilities(12)(10)Other2916Net cash provided by (used in) operations9625Cash flows from investing activities9625Payments for property, plant, and equipment(20)(17)Proceeds from disposal of property, plant, and equipment1514Other investing cash flows(80)(37)Net cash provided by (used in) investing activities(85)(40)Cash flows from financing activities107Proceeds from bisue of share capital107Proceeds from borrowings109Payment of dividends(20)(18)Other financing cash flows54Net cash provided by (used in) financing activities52Net increase (decrease) in cash during year16(13)Other222Cash and Cash equivalents at start of year1324 | (Gain) loss on sale of PP&E | (3) | (3) |
| Inventories(32)(36)Prepaid expenses1513Accounts payable(22)(21)Accrued liabilities(12)(10)Other2916Net cash provided by (used in) operations9625Cash flows from investing activities9625Payments for property, plant, and equipment(20)(17)Proceeds from disposal of property, plant, and equipment1514Other investing cash flows(80)(37)Net cash provided by (used in) investing activities(85)(40)Cash flows from financing activities(85)(40)Cash flows from binancing activities107Proceeds from issue of share capital107Proceeds from borrowings109Payment of dividends(20)(18)Other financing cash flows54Net cash provided by (used in) financing activities52Net increase (decrease) in cash during year16(13)Other222Cash and Cash equivalents at start of year1324 | Depreciation | 32 | 28 |
| Prepaid expenses1513Accounts payable(22)(21)Accrued liabilities(12)(10)Other2916Net cash provided by (used in) operations9625Cash flows from investing activities9625Payments for property, plant, and equipment(20)(17)Proceeds from disposal of property, plant, and equipment1514Other investing cash flows(80)(37)Net cash provided by (used in) investing activities(85)(40)Cash flows from financing activities(85)(40)Cash flows from issue of share capital107Proceeds from borrowings109Payment of dividends(20)(18)Other financing cash flows54Net cash provided by (used in) financing activities52Net increase (decrease) in cash during year16(13)Other222Cash and Cash equivalents at start of year1324 | Accounts receivable | 0 | (38) |
| Accounts payable(22)(21)Accrued liabilities(12)(10)Other2916Net cash provided by (used in) operations9625Cash flows from investing activities9625Payments for property, plant, and equipment(20)(17)Proceeds from disposal of property, plant, and equipment1514Other investing cash flows(80)(37)Net cash provided by (used in) investing activities(85)(40)Cash flows from financing activities(85)(40)Cash flows from financing activities107Proceeds from borrowings109Payment of dividends(20)(18)Other financing cash flows54Net cash provided by (used in) financing activities52Net increase (decrease) in cash during year16(13)Other222Cash and Cash equivalents at start of year1324 | Inventories | (32) | (36) |
| Accrued liabilities(12)(10)Other2916Net cash provided by (used in) operations9625Cash flows from investing activities9625Payments for property, plant, and equipment(20)(17)Proceeds from disposal of property, plant, and equipment1514Other investing cash flows(80)(37)Net cash provided by (used in) investing activities(85)(40)Cash flows from financing activities107Proceeds from issue of share capital107Proceeds from borrowings109Payment of dividends(20)(18)Other financing cash flows54Net cash provided by (used in) financing activities52Net increase (decrease) in cash during year16(13)Other222Cash and Cash equivalents at start of year1324 | Prepaid expenses | 15 | 13 |
| Other(29)(16)Net cash provided by (used in) operations9625Cash flows from investing activities9625Payments for property, plant, and equipment(20)(17)Proceeds from disposal of property, plant, and equipment1514Other investing cash flows(80)(37)Net cash provided by (used in) investing activities(85)(40)Cash flows from financing activities(85)(40)Cash flows from financing activities107Proceeds from borrowings109Payment of dividends(20)(18)Other financing cash flows54Net cash provided by (used in) financing activities52Net cash provided by (used in) financing activities52Net increase (decrease) in cash during year16(13)Other222Cash and Cash equivalents at start of year1324 | Accounts payable | (22) | (21) |
| Net cash provided by (used in) operations9625Cash flows from investing activities9625Payments for property, plant, and equipment(20)(17)Proceeds from disposal of property, plant, and equipment1514Other investing cash flows(80)(37)Net cash provided by (used in) investing activities(85)(40)Cash flows from financing activities(85)(40)Cash flows from financing activities107Proceeds from borrowings109Payment of dividends(20)(18)Other financing cash flows54Net cash provided by (used in) financing activities52Net cash provided by (used in) financing activities52Other222Cash and Cash equivalents at start of year1324 | Accrued liabilities | (12) | (10) |
| Cash flows from investing activities(20)Payments for property, plant, and equipment(20)Proceeds from disposal of property, plant, and equipment15Other investing cash flows(80)Other investing cash flows(80)Net cash provided by (used in) investing activities(85)Proceeds from financing activities(85)Proceeds from borrowings10Proceeds from borrowings10Payment of dividends(20)Other financing cash flows5A4Net cash provided by (used in) financing activities5Que the financing cash flows5Other financing cash flows5Other2Cash and Cash equivalents at start of year132424 | Other | 29 | 16 |
| Payments for property, plant, and equipment(20)(17)Proceeds from disposal of property, plant, and equipment1514Other investing cash flows(80)(37)Net cash provided by (used in) investing activities(85)(40)Cash flows from financing activities107Proceeds from issue of share capital107Proceeds from borrowings109Payment of dividends(20)(18)Other financing cash flows54Net cash provided by (used in) financing activities52Net increase (decrease) in cash during year16(13)Other222Cash and Cash equivalents at start of year1324 | | 96 | 25 |
| Proceeds from disposal of property, plant, and equipment1514Other investing cash flows(80)(37)Net cash provided by (used in) investing activities(85)(40)Cash flows from financing activities107Proceeds from issue of share capital107Proceeds from borrowings109Payment of dividends(20)(18)Other financing cash flows54Net cash provided by (used in) financing activities52Net increase (decrease) in cash during year16(13)Other222Cash and Cash equivalents at start of year1324 | Cash flows from investing activities | | |
| Other investing cash flows(80)(37)Net cash provided by (used in) investing activities(85)(40)Cash flows from financing activities(85)(40)Proceeds from issue of share capital107Proceeds from borrowings109Payment of dividends(20)(18)Other financing cash flows54Net cash provided by (used in) financing activities52Net increase (decrease) in cash during year16(13)Other222Cash and Cash equivalents at start of year1324 | | () | (17) |
| Net cash provided by (used in) investing activities185Cash flows from financing activities(40)Proceeds from issue of share capital10Proceeds from borrowings10Payment of dividends(20)Other financing cash flows5At cash provided by (used in) financing activities5Net increase (decrease) in cash during year16Other2Cash and Cash equivalents at start of year13 | | 15 | 14 |
| Cash flows from financing activitiesProceeds from issue of share capital10Proceeds from borrowings10Payment of dividends(20)Other financing cash flows5Vet cash provided by (used in) financing activities5Net increase (decrease) in cash during year16Other2Cash and Cash equivalents at start of year13 | Other investing cash flows | (80) | (37) |
| Proceeds from issue of share capital107Proceeds from borrowings109Payment of dividends(20)(18)Other financing cash flows54Net cash provided by (used in) financing activities52Net increase (decrease) in cash during year16(13)Other22Cash and Cash equivalents at start of year1324 | | (85) | (40) |
| Proceeds from borrowings109Payment of dividends(20)(18)Other financing cash flows54Net cash provided by (used in) financing activities52Net increase (decrease) in cash during year16(13)Other22Cash and Cash equivalents at start of year1324 | 0 | | |
| Payment of dividends(20)(18)Other financing cash flows54Net cash provided by (used in) financing activities52Net increase (decrease) in cash during year16(13)Other22Cash and Cash equivalents at start of year1324 | Proceeds from issue of share capital | 10 | 7 |
| Other financing cash flows54Net cash provided by (used in) financing activities52Net increase (decrease) in cash during year16(13)Other22Cash and Cash equivalents at start of year1324 | Proceeds from borrowings | | 9 |
| Net cash provided by (used in) financing activities52Net increase (decrease) in cash during year16(13)Other22Cash and Cash equivalents at start of year1324 | Payment of dividends | (20) | (18) |
| Net increase (decrease) in cash during year16(13)Other22Cash and Cash equivalents at start of year1324 | Other financing cash flows | | |
| Other 2 2 Cash and Cash equivalents at start of year 13 24 | Net cash provided by (used in) financing activities | 5 | 2 |
| Cash and Cash equivalents at start of year 13 24 | Net increase (decrease) in cash during year | | (13) |
| | Other | 2 | 2 |
| Cash and Cash equivalents at end of year \$31 \$13 | | | 24 |
| | Cash and Cash equivalents at end of year | \$31 | \$13 |

| E | 20 | a | Recogniz | zed | previous | ł | y deferred revenue | | |
|---|----|-------------|----------|------------|----------|---|--------------------|-------|--------|
| = | | Liabilities | | Owners' Eq | | | | Debit | Credit |
| = | | + | Drev | + | Grev | | Deferred revenue | \$110 | |
| = | | + | - \$110 | + | + \$110 | | Gross revenue | | \$110 |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | COME | |
|--|-----------|-----------|-------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Other current liabilities (Deferred revenue liability) Retained earnings | × | X | Net revenues | x | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Profit (loss) | | | | | |
| | х | | | | |
| | × | | | | |

Complete Solution: E20a Recognized previously deferred revenue

During 2013, BGS recognized \$110 million of previously deferred revenues when it concluded it had met all of the IFRS criteria for revenue recognition.

Record the entry:

| E | E20a Recognized previously deferred revenue | | | | | | | | | | | |
|---|---|-------------|---------|------------|---------|--|------------------|-------|--------|--|--|--|
| | = | Liabilities | | Owners' Eq | | | | Debit | Credit | | | |
| : | = | + | Drev | + | Grev | | Deferred revenue | \$110 | | | | |
| : | = | + | - \$110 | + | + \$110 | | Gross revenue | | \$110 | | | |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | СОМЕ | |
|---|-----------|-----------|---------------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Other current liabilities (Deferred revenue liability) | | x | Net revenues | x | |
| Retained earnings | x | | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Profit (loss) | x | | Net profit | X | |
| | | | Other (Deferred revenue liability) | | x |
| | | | | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

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| ASSETS | | | | | WNERS | | | |
|-----------|---------|----------|--|----------|-------|-------|-----------|-------------------------------|
| Curre | ent | | | | Perm | anent | | |
| | AR | | s receivable | | | RE | | d earnings |
| | | ARG | Accounts receivable, gross | | | SCap | Share ca | |
| | | Allbd | Allowance for bad debts | | | OPOE | Other pe | ermanent owners' equity |
| | | Allprr | Allowance for product returns: revenue component | | Net i | ncome | | |
| | С | | id cash equivalents | | | CGS | | goods sold |
| | Inven | Inventor | | | | | | ation expense |
| | | FGI | Finished goods inventories | | | G/L | Gain/los | - |
| | | Sldr | Segregated inventories: deferred revenue | | | | | Gain/Loss on PP&E dispos |
| | | Slprc | Segregated inventories: product returns allowance cost component | | | | | Other non-operating gains |
| | PrEx | | expenses | | | IncS | | summary |
| | OCA | Other cu | urrent assets | | | MSGA | Miscellar | neous SG&A expense |
| Non- | current | | | | | Rev | Revenue | es, net |
| | PPE | Property | /, plant, and equipment, net | | | | Grev | Gross revenue |
| | | PPEhc | | | | | | Product returns contra rev |
| | | | Accumulated depreciation | | | | | G&A expense |
| | ONCA | Other no | on-current assets | | | 001 | Other op | perating income net of experi |
| LIABILITI | S | | | | | ONOI | Other no | on-operating income net of e |
| Curre | ent | | | | | | | |
| | AP | Account | s payable | | | | | |
| | AcrL | Accrued | liabilities | | | | | |
| | DivP | Dividend | d payable | | | | | |
| | Drev | Deferred | d revenue | | | | | |
| | OCL | Other cu | urrent liabilities | | | | | |
| Non- | current | | | <u> </u> | | | | |

E20b Recognized previously deferred cost of good sold

During 2013, BGS recognized \$55 million of previously deferred cost of goods sold. This occurred at the same time revenues were recognized in E20a. Entries E20a and E20b could have been combined. Some companies record these entries at the end of the period, rather than during the period as revenue recognition criteria are met.

Record the entry in the space below:



BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION

| December 31, 2013 and December 31, 2012 | | |
|--|-------|-------|
| (In Millions) | | |
| Assets | 2013 | 2012 |
| Current | | |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | 84 | 66 |
| Inventories | 158 | 109 |
| Prepaid expenses | 10 | 20 |
| Other current assets | 219 | 158 |
| Total current assets Non-current | 502 | 366 |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | \$740 |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | \$740 |

| E2 | E20b Recognized previously deferred CGS | | | | | | | | | | | |
|----|---|---|---------------|--------|--|-------|--------|--|--|--|--|--|
| | Assets | = | = Owners' Eq. | | | Debit | Credit | | | | | |
| + | Sldr | = | - | CGS | Cost of goods sold | \$55 | | | | | | |
| + | - \$55 | = | - | + \$55 | Segregated inventories: deferred revenue | | \$55 | | | | | |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer on the next page.

| | | | CIAL POSITION | STATEMENTS OF FINA |
|----------|-----|-----------|---------------|--------------------|
| ecreases | Dec | Increases | | Line Items |
| | Ľ | | | |
| | Ľ | | | |
| | | | | |
| _ | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| For years ended December 31, 2012 and 2013 | | |
|--|-------|-------|
| (In Millions) | 2013 | 2012 |
| Net revenues | \$505 | \$440 |
| Cost of goods sold | (253) | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative | (117) | (105) |
| Total | (124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | \$113 | \$100 |

| E2 | E20b Recognized previously deferred CGS | | | | | | | | | | | |
|-----------|---|---|---------------|--------|--|-------|--------|--|--|--|--|--|
| | Assets | = | = Owners' Eq. | | | Debit | Credit | | | | | |
| + | Sldr | = | - | CGS | Cost of goods sold | \$55 | | | | | | |
| + | - \$55 | = | - | + \$55 | Segregated inventories: deferred revenue | | \$55 | | | | | |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | | |
|----------------------------------|-----------|-----------------------------------|------------|-----------|-----------|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| inventories | | x | | | | |
| Retained earnings | | x | | | | |
| | | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CHANGES IN EQUITY

| (In Millions) | Share Capital | Retained Earnings | Reserves | Total |
|--------------------------|------------------|----------------------|----------|-------|
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | ** | •••• | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inco | me | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inco | me | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| E20b Recognized previously deferred CGS | | | | | | | | | | | |
|---|--------|---|-------------|--------|--|-------|--------|--|--|--|--|
| | Assets | = | Owners' Eq. | | | Debit | Credit | | | | |
| + | Sldr | = | - | CGS | Cost of goods sold | \$55 | | | | | |
| + | - \$55 | = | - | + \$55 | Segregated inventories: deferred revenue | | \$55 | | | | |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | ОМЕ | |
|----------------------------------|-----------|-----------|---|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Inventories | | x | Cost of goods sold (Reported negative number decreases.) | | x |
| Retained earnings | | x | (,,,,,,, | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | |
| Line Items | Increases | Decreases | | | |
| | | | | | |
| | | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | | |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5 | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |

| E20b Recognized previously deferred CGS | | | | | | | | | | | |
|---|--------|---|----|------------|--|-------|--------|--|--|--|--|
| | Assets | = | Ov | wners' Eq. | | Debit | Credit | | | | |
| + | Sldr | = | 1 | CGS | Cost of goods sold | \$55 | | | | | |
| + | - \$55 | = | 1 | + \$55 | Segregated inventories: deferred revenue | | \$55 | | | | |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | | |
|----------------------------------|-----------|-----------------------------------|---|-----------|-----------|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| Inventories | | x | Cost of goods sold (Reported negative number decreases.) | | x | |
| Retained earnings | | x | | | | |
| | | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| Profit (loss) | | x | | | | |
| | | | | | | |
| | | | | | | |

Complete Solution: E20b Recognized previously deferred cost of good sold

During 2013, BGS recognized \$55 million of previously deferred cost of goods sold. This occurred at the same time revenues were recognized in E20a. Entries E20a and E20b could have been combined. Some companies record these entries at the end of the period, rather than during the period as revenue recognition criteria are met. Record the entry:

| 1 | E2(| 0b Reco | gni | zed | l previous | sl | y deferred CGS | | |
|---|--------|---------|-----|---------------|------------|----|--|-------|--------|
| | Assets | | = | = Owners' Eq. | | | | Debit | Credit |
| | + | Sldr | = | 1 | CGS | | Cost of goods sold | \$55 | |
| | ÷ | - \$55 | Π | 1 | + \$55 | | Segregated inventories: deferred revenue | | \$55 |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | COME | |
|--|-----------|-----------|---|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Inventories Retained earnings | | x | Cost of goods sold (Reported negative number decreases.) | | x |
| STATEMENT OF CHANGES IN EQUITY Line Items | Increases | Decreases | STATEMENT OF CASH FLOWS Line Items | Increases | Decreases |
| Profit (loss) | | x | Net profit | | x |
| | | | Inventories (Reported negative number increases.) | x | |
| | | | (reported negative number Increases.) | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

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| ASSETS | | | | | OWNERS | EQUIT | Y | | |
|-------------|-------------|----------------------|--|---|--------|-------|----------------|-----------------------------|--|
| Current | | | | | Perm | anent | | | |
| AR | Ac | counts | receivable | | | RE | Retained | d earnings | |
| | AF | ٦G | Accounts receivable, gross | | | SCap | Share ca | apital | |
| | AI | lbd | Allowance for bad debts | | | OPOE | Other pe | ermanent owners' equity | |
| | AI | lprr | Allowance for product returns: revenue component | | Net in | ncome | | | |
| С | Ca | ash an | d cash equivalents | | | CGS | Cost of g | goods sold | |
| Inv | en Inv | ventori | es | | | DepEx | Deprecia | ation expense | |
| | FG | | Finished goods inventories | | | G/L | Gain/los | - | |
| | SI | dr | Segregated inventories: deferred revenue | | | | | Gain/Loss on PP&E dispo | |
| | SI | prc | Segregated inventories: product returns allowance cost component | t | | | ONOGL | Other non-operating gain | |
| Pr | x Pr | epaid | expenses | | | IncS | Income summary | | |
| 00 | A Ot | Other current assets | | | | MSGA | Miscella | neous SG&A expense | |
| Non-curr | on-current | | | | | Rev | Revenue | es, net | |
| PP | E Pr | operty | plant, and equipment, net | | | | Grev | Gross revenue | |
| | PF | PEhc | PP&E (historical cost) | | | | | Product returns contra re- | |
| | | | Accumulated depreciation | | | | | G&A expense | |
| ON | CA Ot | her no | n-current assets | | | 001 | Other op | perating income net of expe | |
| LIABILITIES | | | | | | ONOI | Other no | on-operating income net of | |
| Current | | | | | | | | | |
| AP | Ac | counts | payable | | | | | | |
| Ac | rL Ac | crued | liabilities | | | | | | |
| Div | P Di | vidend | payable | | | | | | |
| Dre | ev De | eferred | revenue | | | | | | |
| 00 | L Ot | her cu | rrent liabilities | | | | | | |
| Non-curr | ont | | | | | | | | |

E21 Replenished doubtful receivables allowance

At the end of each interim reporting period during 2013, BGS estimated the outstanding receivables that would probably not be collected in the future and adjusted the bad debts allowance by the amount necessary to ensure its balance equalled this baddebts estimate. There were a total of \$6 million of these adjustments during 2013.

Record the entry in the space below:



BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION

| December 31, 2013 and December 31, 2012 | | |
|--|-------------|-------|
| (In Millions) | | |
| Assets | 2013 | 2012 |
| Current | 60 4 | |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | 84 | 66 |
| Inventories | 158 | 109 |
| Prepaid expenses | 10 | 20 |
| Other current assets | 219 | 158 |
| Total current assets Non-current | 502 | 366 |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | \$740 |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | \$740 |

| E2 | E21 Replenished bad debts allowance | | | | | | | | | | | |
|----|-------------------------------------|---|----|------------|--|----------------------------|-------|--------|--|--|--|--|
| | Assets | = | ٥v | wners' Eq. | | | Debit | Credit | | | | |
| - | Allbd | = | - | MSGA | | Miscellaneous SG&A expense | \$6 | | | | | |
| - | + \$6 | = | - | + \$6 | | Allowance for bad debts | | \$6 | | | | |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | |
|----------------------------------|-----------|-----------|
| Line Items | Increases | Decreases |
| | | |
| | | |
| | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| For years ended December 31, 2012 and 2013 | | |
|--|-------|-------|
| (In Millions) | 2013 | 2012 |
| Net revenues | \$505 | \$440 |
| Cost of goods sold | (253) | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative | (117) | (105) |
| Total | (124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | \$113 | \$100 |

| E21 Replenished bad debts allowance | | | | | | | | | | | | |
|-------------------------------------|-----------------|---------------------|--------------------------|--|--|---|--|--|--|--|--|--|
| Assets | = | Ov | wners' Eq. | Γ | | Debit | Credit | | | | | |
| Allbd | = | - | MSGA | | Miscellaneous SG&A expense | \$6 | | | | | | |
| + \$6 | = | - | + \$6 | | Allowance for bad debts | | \$6 | | | | | |
| | Assets Allbd | Assets = Allbd = | Assets = Ov Allbd = - | Assets = Owners' Eq. Allbd = - MSGA | Assets = Owners' Eq. Allbd = - MSGA | Assets = Owners' Eq. Allbd = - MSGA Miscellaneous SG&A expense | Assets = Owners' Eq. Allbd = - MSGA Miscellaneous SG&A expense \$6 | | | | | |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | | |
|----------------------------------|-----------|-----------------------------------|------------|-----------|-----------|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| Accounts receivable, net | | X | | | | |
| Retained earnings | | x | | | | |
| | | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CHANGES IN EQUITY

| (In Millions) | Share Capital | Retained Earnings | Reserves | Total |
|--------------------------|------------------|----------------------|----------|-------|
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inco | ome | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inco | ome | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| | E21 Replenished bad debts allowance | | | | | | | | | | | |
|---|-------------------------------------|--------|---|----|------------|----------------------------|-----|--------|--|--|--|--|
| L | | Assets | = | Ov | vners' Eq. | De | bit | Credit | | | | |
| L | - | Allbd | = | - | MSGA | Miscellaneous SG&A expense | \$6 | | | | | |
| L | - | + \$6 | = | - | + \$6 | Allowance for bad debts | | \$6 | | | | |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | COME | |
|----------------------------------|-----------|-----------|--|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Accounts receivable, net | | x | Other selling, general, and administrative | | x |
| Retained earnings | | x | (Reported negative number decreases.) | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | |
| Line Items | Increases | Decreases | | | |
| | | | | | |
| | | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | | |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5 | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |

| E2 | 1 Replen | ish | ed | bad debt | ts | allowance | | |
|----|----------|-----|----|------------|----|----------------------------|-------|--------|
| | Assets | = | Ov | vners' Eq. | Ī | | Debit | Credit |
| 1 | Allbd | = | - | MSGA | Ī | Miscellaneous SG&A expense | \$6 | |
| - | + \$6 | = | - | + \$6 | | Allowance for bad debts | | \$6 |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | СОМЕ | |
|----------------------------------|-----------|-----------|---|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Accounts receivable, net | | x | Other selling, general, and administrative (Reported negative number decreases.) | | x |
| Retained earnings | | x | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| | | | | Increases | |
| Profit (loss) | | x | | | |
| Profit (loss) | | × | | | |

Complete Solution: E21 Replenished doubtful receivables allowance

At the end of each interim reporting period during 2013, BGS estimated the outstanding receivables that would probably not be collected in the future and adjusted the bad debts allowance by the amount necessary to ensure its balance equalled this bad-debts estimate. There were a total of \$6 million of these adjustments during 2013.

Record the entry:

| E2 | 1 Replen | E21 Replenished bad debts allowance | | | | | | | | | | | | |
|----|----------|-------------------------------------|---|------------|--|----------------------------|-------|--------|--|--|--|--|--|--|
| | Assets | = | 0 | wners' Eq. | | | Debit | Credit | | | | | | |
| - | Allbd | = | - | MSGA | | Miscellaneous SG&A expense | \$6 | | | | | | | |
| - | + \$6 | = | - | + \$6 | | Allowance for bad debts | | \$6 | | | | | | |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | OME | |
|----------------------------------|-----------|-----------|---|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Accounts receivable, net | | x | Other selling, general, and administrative (Reported negative number decreases.) | | x |
| Retained earnings | | x | (| | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Profit (loss) | | x | Net profit | | x |
| | | | Accounts receivable (Reported negative number increases.) | X | |
| | | | (reported negative number Increases.) | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

| 00570 | | | 0101550 | | | |
|-------------|----------|--|---------|-------------|----------|-------------------------------------|
| SSETS | | | OWNERS | | Y | |
| Current | | s receivable | Perm | anent RE | Deteine | |
| AR | Account | | | RE SCap | Share ca | d earnings |
| | Allbd | Accounts receivable, gross Allowance for bad debts | | | | ermanent owners' equity |
| | Allprr | Allowance for product returns: revenue component | Noti | ncome | Other pe | ennalient owners' equity |
| с | | d cash equivalents | Neth | CGS | Contof | goods sold |
| Inven | Inventor | | | | | ation expense |
| Inven | FGI | Finished goods inventories | | G/L | Gain/los | |
| | Sidr | Segregated inventories: deferred revenue | | 0/2 | | Gain/Loss on PP&E disposals |
| | Siprc | Segregated inventories: product returns allowance cost component | | | | Other non-operating gains/losses |
| PrEx | | expenses | | IncS | | summary |
| OCA | | urrent assets | | MSGA | | neous SG&A expense |
| Non-current | | | | Rev | Revenue | es, net |
| PPE | Property | /, plant, and equipment, net | | | Grev | Gross revenue |
| | PPEhc | PP&E (historical cost) | | | PRCnR | Product returns contra revenue |
| | AcDep | Accumulated depreciation | | OSGA | Other So | G&A expense |
| ONCA | Other no | on-current assets | | 001 | Other op | perating income net of expenses |
| IABILITIES | | | | ONOI | Other no | on-operating income net of expenses |
| Current | | | | | | |
| AP | Account | s payable | | | | |
| AcrL | Accrued | liabilities | | | | |
| DivP | Dividend | d payable | | | | |
| Drev | Deferred | d revenue | | | | |
| OCL | Other cu | urrent liabilities | | | | |
| Non-current | | | | | | |
| LTD | Long-ter | rm debt | | | | |
| ONCL | Other no | on-current liabilities | | | | |

E22 Wrote off doubtful receivables

During 2013, BGS wrote off \$5 million of accounts receivable. BGS's policy is to write off receivables when they are 180 days past due.

Record the entry in the space below:



BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION

| December 31, 2013 and December 31, 2012 | | |
|--|-------|-------|
| (In Millions) | | |
| Assets | 2013 | 2012 |
| Current | | |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | 84 | 66 |
| Inventories | 158 | 109 |
| Prepaid expenses | 10 | 20 |
| Other current assets | 219 | 158 |
| Total current assets Non-current | 502 | 366 |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | \$740 |
| Liabilities and Stockholders' Equity Liabilities Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | \$740 |

| E22 Wrote off bad debts | | | | | | | | | | | | | |
|-------------------------|-------|------|-------|---|----------------------------|-------|--------|--|--|--|--|--|--|
| | As | sets | | = | | Debit | Credit | | | | | | |
| + | ARG | - | Allbd | = | Allowance for bad debts | \$5 | | | | | | | |
| + | - \$5 | - | - \$5 | = | Accounts receivable, gross | | \$5 | | | | | | |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | |
|----------------------------------|-----------|-----------|
| Line Items | Increases | Decreases |
| | | |
| | | |
| | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| | 2 013 505 253) | 2012 \$440 |
|--|-----------------------------|----------------------|
| Net revenues \$ | | • |
| | 253) | |
| Cost of goods sold (| | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative (| <u>117)</u> | (105) |
| Total (| 124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | 113 | \$100 |

| E2 | E22 Wrote off bad debts | | | | | | | | | | | | | |
|----|-------------------------|-------|-------|---|----------------------------|-------|--------|--|--|--|--|--|--|--|
| | A | ssets | | = | | Debit | Credit | | | | | | | |
| + | ARG | - | Allbd | = | Allowance for bad debts | \$5 | | | | | | | | |
| + | - \$5 | - | - \$5 | = | Accounts receivable, gross | | \$5 | | | | | | | |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | | |
|---|-----------|-----------------------------------|------------|-----------|-----------|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| Accounts receivable, net (Net zero effect. NONE is also acceptable.) | x | x | | | | |
| | | | | | | |
| | | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CHANGES IN EQUITY

| | Share | Retained | | |
|-------------------------|---------|----------|----------|-------|
| (In Millions) | Capital | Earnings | Reserves | Total |
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inc | ome | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inc | ome | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| E2 | E22 Wrote off bad debts | | | | | | | | | | | | | |
|----|-------------------------|------|-------|---|----------------------------|-------|--------|--|--|--|--|--|--|--|
| | As | sets | | П | | Debit | Credit | | | | | | | |
| + | ARG | - | Allbd | = | Allowance for bad debts | \$5 | | | | | | | | |
| + | - \$5 | - | - \$5 | = | Accounts receivable, gross | | \$5 | | | | | | | |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.
- (5) Check your answer on the next page.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | |
|---|-----------|-----------------------------------|------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Accounts receivable, net (Net zero effect. NONE is also acceptable.) | x | x | NONE | | |
| | | | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | |
| Line Items | Increases | Decreases | | | |
| | | | | | |
| | | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

......

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | | |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5 | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |
| | | |

| | E22 Wrote off bad debts | | | | | | | | | | | | | |
|---|-------------------------|-----|---|-------|---|----------------------------|-------|--------|--|--|--|--|--|--|
| | Assets | | | | = | | Debit | Credit | | | | | | |
| l | + | ARG | - | Allbd | = | Allowance for bad debts | \$5 | | | | | | | |
| | + - \$5 \$5 = | | | | = | Accounts receivable, gross | | \$5 | | | | | | |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | | |
|---|-----------|-----------------------------------|-------------------------|-----------|-----------|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| Accounts receivable, net (Net zero effect. NONE is also acceptable.) | x | x | NONE | | | |
| | | | | | | |
| | | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| | | | Elito Romo | Incleases | Decicases | |
| NONE | | | | | | |
| NONE | | | | | | |

Complete Solution: E22 Wrote off doubtful receivables

During 2013, BGS wrote off \$5 million of accounts receivable. BGS's policy is to write off receivables when they are 180 days past due.

Record the entry:

| Assets = | | | | | | Debit | Credit |
|-----------------|-------|---|-------|---|----------------------------|-------|--------|
| + ARG - Allbd = | | | | = | Allowance for bad debts | \$5 | |
| + | - \$5 | - | - \$5 | = | Accounts receivable, gross | | \$5 |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | СОМЕ | |
|---|-----------|-----------|--|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Accounts receivable, net (Net zero effect. NONE is also acceptable.) | x | x | NONE | | |
| STATEMENT OF CHANGES IN EQUITY Line Items | Increases | Decreases | STATEMENT OF CASH FLOWS Line Items | Increases | Decreases |
| NONE | | | Accounts receivable (Net zero effect. NONE is also acceptable.) | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

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| ASSETS | | | | U U | WNERS' | | | | | | |
|------------|--------|---------|--|-------|-----------|-------|-----------|-----------------------------|--|--|--|
| Curre | - | | | | Permanent | | | | | | |
| | AR | | is receivable | | | RE | | l earnings | | | |
| | | ARG | Accounts receivable, gross | | | SCap | Share ca | | | | |
| | | Allbd | Allowance for bad debts | | | | Other pe | rmanent owners' equity | | | |
| | | Allprr | Allowance for product returns: revenue component | | Net ir | ncome | | | | | |
| | С | | nd cash equivalents | | | CGS | | joods sold | | | |
| | Inven | Invento | | | | | | tion expense | | | |
| | | FGI | Finished goods inventories | | | G/L | Gain/los | | | | |
| | | Sldr | Segregated inventories: deferred revenue | | | | | Gain/Loss on PP&E dispo | | | |
| | | Slprc | Segregated inventories: product returns allowance cost compo | onent | | | | Other non-operating gains | | | |
| | PrEx | | expenses | | | IncS | Income s | | | | |
| | OCA | Other c | urrent assets | | | MSGA | Miscellar | neous SG&A expense | | | |
| Non-c | urrent | | | | | Rev | Revenue | es, net | | | |
| [| PPE | Propert | y, plant, and equipment, net | | | | Grev | Gross revenue | | | |
| | | PPEhc | PP&E (historical cost) | | | | PRCnR | Product returns contra rev | | | |
| | | AcDep | Accumulated depreciation | | | OSGA | Other SC | G&A expense | | | |
| | ONCA | Other n | on-current assets | | | 001 | Other op | erating income net of exper | | | |
| LIABILITIE | s | | | | | ONOI | Other no | n-operating income net of e | | | |
| Curre | nt | | | | | | | | | | |
| [| AP | Accoun | s payable | | | | | | | | |
| | AcrL | Accrue | liabilities | | | | | | | | |
| | DivP | Dividen | d payable | | | | | | | | |
| | Drev | Deferre | d revenue | | | | | | | | |
| | OCL | Other c | urrent liabilities | | | | | | | | |
| No. | urrent | | | | | | | | | | |

E23 Replenished product returns provision

At the end of each interim period during 2013, BGS estimated the products that would probably be returned in the future and adjusted the revenue and cost components of the allowance to ensure they would cover the expected returns' gross margins. The combined gross margin adjustments for the year were \$20 million of revenues less \$10 million of cost of sales.

Bischoff's accounting policy for product returns is to maintain separate accounts for two allowance components: the revenue component, which is a contra asset to accounts receivable and the cost of sales component, which is an adjunct to finished goods inventories. Neither sales commissions nor royalties are associated with Bischoff's product returns.

Record the entry in the space below:

BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION

| December 31, 2013 and December 31, 2012 | | |
|--|-------------|-------|
| (In Millions) Assets | 2013 | 2012 |
| Current | AA 4 | |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | 84 | 66 |
| Inventories | 158 | 109 |
| Prepaid expenses | 10 | 20 |
| Other current assets | 219 | 158 |
| Total current assets Non-current | 502 | 366 |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | \$740 |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | \$740 |
| | | |

| E23 Replenished product returns provision | | | | | | | | | | | |
|---|--------------------|------|------------|------|-----|----------------|------|-------------|----------|-------|--------|
| | As | sets | | П | | Owners | | | | | |
| - | Allprr | + | Slprc | Ш | I. | PRCnR | | | | | |
| - | + \$20 | + | + \$10 | = | I. | + \$20 | - | - \$10 | | | |
| | | | | | | | | | | Debit | Credit |
| | Segregat | ed i | nventories | : pr | odu | ict returns a | llow | ance cost c | omponent | \$10 | |
| | Product r | etur | ns contra | reve | enu | е | | | | \$20 | |
| | | Allo | owance fo | r pr | odu | ict returns: r | eve | nue compoi | nent | | \$20 |
| | Cost of goods sold | | | | | | | | | \$10 | |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | |
|----------------------------------|-----------|-----------|
| Line Items | Increases | Decreases |
| | | |
| | | |
| | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| For years ended December 31, 2012 and 2013 | | |
|--|-------|-------|
| (In Millions) | 2013 | 2012 |
| Net revenues | \$505 | \$440 |
| Cost of goods sold | (253) | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative | (117) | (105) |
| Total | (124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | \$113 | \$100 |

| E2 | E23 Replenished product returns provision | | | | | | | | | | | |
|----|---|-------|------------|------------------|-----|----------------|------|-------------|----------|------|--------|--|
| | As | sets | i i | = Owners' Equity | | | | | | | | |
| - | Allprr | + | Slprc | = | I. | PRCnR | - | CGS | | | | |
| - | + \$20 | + | + \$10 | ш | I. | + \$20 | - | - \$10 | | | | |
| | Debit | | | | | | | | | | Credit | |
| | Segregat | ed ii | nventories | : pr | odu | ict returns a | llow | ance cost c | omponent | \$10 | | |
| | Product r | etur | ns contra | reve | enu | е | | | | \$20 | | |
| | | Allo | owance fo | r pr | odu | ict returns: r | eve | nue compoi | nent | | \$20 | |
| | Cost of goods sold \$ | | | | | | | | | \$10 | | |
| _ | | | | | | | | | | | | |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INCOME | | | |
|----------------------------------|-----------|-----------|-----------------------------------|-----------|-----------|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| Accounts receivable, net | | x | | | | |
| Inventories | X | | | | | |
| Retained earnings | | X | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CHANGES IN EQUITY

| (In Millions) | Share Capital | Retained Earnings | Reserves | Total |
|--------------------------|------------------|----------------------|----------|-------|
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inco | me | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inco | me | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| E2 | 3 Repler | nisł | ned prod | uct | re | turns prov | /isi | on | | | |
|--|--------------------|-------|------------|-------|-----|---------------|------|-------------|----------|------|--------|
| | As | sets | | = | | Owners | | | | | |
| - | Allprr | + | Slprc | = | - | PRCnR | - | CGS | | | |
| - | + \$20 | + | + \$10 | = | I. | + \$20 | - | - \$10 | | | |
| Debit C | | | | | | | | | | | Credit |
| | Segregate | ed iı | nventories | s: pr | odu | ict returns a | llow | ance cost c | omponent | \$10 | |
| | Product r | etur | ns contra | rev | enu | е | | | | \$20 | |
| Allowance for product returns: revenue component | | | | | | | | | | | \$20 |
| | Cost of goods sold | | | | | | | | | | |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | СОМЕ | |
|----------------------------------|-----------|-----------|---------------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Accounts receivable, net | | x | Net revenues | | x |
| Inventories | x | | Cost of goods sold | x | |
| Retained earnings | | x | (Reported negative number increases.) | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | |
| Line Items | Increases | Decreases | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | | |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5 | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |

| | E2: | 3 Repler | nisł | ned prod | uct | re | turns prov | /isi | on | | | |
|----|--|-----------|-------|------------|------|-----|----------------|------|-------------|-----------|------|--------|
| I | Assets = | | | | | | Owners' Equity | | | | | |
| | - Allprr + Slprc = - PRCnR - CGS | | | | | | | | | | | |
| | - | + \$20 | + | + \$10 | = | - | + \$20 | - | - \$10 | | | |
| ۱ſ | De | | | | | | | | | | | Credit |
| | | Segregat | ed iı | nventories | : pr | odu | ict returns a | llow | ance cost o | component | \$10 | |
| | | Product r | etur | ns contra | reve | enu | е | | | | \$20 | |
| | Allowance for product returns: revenue component | | | | | | | | | | | \$20 |
| | Cost of goods sold | | | | | | | | | | | \$10 |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | OME | |
|----------------------------------|-----------|-----------|---------------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Accounts receivable, net | | x | Net revenues | | x |
| Inventories | х | | Cost of goods sold | х | |
| Retained earnings | | X | (Reported negative number increases.) | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Profit (loss) | | x | | | |
| | | | | | |
| | | | | | |
| | | | | | |

Complete Solution: E23 Replenished product returns provision

At the end of each interim period during 2013, BGS estimated the products that would probably be returned in the future and adjusted the revenue and cost components of the allowance to ensure they would cover the expected returns' gross margins. The combined gross margin adjustments for the year were \$20 million of revenues less \$10 million of cost of sales. Record the entry:

| | As | sets | | = | | Owners' Equity | | | | | |
|-------|-----------|-------|-----------|-------|-----|----------------|------|-------------|-----------|---------------|---------------|
| - | Allprr | + | Slprc | = | - | PRCnR | - | CGS | | | |
| - | + \$20 | + | + \$10 | = | - | + \$20 | - | - \$10 | | | |
| Debit | | | | | | | | | | | |
| | | | | | | | | | | Debit | Credi |
| | Segregate | ed ir | ventories | s: pr | odu | ict returns a | llow | ance cost c | component | Debit \$10 | Credi |
| | Segregat | | | | | | llow | ance cost c | component | | Credi |
| | 0 0 | eturi | ns contra | reve | enu | | | | · | \$10 | Credi \$20 |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | COME | |
|--|-----------|-----------|---------------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Accounts receivable, net | | х | Net revenues | | х |
| Inventories | x | | Cost of goods sold | x | |
| Retained earnings | | x | (Reported negative number increases.) | | |
| STATEMENT OF CHANGES IN EQUITY Line Items | Increases | Decreases | STATEMENT OF CASH FLOWS | Increases | Decreases |
| Line items | Increases | Decleases | Line items | Increases | Decleases |
| Profit (loss) | | x | Net profit | | x |
| | | | Accounts receivable | x | |
| | | | Inventories | | x |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

| SSETS | | | | OWNERS | EQUIT | Y | |
|------------|--------|----------|--|--------|--------|-----------|------------------------------------|
| Curren | t | | | | nanent | | |
| A | ٨R | Account | s receivable | | RE | Retained | d earnings |
| | | ARG | Accounts receivable, gross | | SCap | Share ca | apital |
| | | Allbd | Allowance for bad debts | | OPOE | Other pe | ermanent owners' equity |
| | | Allprr | Allowance for product returns: revenue component | Net | ncome | | |
| C | ; | Cash an | id cash equivalents | | CGS | Cost of g | goods sold |
| Ir | nven | Inventor | ies | | DepEx | Deprecia | ation expense |
| | | FGI | Finished goods inventories | | G/L | Gain/los | s |
| | | Sldr | Segregated inventories: deferred revenue | | | PPEGL | Gain/Loss on PP&E disposals |
| | | Siprc | Segregated inventories: product returns allowance cost component | | | ONOGL | Other non-operating gains/losse |
| P | PrEx | Prepaid | expenses | | IncS | Income | summary |
| c | DCA | Other cu | urrent assets | | MSGA | Miscella | neous SG&A expense |
| Non-cu | irrent | | | | Rev | Revenue | es, net |
| P | PE | Property | /, plant, and equipment, net | | | Grev | Gross revenue |
| | | PPEhc | PP&E (historical cost) | | | PRCnR | Product returns contra revenue |
| | | | Accumulated depreciation | | OSGA | Other So | G&A expense |
| C | ONCA | Other no | on-current assets | | 001 | Other op | perating income net of expenses |
| IABILITIES | 6 | | | | ONOI | Other no | on-operating income net of expense |
| Curren | t | | | | | | |
| A | ٩P | Account | s payable | | | | |
| A | AcrL | Accrued | liabilities | | | | |
| D | DivP | Dividend | d payable | | | | |
| D | Drev | Deferred | d revenue | | | | |
| C | CL | Other cu | urrent liabilities | | | | |
| Non-cu | irrent | | | | | | |
| L | TD | Long-ter | rm debt | | | | |
| 0 | DNCI | Other no | on-current liabilities | | | | |

E24 Products were returned by customers

During 2013, BGS's customers returned products with \$18 million of previously recognized revenues and \$9 million of previously recognized cost of sales. Customers had not yet paid for the returned products. The cost to acquire or produce these products had not changed since they were sold. (See E23 for discussion of Bischoff's accounting policy for product returns.)

Record the entry in the space below:



BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION

| December 31, 2013 and December 31, 2012 | | |
|--|------------------|-------------|
| (In Millions) | | |
| Assets Current | 2013 | 2012 |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | 931 84 | 66 |
| Inventories | 158 | 109 |
| Prepaid expenses | 10 | 20 |
| Other current assets | 219 | 158 |
| | | |
| Total current assets Non-current | 502 | 366 |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 175 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | \$74 |
| 10(0) 035615 | \$ 525 | \$740 |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | 100 | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | \$740 |
| | <u> </u> | |

| E2 | 4 Produc | ts v | vere retur | ned | by custo | mei | s | | | | |
|---|------------|-------|--------------|------|--------------|-------|-----------|------|-------|-----|--|
| | | | As | sets | | | | = | | | |
| + | ARG | - | Allprr | + | FGI | + | Slprc | = | | | |
| + | - \$18 | - | - \$18 | + | + \$9 | + | - \$9 | = | | | |
| Allowance for product returns: revenue component \$18 Finished goods inventories \$9 | | | | | | | | | | | |
| Accounts receivable, gross | | | | | | | | | | | |
| | Segregated | d inv | entories: pr | odu | ct returns a | llowa | ance cost | comp | onent | \$9 | |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | |
|----------------------------------|-----------|-----------|
| Line Items | Increases | Decreases |
| | | |
| | | |
| | | |

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BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| For years ended December 31, 2012 and 2013 | | |
|--|-------|-------|
| (In Millions) | 2013 | 2012 |
| Net revenues | \$505 | \$440 |
| Cost of goods sold | (253) | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative | (117) | (105) |
| Total | (124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | \$113 | \$100 |

| | | | As | sets | | | | = | | |
|------|---------------------------|------|-------------|--------|-------------|--------|-----------|------|---------------|--------|
| + | ARG | - | Allprr | + | FGI | + | Slprc | = | | |
| + | - \$18 | - | - \$18 | + | + \$9 | + | - \$9 | = | | |
| Allo | owance for | prod | uct returns | s: rev | enue com | pone | nt | | Debit \$18 | Credit |
| | ished good Accounts re | | | s | | | | | \$9 | \$18 |
| | Segregated | | | | t returns a | allowa | ance cost | comp | onent | \$9 |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | | |
|---|-----------|-----------------------------------|------------|-----------|-----------|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| Accounts receivable, net (Net zero effect. NONE is also acceptable.) Inventories (Net zero effect. NONE is also acceptable.) | x | x x | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CHANGES IN EQUITY

| | Share | Retained | | |
|-------------------------|---------|----------|----------|-------|
| (In Millions) | Capital | Earnings | Reserves | Total |
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inc | ome | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inc | ome | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| E | 2 | 4 Produc | ts v | vere retur | ned | l by custo | me | rs | | _ | |
|---|---|--------------------------|------|-------------------------------|------|--------------|------|-------------|-----|----------------------|-------------|
| | | | | Ass | sets | | | | = | | |
| + | | ARG | - | Allprr | + | FGI | + | Slprc | = | | |
| + | | - \$18 | - | - \$18 | + | + \$9 | + | - \$9 | = | | |
| | | owance for ished good | · | duct returns ventories | : re | venue com | oone | ent | | Debit \$18 \$9 | Credit |
| | ł | Accounts re | ecei | vable, gross ventories: pr | | ct returns a | llow | ance cost o | com | ponent | \$18 \$9 |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | COME | |
|---|-----------|-----------|-------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Accounts receivable, net (Net zero effect. NONE is also acceptable.) Inventories (Net zero effect. NONE is also acceptable.) | x | x | NONE | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | |
| Line Items | Increases | Decreases | | | |
| | | | | | |
| | | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | | _ |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5 | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |

| | | | As | sets | | | | = | |
|------|--------------------------|-------|--------------|-------|-----------|------|-------|---|---------------|
| | ARG | - | Allprr | + | FGI | + | Slprc | = | |
| • | - \$18 | - | - \$18 | + | + \$9 | + | - \$9 | = | |
| | | | | | | | | | |
| Allo | owance for | pro | duct returns | s: re | venue com | pone | ent | | Debit \$18 |
| | owance for ished good | • | | s: re | venue com | pone | ent | | |
| Fin | ished good | ds in | | | venue com | pone | ent | | \$18 |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| Accounts receivable, net X X NONE (Net zero effect. NONE is also acceptable.) X X Immediate in the second | STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | COME | |
|--|--|-----------|-----------|-------------------------------|-----------|-----------|
| (Net zero effect. NONE is also acceptable.) Inventories Inventories Inventories Inventories Inventories (Net zero effect. NONE is also acceptable.) Inventories Inventories STATEMENT OF CHANGES IN EQUITY STATEMENT OF CASH FLOWS Line Items Increases Decreases | Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Line Items Increases Decreases Line Items Increases Decreases | (Net zero effect. NONE is also acceptable.) Inventories | | | NONE | | |
| | | | | | | |
| NONE | STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| | | Increases | Decreases | | Increases | Decreases |
| | Line Items | Increases | Decreases | | Increases | Decreases |
| | Line Items | Increases | Decreases | | | |

Complete Solution: E24 Products were returned by customers

During 2013, BGS's customers returned products with \$18 million of previously recognized revenues and \$9 million of previously recognized cost of sales. Customers had not yet paid for the returned products. The cost to acquire or produce these products had not changed since they were sold. (See E23 for discussion of Bischoff's accounting policy for product returns.) Record the entry:

| | | | As | sets | | | | = | | |
|------|------------|--------|-------------|--------|----------|------|-------|---|---------------|------|
| + | ARG | - | Allprr | + | FGI | + | Slprc | = | | |
| + | - \$18 | - | - \$18 | + | + \$9 | + | - \$9 | = | | |
| Allo | wance for | prod | uct return: | s: rev | enue com | pone | nt | | Debit \$18 | Cred |
| | ished good | ds inv | rentories | | | | | | \$9 | |
| Fin | | | | | | | | | | \$1 |
| | Accounts r | eceiv | able, gros | s | | | | | | φı |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | СОМЕ | |
|---|-----------|-----------|--|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Accounts receivable, net (Net zero effect. NONE is also acceptable.) Inventories (Net zero effect. NONE is also acceptable.) | x x | x x | NONE | | |
| STATEMENT OF CHANGES IN EQUITY Line Items | Increases | Decreases | STATEMENT OF CASH FLOWS Line Items | Increases | Decreases |
| NONE | | | Accounts receivable (Net zero effect. NONE is also acceptable.) Inventories (Net zero effect. NONE is also acceptable.) | x x | x |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

Cost of Sales and Inventory Entries and Financial-Statement Effects

Related entries:

In addition to the entries in this section, you may want to review the following entries related to this chapter that were covered earlier in this workbook:

Purchased merchandise on account for resale E4 page 23 Recognize product cost when goods were delivered E6b page 41 E19b Deferred cost of goods sold when goods were delivered page 126 E20b Recognized previously deferred cost of goods sold page 138 Replenish product returns provision page 156 E23 Products were returned by customers page 162 E24

| SETS | | | | OW | NERS' E | QUITY | | |
|--|---------|-----------|---|---------------|---------|----------|----------|---------------------------------------|
| Curre | nt | | | | Perm | anent | | |
| [| AR | Account | s receivable | | | RE | Retaine | d earnings |
| ľ | | ARG | Accounts receivable, gross | | | SCap | Share ca | apital |
| Ī | | Allbd | Allowance for bad debts | | | OPOE | Other pe | ermanent owners' equity |
| | | Allprr | Allowance for product returns: revenue component | | Net i | ncome | | |
| | С | Cash ar | d cash equivalents | | | CGS | Cost of | goods sold |
| | Inven | Inventor | es | | | DepEx | Deprecia | ation expense |
| | | Minv | Materials inventories | | | G/L | Gain/los | S |
| | | WIP | Work in process | | | | PPEGL | Gain/Loss on PP&E disposal |
| | | FGI | Finished goods inventories | | | | ONOGL | Other non-operating gains/los |
| Ī | | Sldr | Segregated inventories: deferred revenue | | | IncS | Income | summary |
| | | Siprc | Segregated inventories: product returns allowance c | ost component | | MSGA | Miscella | ineous SG&A expense |
| | PrEx | Prepaid | expenses | | | Rev | Revenue | es, net |
| Ī | OCA | Other cu | rrent assets | | | | Grev | Gross revenue |
| Non-c | urrent | | | | | | PRCnR | Product returns contra revenu |
| Ĩ | PPE | Property | , plant, and equipment, net | | | OSGA | Other S | G&A expense |
| ľ | | PPEhc | PP&E (historical cost) | | | 001 | Other op | perating income net of expense |
| ľ | | AcDep | Accumulated depreciation | | | ONOI | Other no | on-operating income net of exp |
| - | ONCA | Other no | on-current assets | | | <u> </u> | | · · · · · · · · · · · · · · · · · · · |
| BILITIES | | | | | | | | |
| Curre | | | | | | | | |
| | AP | Account | s payable | | | | | |
| | AcrL | | liabilities | | | | | |
| | DivP | | l payable | | | | | |
| | Drev | | | | | | | |
| | OCL | | rrent liabilities | | | | | |
| | urrent | 01.101 01 | | | | | | |
| | LTD | Long-ter | m debt | | | | | |
| L. L | | | n-current liabilities | | | | | |

BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

E25 Purchased materials on account

During 2013, BGS purchased \$83 million of materials and parts on account from suppliers and was invoiced upon delivery. It planned to use these items to produce products to sell to customers.

Record the entry in the space below:



BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION

| December 31, 2013 and December 31, 2012 | | |
|--|-------|----------|
| (In Millions) Assets | 2013 | 2012 |
| Current | | |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | 84 | 66 |
| Inventories | 158 | 109 |
| Prepaid expenses | 10 | 20 |
| Other current assets | 219 | 158 |
| Total current assets | 502 | 366 |
| Non-current | | |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | \$740 |
| | | |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | \$740 |
| | | <u> </u> |

| l | E25 Purchased materials on account | | | | | | | | | | | | | |
|---|------------------------------------|--------|---|---|------------|--|-----------------------|-------|--------|--|--|--|--|--|
| | | Assets | = | L | iabilities | | | Debit | Credit | | | | | |
| | + | Minv | = | + | AP | | Materials inventories | \$83 | | | | | | |
| | + | + \$83 | = | + | + \$83 | | Accounts payable | | \$83 | | | | | |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | |
|----------------------------------|-----------|-----------|
| Line Items | Increases | Decreases |
| | | |
| | | |
| | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| For years ended December 31, 2012 and 2013 | | |
|--|-------|-------|
| (In Millions) | 2013 | 2012 |
| Net revenues | \$505 | \$440 |
| Cost of goods sold | (253) | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative | (117) | (105) |
| Total | (124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | \$113 | \$100 |

| E | E25 Purchased materials on account | | | | | | | | | | | | | | |
|---|------------------------------------|---|---|------------|-----------------------|-------|--------|--|--|--|--|--|--|--|--|
| | Assets | = | L | iabilities | | Debit | Credit | | | | | | | | |
| + | Minv | = | + | AP | Materials inventories | \$83 | | | | | | | | | |
| + | + \$83 | = | + | + \$83 | Accounts payable | | \$83 | | | | | | | | |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | | |
|----------------------------------|-----------|-----------------------------------|------------|-----------|-----------|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| Inventories | X | | | | | |
| Accounts payable | X | | | | | |
| | | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CHANGES IN EQUITY

| | Share | Retained | | |
|-------------------------|---------|----------|----------|-------|
| (In Millions) | Capital | Earnings | Reserves | Total |
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inc | ome | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inc | ome | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| E25 Purchased materials on account | | | | | | | | | | | | |
|------------------------------------|--------|---|---|------------|--|-----------------------|-------|--------|--|--|--|--|
| | Assets | = | L | iabilities | | | Debit | Credit | | | | |
| + | Minv | Ш | + | AP | | Materials inventories | \$83 | | | | | |
| + | + \$83 | = | + | + \$83 | | Accounts payable | | \$83 | | | | |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | СОМЕ | |
|----------------------------------|-----------|-----------|-------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Inventories | x | | NONE | | |
| Accounts payable | x | | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | |
| Line Items | Increases | Decreases | | | |
| | | | | | |
| | | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | | |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5 | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |

| E2 | | | | | | | |
|-----------|--------|---|---|------------|-----------------------|-------|--------|
| | Assets | = | L | iabilities | | Debit | Credit |
| + | Minv | = | + | AP | Materials inventories | \$83 | |
| + | + \$83 | = | + | + \$83 | Accounts payable | | \$83 |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | | |
|----------------------------------|-----------|-----------------------------------|-------------------------|-----------|-----------|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| Inventories | x | | NONE | | | |
| Accounts payable | x | | | | | |
| | | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| NONE | | | | | | |
| | | | | | | |
| | | | | | | |

Complete Solution: E25 Purchased materials on account

During 2013, BGS purchased \$83 million of materials and parts on account from suppliers and was invoiced upon delivery. It planned to use these items to produce products to sell to customers.

| E25 Purchased materials on account | | | | | | | | | | | |
|------------------------------------|--------|---------------|---|--------|--|-----------------------|-------|--------|--|--|--|
| Assets | | = Liabilities | | | | | Debit | Credit | | | |
| + | Minv | = | + | AP | | Materials inventories | \$83 | | | | |
| + | + \$83 | = | + | + \$83 | | Accounts payable | | \$83 | | | |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | COME | |
|----------------------------------|-----------|-----------|--|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Inventories | x | | NONE | | |
| Accounts payable | x | | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| NONE | | | Inventories (Reported negative number decreases.) | | X |
| | | | Accounts payable (Reported negative number increases.) | x | |
| <u></u> | | | (reported regulate number increases.) | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

| SETS | | | | OW | NERS' E | QUITY | | | |
|-----------|--------|----------|--|----------|---------|-------|-----------|---------------------------|--------------|
| Curre | nt | | | | Perm | anent | | | |
| | AR | Account | s receivable | | | RE | Retained | d earnings | |
| | | ARG | Accounts receivable, gross | | | SCap | Share ca | apital | |
| | | Allbd | Allowance for bad debts | | | OPOE | Other pe | ermanent owners' equity | |
| | | Allprr | Allowance for product returns: revenue component | | Net i | ncome | | | |
| | С | Cash an | d cash equivalents | | | CGS | Cost of g | goods sold | |
| | Inven | Inventor | es | | | DepEx | Deprecia | ation expense | |
| | | Minv | Materials inventories | | | G/L | Gain/los | s | |
| | | WIP | Work in process | | | | PPEGL | Gain/Loss on PP&E dis | sposals |
| | | FGI | Finished goods inventories | | | | ONOGL | Other non-operating ga | ains/losse |
| | | Sldr | Segregated inventories: deferred revenue | | | IncS | Income | summary | |
| | | Siprc | Segregated inventories: product returns allowance cost c | omponent | | MSGA | Miscella | neous SG&A expense | |
| Ī | PrEx | Prepaid | expenses | | | Rev | Revenue | es, net | |
| Ī | OCA | Other cu | rrent assets | | | | Grev | Gross revenue | |
| Non-c | urrent | | | | | | PRCnR | Product returns contra | revenue |
| Ĩ | PPE | Property | , plant, and equipment, net | | | OSGA | Other So | G&A expense | |
| ľ | | PPEhc | PP&E (historical cost) | | | 001 | Other op | perating income net of ex | penses |
| Ī | | AcDep | Accumulated depreciation | | | ONOI | Other no | on-operating income net | of expension |
| | ONCA | | on-current assets | | | | | | |
| ABILITIES | | | | | | | | | |
| Curre | - | | | | | | | | |
| | AP | Account | | | | | | | |
| - | AcrL | | liabilities | | | | | | |
| | DivP | | l payable | | | | | | |
| | Drev | | revenue | | | | | | |
| | OCL | Other cu | rrent liabilities | | | | | | |
| Non-c | urrent | | | | | | | | |
| | LTD | Long-ter | m debt | | | | | | |
| 1 | ONCL | Other no | on-current liabilities | | | | | | |

BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

E26 Used materials previously purchased

During 2013, BGS used \$80 million of previously purchased materials and parts while producing products to sell to customers.

Record the entry in the space below:



BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION

| December 31, 2013 and December 31, 2012 | | |
|--|-------------------|-------|
| (In Millions) | | |
| Assets | 2013 | 2012 |
| Current | ¢04 | 640 |
| Cash and cash equivalents | \$31 84 | \$13 |
| Accounts receivable, net | • · | 66 |
| Inventories | 158 | 109 |
| Prepaid expenses | 10 | 20 |
| Other current assets | 219 | 158 |
| Total current assets Non-current | 502 | 366 |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | \$740 |
| | | |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | \$740 |
| | | |

| E | E26 Used materials previously purchased | | | | | | | | | | | |
|---|---|------|--------|---|-----------------------|-------|--------|--|--|--|--|--|
| | As | sets | | = | | Debit | Credit | | | | | |
| + | Minv | + | WIP | = | Work in process | \$80 | | | | | | |
| + | - \$80 | + | + \$80 | = | Materials inventories | | \$80 | | | | | |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | |
|----------------------------------|-----------|-----------|
| Line Items | Increases | Decreases |
| | | |
| | | |
| | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| For years ended December 31, 2012 and 2013 | | |
|--|-------|-------|
| (In Millions) | 2013 | 2012 |
| Net revenues | \$505 | \$440 |
| Cost of goods sold | (253) | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative | (117) | (105) |
| Total | (124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | \$113 | \$100 |

| E2 | E26 Used materials previously purchased | | | | | | | | | | | |
|-----------|---|---|--------|---|-----------------------|-------|--------|--|--|--|--|--|
| Assets | | | | = | | Debit | Credit | | | | | |
| + | Minv | + | WIP | = | Work in process | \$80 | | | | | | |
| + | - \$80 | + | + \$80 | = | Materials inventories | | \$80 | | | | | |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | | |
|--|-----------|-----------------------------------|------------|-----------|-----------|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| Inventories (Net zero effect. NONE is also acceptable.) | x | | | | | |

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| BISCHOFF GLOBAL SPORTSWEAR | |
|--------------------------------|--|
| STATEMENT OF CHANGES IN EQUITY | |

| | Share | Retained | | |
|--------------------------|---------|----------|----------|-------|
| (In Millions) | Capital | Earnings | Reserves | Total |
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inco | ome | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inco | ome | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| E2 | E26 Used materials previously purchased | | | | | | | | | | | |
|-----------|---|------|--------|---|-----------------------|-------|--------|--|--|--|--|--|
| | Ass | sets | | = | | Debit | Credit | | | | | |
| + | Minv | + | WIP | = | Work in process | \$80 | | | | | | |
| + | - \$80 | + | + \$80 | = | Materials inventories | | \$80 | | | | | |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | |
|--|-----------|-----------------------------------|------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Inventories (Net zero effect. NONE is also acceptable.) | x | x | NONE | | |
| | | | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | |
| Line Items | Increases | Decreases | | | |
| | | | | | |
| | | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | | |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5 | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |
| | | |

| E | E26 Used materials previously purchased | | | | | | | | |
|---|---|------|--------|---|-----------------------|-------|--------|--|--|
| | As | sets | | = | | Debit | Credit | | |
| + | Minv | + | WIP | = | Work in process | \$80 | | | |
| + | - \$80 | + | + \$80 | = | Materials inventories | | \$80 | | |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | |
|--|-----------|-----------------------------------|---------------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Inventories (Net zero effect. NONE is also acceptable.) | × | | NONE | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY Line Items | Increases | Decreases | STATEMENT OF CASH FLOWS Line Items | Increases | Decreases |
| NONE | | | | | |
| | | | | | |
| | | | | | |

Complete Solution: E26 Used materials previously purchased During 2013, BGS used \$80 million of previously purchased materials and parts while producing products to sell to customers.

| E26 Used materials previously purchased | | | | | | | | | |
|---|--------|------|--------|---|-----------------------|-------|--------|--|--|
| | As | sets | | = | | Debit | Credit | | |
| + | Minv | + | WIP | = | Work in process | \$80 | | | |
| + | - \$80 | + | + \$80 | = | Materials inventories | | \$80 | | |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | |
|--|-----------|-----------------------------------|--|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Inventories (Net zero effect. NONE is also acceptable.) | x | x | NONE | | |
| | | | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| NONE | | | Inventories (Net zero effect. NONE is also acceptable.) | X | x |
| | | | | | |
| | | | | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

| ETS | | | | OWN | ERS' E | | | | |
|---------|---|----------|--|-----------|--------|--------|-----------|----------------------------|---------|
| Current | | | | | Pern | nanent | | | |
| A | R | Account | ts receivable | | | RE | Retained | d earnings | |
| _ | | ARG | Accounts receivable, gross | | | SCap | Share ca | apital | |
| | Allbd Allowance for bad debts | | | | | OPOE | Other pe | ermanent owners' equity | |
| | Allprr Allowance for product returns: revenue component | | | | Net i | income | | | |
| С | | Cash ar | nd cash equivalents | | | CGS | Cost of g | goods sold | |
| In | ven | Invento | ries | | | DepEx | Deprecia | ation expense | |
| | | Minv | Materials inventories | | | G/L | Gain/los | S | |
| | | WIP | Work in process | | | | PPEGL | Gain/Loss on PP&E dis | posal |
| | | FGI | Finished goods inventories | | | | ONOGL | Other non-operating ga | ins/los |
| | | Sldr | Segregated inventories: deferred revenue | | | IncS | Income | summary | |
| | | Siprc | Segregated inventories: product returns allowance cost | component | | MSGA | Miscella | neous SG&A expense | |
| Pr | rEx | Prepaid | expenses | | | Rev | Revenue | es, net | |
| 0 | CA | Other c | urrent assets | | | | Grev | Gross revenue | |
| Non-cur | rrent | | | | | | PRCnR | Product returns contra r | reven |
| PI | PE | Propert | y, plant, and equipment, net | | | OSGA | Other So | G&A expense | |
| | | PPEhc | PP&E (historical cost) | | | 001 | Other op | perating income net of exp | pense |
| | | AcDep | Accumulated depreciation | | | ONOI | Other no | on-operating income net o | of exp |
| 0 | NCA | Other n | on-current assets | | | | | | |
| | | | | | | | | | |
| Current | | | | | | | | | |
| A | P | Account | ts payable | | | | | | |
| A | crL | Accrue | liabilities | | | | | | |
| Di | ivP | Dividen | d payable | | | | | | |
| D | rev | Deferre | d revenue | | | | | | |
| 0 | CL | Other c | urrent liabilities | | | | | | |
| Non-cur | rrent | | | | | | | | |
| L1 | TD | Long-te | rm debt | | | | | | |
| 0 | NCI | <u> </u> | on-current liabilities | | | | | | |

BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

E27 Used production inputs before invoiced

At the end of interim periods during 2013, BGS identified a total of \$2 million of costs for production-related services performed during the periods for which BGS had not yet received invoices by the end of the periods. For example, BGS reconized janitorial costs for services rendered but not yet invoiced by its janitorial service.

Record the entry in the space below:



| December 31, 2013 and December 31, 2012 | | |
|--|-------|-------|
| (In Millions) Assets Current | 2013 | 2012 |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | 84 | 66 |
| Inventories | 158 | 109 |
| | 10 | 20 |
| Prepaid expenses Other current assets | 219 | 158 |
| | | |
| Total current assets Non-current | 502 | 366 |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | \$740 |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | \$740 |
| | | |

| l | E27 Used production inputs before invoiced | | | | | | | | | | |
|---|--|-------|---|---|-------|--------|---------------------|-----|-----|--|--|
| | Assets = Liabilities | | | | Debit | Credit | | | | | |
| | + | WIP | = | + | AcrL | | Work in process | \$2 | | | |
| | + | + \$2 | = | + | + \$2 | | Accrued liabilities | | \$2 | | |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | |
|----------------------------------|-----------|-----------|
| Line Items | Increases | Decreases |
| | | |
| | | |
| | | |
| | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| For years ended December 31, 2012 and 2013 | | |
|--|-------|-------|
| (In Millions) | 2013 | 2012 |
| Net revenues | \$505 | \$440 |
| Cost of goods sold | (253) | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative | (117) | (105) |
| Total | (124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | \$113 | \$100 |

| | E27 Used production inputs before invoiced | | | | | | | | | | |
|---|--|--------|---|-------------|-------|--|---------------------|-------|--------|--|--|
| I | | Assets | = | Liabilities | | | | Debit | Credit | | |
| | + | WIP | = | + | AcrL | | Work in process | \$2 | | | |
| | + | + \$2 | = | + | + \$2 | | Accrued liabilities | | \$2 | | |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | OME | |
|----------------------------------|-----------|-----------|--------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Inventories | x | | | | |
| Accrued liabilities | X | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CHANGES IN EQUITY

| | Share | Retained | | |
|-------------------------|---------|----------|----------|-------|
| (In Millions) | Capital | Earnings | Reserves | Total |
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inc | ome | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inc | ome | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| E27 Used production inputs before invoiced | | | | | | | | | |
|--|--------|---|---|-------------|--|---------------------|-------|--------|--|
| | Assets | П | L | Liabilities | | | Debit | Credit | |
| + | WIP | = | + | AcrL | | Work in process | \$2 | | |
| + | + \$2 | = | + | + \$2 | | Accrued liabilities | | \$2 | |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | COME | |
|----------------------------------|-----------|-----------|-------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Inventories | x | | NONE | | |
| Accrued liabilities | x | | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | |
| Line Items | Increases | Decreases | | | |
| | | | | | |
| | | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | | |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5 | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |

| E2 | 7 Used p | roc | luc | tion inpu | before invoiced | | | |
|-----------|----------|-----|---------------|-----------|-----------------|---------------------|-------|--------|
| | Assets | | = Liabilities | | | | Debit | Credit |
| + | WIP | = | + | AcrL | | Work in process | \$2 | |
| + | + \$2 | = | + | + \$2 | | Accrued liabilities | | \$2 |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | COME | |
|----------------------------------|-----------|-----------|--------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Inventories | x | | NONE | | |
| Accrued liabilities | x | | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| NONE | | | | | |
| | | | | | |
| | | | | | |

Complete Solution: E27 Used production inputs before invoiced

At the end of interim periods during 2013, BGS identified a total of \$2 million of costs for production-related services performed during the periods for which BGS had not yet received invoices by the end of the periods. For example, BGS reconized production-related janitorial costs for services rendered but not yet invoiced by its janitorial service.

| E2 | E27 Used production inputs before invoiced | | | | | | | | | | |
|-----------|--|---|---|------------|--|---------------------|-------|--------|--|--|--|
| | Assets | = | L | iabilities | | | Debit | Credit | | | |
| + | WIP | = | + | AcrL | | Work in process | \$2 | | | | |
| + | + \$2 | = | + | + \$2 | | Accrued liabilities | | \$2 | | | |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | COME | |
|----------------------------------|-----------|-----------|---|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Inventories | x | | NONE | | |
| Accrued liabilities | x | | | | |
| · | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| NONE | | | Inventories (Reported negative number decreases.) | | X |
| | | | Accrued liabilities (Reported negative number increases.) | x | |
| | | | (reported negative number increases.) | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

| ETS | | | | OWN | ERS' E | QUITY | |
|----------|--------|----------|--|----------|--------|-------|---------------------------------------|
| Curren | t | | | | Perm | anent | |
| A | ٨R | Account | ts receivable | | | RE | Retained earnings |
| | | ARG | Accounts receivable, gross | | | SCap | Share capital |
| | | Allbd | Allowance for bad debts | | | OPOE | Other permanent owners' equity |
| | | Allprr | Allowance for product returns: revenue component | | Net i | ncome | |
| c | : | Cash ar | nd cash equivalents | | | CGS | Cost of goods sold |
| Ir | nven | Inventor | ries | | | DepEx | Depreciation expense |
| | | Minv | Materials inventories | | | G/L | Gain/loss |
| | | WIP | Work in process | | | | PPEGL Gain/Loss on PP&E disposal |
| | | FGI | Finished goods inventories | | | | ONOGL Other non-operating gains/lo |
| | | Sldr | Segregated inventories: deferred revenue | | | IncS | Income summary |
| | | Slprc | Segregated inventories: product returns allowance cost c | omponent | | MSGA | Miscellaneous SG&A expense |
| P | PrEx | Prepaid | expenses | | | Rev | Revenues, net |
| C | CA | Other cu | urrent assets | | | | Grev Gross revenue |
| Non-cu | irrent | | | | | | PRCnR Product returns contra reven |
| Р | PE | Property | y, plant, and equipment, net | | | OSGA | Other SG&A expense |
| | | PPEhc | PP&E (historical cost) | | | 001 | Other operating income net of expense |
| | | AcDep | Accumulated depreciation | | | ONOI | Other non-operating income net of exp |
| C | ONCA | Other n | on-current assets | | | | |
| BILITIES | | | | | | | |
| Current | t | | | | | | |
| | AP. | Account | ts payable | | | | |
| A | AcrL | Accrueo | liabilities | | | | |
| D | DivP | Dividen | d payable | | | | |
| D | Drev | Deferre | d revenue | | | | |
| C | DCL | Other cu | urrent liabilities | | | | |
| Non-cu | irrent | | | • | | | |
| L | TD | Long-te | rm debt | | | | |
| 0 | ONCL | <u> </u> | on-current liabilities | | | | |

BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

E28 Used production inputs when invoiced

During 2013, BGS received \$17 million of invoices for production-related goods it received and used during 2013 for production-related services rendered in 2013. BGS had not previously accrued for these services. For example, BGS received invoices in 2013 from utilities companies for servicing production facilities during 2013.

Record the entry in the space below:



| December 31, 2013 and December 31, 2012 | | |
|--|-------------|-------------|
| (In Millions) Assets | 2013 | 2012 |
| Current | AA 4 | A 4A |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | 84 | 66 |
| Inventories | 158 | 109 |
| Prepaid expenses | 10 | 20 |
| Other current assets | 219 | 158 |
| Total current assets Non-current | 502 | 366 |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | \$740 |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | \$740 |
| | <u> </u> | |

| E28 Used production inputs when invoiced | | | | | | | | | | | |
|--|--------|---|---|------------|--|------------------|-------|--------|--|--|--|
| | Assets | = | L | iabilities | | | Debit | Credit | | | |
| + | WIP | = | + | AP | | Work in process | \$17 | | | | |
| + | + \$17 | = | + | + \$17 | | Accounts payable | | \$17 | | | |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | |
|----------------------------------|-----------|-----------|
| Line Items | Increases | Decreases |
| | | |
| | | |
| | | |
| | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| For years ended December 31, 2012 and 2013 | | |
|--|-------|-------|
| (In Millions) | 2013 | 2012 |
| Net revenues | \$505 | \$440 |
| Cost of goods sold | (253) | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative | (117) | (105) |
| Total | (124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | \$113 | \$100 |

| E 2 | E28 Used production inputs when invoiced | | | | | | | | | | |
|------------|--|---|---|------------|--|------------------|-------|--------|--|--|--|
| | Assets | Ш | L | iabilities | | | Debit | Credit | | | |
| + | WIP | = | + | AP | | Work in process | \$17 | | | | |
| + | + \$17 | ш | + | + \$17 | | Accounts payable | | \$17 | | | |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | ОМЕ | |
|----------------------------------|-----------|-----------|--------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Inventories | x | | | | |
| Accounts payable | X | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CHANGES IN EQUITY

| | Share | Retained | | |
|-------------------------|---------|----------|----------|-------|
| (In Millions) | Capital | Earnings | Reserves | Total |
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inc | ome | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inc | ome | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| | E28 Used production inputs when invoiced | | | | | | | | | |
|----|--|--------|---|---|------------|--|------------------|-------|--------|--|
| IF | | Assets | П | L | iabilities | | | Debit | Credit | |
| | + | WIP | = | + | AP | | Work in process | \$17 | | |
| | + | + \$17 | Ш | + | + \$17 | | Accounts payable | | \$17 | |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | | |
|----------------------------------|-----------|-----------------------------------|------------|-----------|-----------|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| Inventories | x | | NONE | | | |
| Accounts payable | x | | | | | |
| | | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | | |
| Line Items | Increases | Decreases | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | | |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5 | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |

| E2 | 28 Used p | roc | luc | tion inpu | when invoiced | | | |
|----|----------------------|-----|-----|-----------|---------------|------------------|------|------|
| | Assets = Liabilities | | | | Debit | Credit | | |
| + | WIP | = | + | AP | | Work in process | \$17 | |
| + | + \$17 | = | + | + \$17 | | Accounts payable | | \$17 |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | | |
|----------------------------------|-----------|-----------------------------------|-------------------------|-----------|-----------|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| Inventories | x | | NONE | | | |
| Accounts payable | x | | | | | |
| | | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | Deeree | STATEMENT OF CASH FLOWS | | Desmost | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| NONE | | | | | | |
| | | | | | | |
| | | | | | | |
| NONE | | | | | | |

Complete Solution: E28 Used production inputs when invoiced

During 2013, BGS received \$17 million of invoices for production-related goods it received and used during 2013 for production-related services rendered in 2013. BGS had not previously accrued for these services. For example, BGS received invoices in 2013 from utilities companies for servicing production facilities during 2013.

| E28 Used production inputs when invoiced | | | | | | | | | |
|--|--------|---|---|--------|--------|------------------|------|------|--|
| Assets = Liabilities | | | | Debit | Credit | | | | |
| + | WIP | = | + | AP | | Work in process | \$17 | | |
| + | + \$17 | = | + | + \$17 | | Accounts payable | | \$17 | |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | | |
|----------------------------------|-----------|-----------------------------------|--|-----------|-----------|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| Inventories | x | | NONE | | | |
| Accounts payable | х | | | | | |
| | | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| NONE | | | Inventories (Reported negative number decreases.) | | x | |
| | | | Accounts payable (Reported negative number increases.) | x | | |
| | | | (reported negative number IIICIedses.) | | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

| | | | BISCHOFF GLOBAL SPORTSWEAR CHA | RT OF ACCO | UNTS | | |
|----------|------|----------|--|------------|--------|-----------|----------------------------------|
| TS | | | | OWNERS' | EQUITY | | |
| Current | | | | Per | manent | | |
| AF | २ | Account | s receivable | | RE | Retained | d earnings |
| | | ARG | Accounts receivable, gross | | SCap | Share ca | apital |
| | | Allbd | Allowance for bad debts | | OPOE | Other pe | ermanent owners' equity |
| | | Allprr | Allowance for product returns: revenue component | Net | income | | |
| С | | Cash ar | nd cash equivalents | | CGS | Cost of g | goods sold |
| Inv | ven | Inventor | ies | | DepEx | Deprecia | ation expense |
| | | Minv | Materials inventories | | G/L | Gain/los | s |
| | | WIP | Work in process | | | PPEGL | Gain/Loss on PP&E disposals |
| | | FGI | Finished goods inventories | | | ONOGL | Other non-operating gains/losses |
| | | Sldr | Segregated inventories: deferred revenue | | IncS | Income | summary |
| | | Siprc | Segregated inventories: product returns allowance cost component | | MSGA | Miscella | neous SG&A expense |
| Pr | Еx | Prepaid | expenses | | Rev | Revenue | es, net |
| 00 | CA | Other cu | urrent assets | | | Grev | Gross revenue |
| Non-curi | rent | | | | | PRCnR | Product returns contra revenue |
| PP | ΡE | Property | /, plant, and equipment, net | | OSGA | Other So | G&A expense |

ON

| E | Property | , plant, and equipment, net | | | | |
|-----|--------------------------|-----------------------------|--|--|--|--|
| | PPEhc | PP&E (historical cost) | | | | |
| | AcDep | Accumulated depreciation | | | | |
| ICA | Other non-current assets | | | | | |
| | | | | | | |

LIABILITIES Cu

ASSET

| Curre | ent | |
|-------|---------|-------------------------------|
| | AP | Accounts payable |
| | AcrL | Accrued liabilities |
| | DivP | Dividend payable |
| | Drev | Deferred revenue |
| | OCL | Other current liabilities |
| Non- | current | |
| | LTD | Long-term debt |
| | ONCL | Other non-current liabilities |
| | | |

BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

001

Other operating income net of expenses ONOI Other non-operating income net of expenses

E29 Used production inputs previously prepaid

At the end of interim periods during 2013, BGS identified a total of \$10 million of costs for production-related services performed during the periods that were prepaid prior to receiving the services, but not yet charged to production. For example, at month end, BGS recognized the cost of using a production facility that had been prepaid in a prior month.

Record the entry in the space below:



| December 31, 2013 and December 31, 2012 | | |
|--|---------------|-------|
| (In Millions) | | |
| Assets Current | 2013 | 2012 |
| | 604 | 640 |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | 84 | 66 |
| Inventories | 158 | 109 |
| Prepaid expenses | 10 | 20 |
| Other current assets | 219 | 158 |
| Total current assets Non-current | 502 | 366 |
| | | |
| Property, plant, and equipment: Historical cost of PP&E | 264 | 220 |
| | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | \$740 |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 23 14 | 20 |
| Dividends payable | 14 | 20 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | 109 | 125 |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | 010 | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | \$740 |
| Fordi nushinos una stockholacis equity | Ψ 5 25 | |

| E29 Used production inputs previously prepaid | | | | | | | | |
|---|--------|------|--------|---|------------------|-------|--------|--|
| | As | sets | | = | | Debit | Credit | |
| + | WIP | + | PrEx | = | Work in process | \$10 | | |
| + | + \$10 | + | - \$10 | = | Prepaid expenses | | \$10 | |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | |
|----------------------------------|-----------|-----------|
| Line Items | Increases | Decreases |
| | | |
| | | |
| | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| For years ended December 31, 2012 and 2013 | | |
|--|-------|-------|
| (In Millions) | 2013 | 2012 |
| Net revenues | \$505 | \$440 |
| Cost of goods sold | (253) | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative | (117) | (105) |
| Total | (124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | \$113 | \$100 |

| E29 Used production inputs previously prepaid | | | | | | | | | | | |
|---|--------|---|--------|---|------------------|-------|--------|--|--|--|--|
| Assets | | | | = | | Debit | Credit | | | | |
| + | WIP | + | PrEx | = | Work in process | \$10 | | | | | |
| + | + \$10 | + | - \$10 | = | Prepaid expenses | | \$10 | | | | |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | |
|----------------------------------|-----------|-----------------------------------|------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Inventories | x | | | | |
| Prepaid expenses | | x | | | |
| | | | | | |

196

| BISCHOFF GLOBAL SP | ORTSWEAR |
|---------------------|--------------|
| STATEMENT OF CHANGI | ES IN EQUITY |

| | Share | Retained | | |
|--------------------------|---------|----------|----------|-------|
| (In Millions) | Capital | Earnings | Reserves | Total |
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inco | ome | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inco | ome | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| E2 | E29 Used production inputs previously prepaid | | | | | | | | | | | | |
|----|---|---|--------|---|------------------|--------|------|--|--|--|--|--|--|
| | Assets | | = | | Debit | Credit | | | | | | | |
| + | WIP | + | PrEx | = | Work in process | \$10 | | | | | | | |
| + | + \$10 | + | - \$10 | = | Prepaid expenses | | \$10 | | | | | | |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | COME | |
|----------------------------------|-----------|-----------|-------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Inventories | x | | NONE | | |
| Prepaid expenses | | x | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | |
| Line Items | Increases | Decreases | | | |
| | | | | | |
| | | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | | |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5 | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |
| | | |

| E29 Used production inputs previously prepaid | | | | | | | | | | | | |
|---|--------|---|--------|---|------------------|-------|--------|--|--|--|--|--|
| Assets | | | | = | | Debit | Credit | | | | | |
| + | WIP | + | PrEx | = | Work in process | \$10 | | | | | | |
| + | + \$10 | + | - \$10 | = | Prepaid expenses | | \$10 | | | | | |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | |
|----------------------------------|-----------|-----------------------------------|-------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Inventories | x | | NONE | | |
| Prepaid expenses | | x | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| NONE | | | | | |
| | | | | | |
| | | | | | |

Complete Solution: E29 Used production inputs previously prepaid

At the end of interim periods during 2013, BGS identified a total of \$10 million of costs for production-related services performed during the periods that were prepaid prior to receiving the services, but not yet charged to production. For example, at month end, BGS recognized the cost of using a production facility that had been prepaid in a prior month.

| E29 Used production inputs previously prepaid | | | | | | | | | | | |
|---|--------|---|--------|---|------------------|-------|--------|--|--|--|--|
| Assets | | | | = | | Debit | Credit | | | | |
| + | WIP | + | PrEx | = | Work in process | \$10 | | | | | |
| + | + \$10 | + | - \$10 | = | Prepaid expenses | | \$10 | | | | |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | |
|----------------------------------|-----------|-----------------------------------|--|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Inventories | x | | NONE | | |
| Prepaid expenses | | x | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| NONE | | | Inventories (Reported negative number decreases.) | | X |
| | | | Prepaid expenses | х | |
| | | | | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

| SSETS | | | | OWN | ERS' E | QUITY | | |
|-----------|---------|----------|---|----------------|--------|-------|-----------|-------------------------------------|
| Curre | ent | | | | Perm | anent | | |
| | AR | Account | s receivable | | | RE | Retained | d earnings |
| | | ARG | Accounts receivable, gross | | | SCap | Share ca | apital |
| | | Allbd | Allowance for bad debts | | | OPOE | Other pe | ermanent owners' equity |
| | | Allprr | Allowance for product returns: revenue component | | Net i | ncome | | |
| | С | Cash an | d cash equivalents | | | CGS | Cost of g | goods sold |
| | Inven | Inventor | es | | | DepEx | Deprecia | ation expense |
| | | Minv | Materials inventories | | | G/L | Gain/los | S |
| | | WIP | Work in process | | | | PPEGL | Gain/Loss on PP&E disposals |
| | | FGI | Finished goods inventories | | | | ONOGL | Other non-operating gains/losse |
| | | Sldr | Segregated inventories: deferred revenue | | | IncS | Income s | summary |
| | | Siprc | Segregated inventories: product returns allowance | cost component | | MSGA | Miscella | neous SG&A expense |
| | PrEx | Prepaid | expenses | | | Rev | Revenue | es, net |
| | OCA | Other cu | rrent assets | | | | Grev | Gross revenue |
| Non- | current | | | | | | PRCnR | Product returns contra revenue |
| | PPE | Property | , plant, and equipment, net | | | OSGA | Other SC | G&A expense |
| | | PPEhc | PP&E (historical cost) | | | 001 | Other op | erating income net of expenses |
| | | AcDep | Accumulated depreciation | | | ONOI | Other no | n-operating income net of expension |
| | ONCA | Other no | n-current assets | | | | | |
| ABILITIES | | | | | | | | |
| Curre | ent | | | | | | | |
| | AP | Account | s payable | | | | | |
| | AcrL | | liabilities | | | | | |
| | DivP | Dividend | payable | | | | | |
| | Drev | | revenue | | | | | |
| | OCL | Other cu | rrent liabilities | | | | | |
| Non- | current | | | | | | | |
| | LTD | Long-ter | m debt | | | | | |
| | | Ŭ | n-current liabilities | | | | | |

BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

E30 Used production inputs when paid

During 2013, BGS charged \$60 million of costs to production for non-invoiced goods and services received, used, and paid for during 2013. For example, this includes salaries paid to assembly-line employees in 2013 for services performed in 2013. It also includes supplies purchased with cash in 2013 and used in production during 2013.

Record the entry in the space below:



| December 31, 2013 and December 31, 2012 | | |
|--|-------------|-------|
| (In Millions) Assets | 2013 | 2012 |
| Current | AA 4 | |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | 84 | 66 |
| Inventories | 158 | 109 |
| Prepaid expenses | 10 | 20 |
| Other current assets | 219 | 158 |
| Total current assets Non-current | 502 | 366 |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | \$740 |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | \$740 |
| | <u> </u> | |

| E3 | E30 Used production inputs when paid | | | | | | | | | | |
|----|--------------------------------------|------|--------|---|---------------------------|--------|--|--|--|--|--|
| | As | sets | | = | Debit | Credit | | | | | |
| + | С | + | WIP | = | Work in process \$60 | | | | | | |
| + | - \$60 | + | + \$60 | = | Cash and cash equivalents | \$60 | | | | | |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | |
|----------------------------------|-----------|-----------|
| Line Items | Increases | Decreases |
| | | |
| | | |
| | | |
| | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| For years ended December 31, 2012 and 2013 | | |
|--|-------|-------|
| (In Millions) | 2013 | 2012 |
| Net revenues | \$505 | \$440 |
| Cost of goods sold | (253) | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative | (117) | (105) |
| Total | (124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | \$113 | \$100 |

| E3 | E30 Used production inputs when paid | | | | | | | | | | |
|----|--------------------------------------|------|--------|---|---------------------------|--------|--|--|--|--|--|
| | As | sets | | = | Debit | Credit | | | | | |
| + | С | + | WIP | = | Work in process \$60 | | | | | | |
| + | - \$60 | + | + \$60 | = | Cash and cash equivalents | \$60 | | | | | |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | СОМЕ | |
|----------------------------------|-----------|-----------|-------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Cash and cash equivalents | | x | | | |
| Inventories | X | | | | |
| | | | | | |

Reserves

\$16

24

24

(7)

24

24

(7)

\$50

\$33

Total

\$375

76

24

100 7

(23)

34

89

24

113

10

(25)

29

\$613

\$486

BISCHOFF GLOBAL SPORTSWEAR

STATEMENT OF CHANGES IN EQUITY

Retained

Earnings

\$179

76

76

(23)

\$239

89

89

(25)

7

\$310

7

Share

Capital

\$180

7

27

10

29

\$253

\$214

(In Millions)

Other

Other

December 31, 2011

Total

Dividends declared

December 31, 2012

Profit (loss)

Total

Dividends declared

December 31, 2013

Common stock issued

Common stock issued

Comprehensive income

Comprehensive income Profit (loss)

Other comprehensive income

Other comprehensive income

 E30 Used production inputs when paid

 Assets
 =
 Debit
 Credit

 +
 C
 +
 WIP
 =
 Work in process
 \$60

 +
 - \$60
 +
 + \$60
 =
 Cash and cash equivalents
 \$60

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | СОМЕ | |
|----------------------------------|-----------|-----------|-------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Cash and cash equivalents | | X | NONE | | |
| Inventories | x | | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | |
| Line Items | Increases | Decreases | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | | |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5 | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |
| | | |

| E30 Used production inputs when paid | | | | | | | | | | |
|--------------------------------------|--------|---|--------|--------|---------------------------|------|--|--|--|--|
| Assets | | = | Debit | Credit | | | | | | |
| + | С | + | WIP | = | Work in process \$60 | | | | | |
| + | - \$60 | + | + \$60 | = | Cash and cash equivalents | \$60 | | | | |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| Line Items Increases Decreases Line Items Increases | |
|--|-----------|
| | Decreases |
| Cash and cash equivalents NONE | |
| Inventories X | |
| | |
| STATEMENT OF CHANGES IN EQUITY STATEMENT OF CASH FLOWS | |
| Line Items Increases Decreases Line Items Increases | Decreases |
| NONE | |
| | |
| | |

Complete Solution: E30 Used production inputs when paid

During 2013, BGS charged \$60 million of costs to production for non-invoiced goods and services received, used, and paid for during 2013. For example, this includes salaries paid to assembly-line employees in 2013 for services performed in 2013. It also includes supplies purchased with cash in 2013 and used in production during 2013.

| E30 Used production inputs when paid | | | | | | | | | | |
|--------------------------------------|--------|---|--------|---|---------------------------|--------|--|--|--|--|
| | Assets | | | = | Debit | Credit | | | | |
| + | С | + | WIP | = | Work in process \$60 | | | | | |
| + | - \$60 | + | + \$60 | = | Cash and cash equivalents | \$60 | | | | |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | |
|----------------------------------|-----------|-----------------------------------|--|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Cash and cash equivalents | | x | NONE | | |
| Inventories | X | | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| NONE | | | Inventories (Reported negative number decreases.) | | x |
| | | | Net cash provided by (used in) operations | | x |
| | | | | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

| SETS | | | | NO | /NERS' E | QUITY | | |
|----------|--------|---------|--|--------------|----------|--------|-----------|---------------------------------|
| Curren | nt | | | | Perm | nanent | | |
| 4 | AR | Account | s receivable | | | RE | Retained | l earnings |
| | | ARG | Accounts receivable, gross | | | SCap | Share ca | apital |
| | | Allbd | Allowance for bad debts | | | OPOE | Other pe | rmanent owners' equity |
| | | Allprr | Allowance for product returns: revenue component | | Net i | ncome | | |
| C | 0 | Cash ar | id cash equivalents | | | CGS | 0 | joods sold |
| li li | nven | Invento | ies | | | DepEx | Deprecia | tion expense |
| | | Minv | Materials inventories | | | G/L | Gain/loss | \$ |
| | | WIP | Work in process | | | | PPEGL | Gain/Loss on PP&E disposals |
| | | FGI | Finished goods inventories | | | | ONOGL | Other non-operating gains/loss |
| | | Sldr | Segregated inventories: deferred revenue | | | IncS | Income s | summary |
| | | Slprc | Segregated inventories: product returns allowance co | st component | | MSGA | Miscellar | neous SG&A expense |
| F | PrEx | Prepaid | expenses | | | Rev | Revenue | es, net |
| C | CA | Other c | irrent assets | | | | Grev | Gross revenue |
| Non-cu | urrent | | | | | | PRCnR | Product returns contra revenue |
| F | PPE | Propert | , plant, and equipment, net | | | OSGA | Other SC | G&A expense |
| | | PPEhc | PP&E (historical cost) | | | 001 | Other op | erating income net of expenses |
| | | AcDep | Accumulated depreciation | | | ONOI | Other no | n-operating income net of exper |
| C | ONCA | Other n | on-current assets | | | | | |
| BILITIES | | | | | | | | |
| Curren | nt | | | | | | | |
| A | ٩P | Account | s payable | | | | | |
| 4 | AcrL | Accrueo | liabilities | | | | | |
| 0 | DivP | Dividen | d payable | | | | | |
| 0 | Drev | Deferre | d revenue | | | | | |
| C | CL | Other c | Irrent liabilities | | | | | |
| Non-cu | urrent | | | • | | | | |
| L | TD | Long-te | m debt | | | | | |
| c | ONCL | | on-current liabilities | | | | | |

BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

E31 Recognized production-PP&E depreciation

At the end of interim periods during 2013, BGS capitalized a total of \$25 million of production-related depreciation into inventory, representing the portion of the historical cost of PP&E that had been used up during production.

Record the entry in the space below:



BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION

| December 31, 2013 and December 31, 2012 | | |
|---|------------|------------|
| (In Millions) | 0040 | 0040 |
| Assets Current | 2013 | 2012 |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | 84 | 66 |
| Inventories | 158 | 109 |
| Prepaid expenses | 10 | 20 |
| Other current assets | 219 | 158 |
| Total current assets | 502 | 366 |
| Non-current | | |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | \$740 |
| | | |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | 105 | 60 |
| Long-term borrowings Other non-current liabilities | 105 102 | 60 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | 510 | |
| | 252 | 214 |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | <u>613</u> | <u>486</u> |
| Total liabilities and stockholders' equity | \$929 | \$740 |

| E31 Recognized production-PP&E depreciation | | | | | | | | | | |
|---|--------|---|--------|-------|--------------------------|------|--|--|--|--|
| | Assets | | = | Debit | Credit | | | | | |
| + | WIP | - | AcDep | = | Work in process \$25 | | | | | |
| + | + \$25 | - | + \$25 | = | Accumulated depreciation | \$25 | | | | |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | |
|----------------------------------|-----------|-----------|
| Line Items | Increases | Decreases |
| | | |
| | | |
| | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| For years ended December 31, 2012 and 2013 | | |
|--|-------|-------|
| (In Millions) | 2013 | 2012 |
| Net revenues | \$505 | \$440 |
| Cost of goods sold | (253) | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative | (117) | (105) |
| Total | (124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | \$113 | \$100 |

| E | E31 Recognized production-PP&E depreciation | | | | | | | | | | |
|---|---|--------|---|--------|--------|--------------------------|------|--|--|--|--|
| | Assets | | = | Debit | Credit | | | | | | |
| | + | WIP | - | AcDep | = | Work in process \$25 | | | | | |
| | + | + \$25 | - | + \$25 | = | Accumulated depreciation | \$25 | | | | |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | |
|----------------------------------|-----------|-----------------------------------|------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Inventories | x | | | | |
| Less accumulated depreciation | | x | | | |
| | | | | | |

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| BISCHOFF GLOBAL SPORTSWEAR | |
|--------------------------------|--|
| STATEMENT OF CHANGES IN EQUITY | |

| | Share | Retained | | |
|--------------------------|---------|----------|----------|-------|
| (In Millions) | Capital | Earnings | Reserves | Total |
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inco | ome | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inco | ome | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| E31 Recognized production-PP&E depreciation | | | | | | | | | | |
|---|--------|---|--------|---|-------|--------------------------|------|--|--|--|
| Assets | | | = | | Debit | Credit | | | | |
| + | WIP | 1 | AcDep | = | | Work in process \$25 | | | | |
| + | + \$25 | - | + \$25 | = | | Accumulated depreciation | \$25 | | | |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | COME | |
|----------------------------------|-----------|-----------|-------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Inventories | X | | NONE | | |
| Less accumulated depreciation | | x | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | |
| Line Items | Increases | Decreases | | | |
| | | | | | |
| | | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | | |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5 | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |
| | | |

| E31 Recognized production-PP&E depreciation | | | | | | | | | | | |
|---|--------|---|--------|---|--------------------------|--------|--|--|--|--|--|
| Assets | | | | = | Debit | Credit | | | | | |
| + | WIP | - | AcDep | = | Work in process \$25 | | | | | | |
| + | + \$25 | - | + \$25 | = | Accumulated depreciation | \$25 | | | | | |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| | STATEMENT OF COMPREHENSIVE INCOME | | | | |
|----------|-----------------------------------|-------------------------|--------------------|---|--|
| ncreases | Decreases | Line Items | Increases | Decreases | |
| x | | NONE | | | |
| | x | | | | |
| | | | | | |
| | Decreases | STATEMENT OF CASH FLOWS | Increases | Decreases | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | x NONE x | X NONE X Image: Constraint of the second | |

Complete Solution: E31 Recognized production-PP&E depreciation

At the end of interim periods during 2013, BGS capitalized a total of \$25 million of productionrelated depreciation into inventory, representing the portion of the historical cost of PP&E that had been used up during production.

| Γ | E31 Recognized production-PP&E depreciation | | | | | | | | | | | | |
|---|---|--------|---|--------|---|--|--------------------------|--------|--|--|--|--|--|
| | Assets | | | | | | Debit | Credit | | | | | |
| | + | WIP | - | AcDep | = | | Work in process \$25 | | | | | | |
| | + | + \$25 | - | + \$25 | = | | Accumulated depreciation | \$25 | | | | | |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | |
|--|-----------|-----------------------------------|--|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Inventories | x | | NONE | | |
| Less accumulated depreciation (Reported negative number decreases.) | | x | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| NONE | | | Inventories (Reported negative number decreases.) | | X |
| | | | Depreciation | x | |
| | | | | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

| SSETS | | | | | OWNERS' | EQUITY | | |
|-----------|---------|----------|---|-----------------------|---------|--------|-----------|--------------------------------|
| Curr | ent | | | | Per | manent | | |
| | AR | Account | receivable | | | RE | Retained | l earnings |
| | | ARG | Accounts receivable, gross | | | SCap | Share ca | apital |
| | | Allbd | Allowance for bad debts | | | OPOE | Other pe | ermanent owners' equity |
| | | Allprr | Allowance for product returns: revenue con | nponent | Net | income | | |
| | С | Cash an | d cash equivalents | | | CGS | Cost of g | goods sold |
| | Inven | Inventor | es | | | DepEx | Deprecia | ation expense |
| | | Minv | Materials inventories | | | G/L | Gain/los | S |
| | | WIP | Work in process | | | | PPEGL | Gain/Loss on PP&E disposals |
| | | FGI | Finished goods inventories | | | | ONOGL | Other non-operating gains/los |
| | | Sldr | Segregated inventories: deferred revenue | | | IncS | Income s | summary |
| | | Slprc | Segregated inventories: product returns all | owance cost component | | MSGA | Miscella | neous SG&A expense |
| | PrEx | Prepaid | expenses | | | Rev | Revenue | es, net |
| | OCA | Other cu | rrent assets | | | | Grev | Gross revenue |
| Non- | current | | | | | | PRCnR | Product returns contra revenu |
| | PPE | Property | plant, and equipment, net | | | OSGA | Other SO | G&A expense |
| | | | PP&E (historical cost) | | | 001 | | erating income net of expenses |
| | | AcDep | Accumulated depreciation | | | ONOI | Other no | n-operating income net of expe |
| | ONCA | Other no | n-current assets | | | | | |
| ABILITIES | | | | | | | | |
| Curr | ent | | | | | | | |
| | AP | Account | payable | | | | | |
| | AcrL | Accrued | liabilities | | | | | |
| | DivP | Dividend | payable | | | | | |
| | Drev | Deferred | | | | | | |
| | OCL | Other cu | rrent liabilities | | | | | |
| Non- | current | | | | | | | |
| | LTD | Long-ter | n debt | | | | | |
| | | | n-current liabilities | | | | | |

BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

E32 Transfer costs from WIP to FGI

During 2013, BGS transferred \$190 million of costs from workin-process to finished goods. This occurred when production was completed and the finished goods had arrived at BGS's regional distribution centers around the world. Thus, related shipping and handling costs had already been charged to WIP.

Record the entry in the space below:



BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION

| December 31, 2013 and December 31, 2012 | | |
|--|-------|--------------|
| (In Millions) Assets | 2013 | 2012 |
| Current | | |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | 84 | 66 |
| Inventories | 158 | 109 |
| Prepaid expenses | 10 | 20 |
| Other current assets | 219 | 158 |
| Total current assets Non-current | 502 | 366 |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | \$740 |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | <u>\$740</u> |

| E | E32 Transfer costs from WIP to FGI | | | | | | | | | | | | |
|---|------------------------------------|---|---------|---|---|-------|--------|--|--|--|--|--|--|
| | Assets = | | | | | Debit | Credit | | | | | | |
| + | WIP | + | FGINS | = | Finished goods inventories (not segregated) | \$190 | | | | | | | |
| + | - \$190 | + | + \$190 | = | Work in process | | \$190 | | | | | | |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | |
|----------------------------------|-----------|-----------|
| Line Items | Increases | Decreases |
| | | |
| | | |
| | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| For years ended December 31, 2012 and 2013 | | |
|--|-------|-------|
| (In Millions) | 2013 | 2012 |
| Net revenues | \$505 | \$440 |
| Cost of goods sold | (253) | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative | (117) | (105) |
| Total | (124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | \$113 | \$100 |

| E3 | E32 Transfer costs from WIP to FGI | | | | | | | | | | | | |
|----|------------------------------------|---|---------|---|---|-------|--------|--|--|--|--|--|--|
| | Assets | | | | | Debit | Credit | | | | | | |
| + | WIP | + | FGINS | н | Finished goods inventories (not segregated) | \$190 | | | | | | | |
| + | - \$190 | + | + \$190 | = | Work in process | | \$190 | | | | | | |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | |
|--|-----------|-----------------------------------|------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Inventories (Net zero effect. NONE is also acceptable.) | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CHANGES IN EQUITY

| (In Millions) | Share Capital | Retained Earnings | Reserves | Total |
|-------------------------|------------------|----------------------|----------|-------|
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inc | ome | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inc | ome | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| E | E32 Transfer costs from WIP to FGI | | | | | | | | | | | |
|---|------------------------------------|------|---------|---|---|-------|--------|--|--|--|--|--|
| | As | sets | | = | | Debit | Credit | | | | | |
| + | WIP | + | FGINS | = | Finished goods inventories (not segregated) | \$190 | | | | | | |
| + | - \$190 | + | + \$190 | = | Work in process | | \$190 | | | | | |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | |
|--|-----------|-----------------------------------|------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Inventories (Net zero effect. NONE is also acceptable.) | x | x | NONE | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | |
| Line Items | Increases | Decreases | | | |
| | | | | | |
| | | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | | |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5 | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |

| E | E32 Transfer costs from WIP to FGI | | | | | | | | | | |
|----|------------------------------------|---------|------|---------|---|---|-------|--------|--|--|--|
| IE | | Ass | sets | | = | | Debit | Credit | | | |
| IE | + | WIP | + | FGINS | = | Finished goods inventories (not segregated) | \$190 | | | | |
| | + | - \$190 | + | + \$190 | = | Work in process | | \$190 | | | |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| Line Items Increases Decreases Line Items Increases | ME ncreases Decreases | | | |
|---|--------------------------|--|--|--|
| | | | | |
| Inventories X X NONE (Net zero effect. NONE is also acceptable.) Image: Constraint of the second seco | | | | |
| STATEMENT OF CHANGES IN EQUITY STATEMENT OF CASH FLOWS | | | | |
| Line Items Increases Decreases Line Items Increases | Decreases | | | |
| NONE | | | | |
| | | | | |
| | | | | |

Complete Solution: E32 Transfer costs from WIP to FGI

During 2013, BGS transferred \$190 million of costs from work-in-process to finished goods. This occurred when production was completed and the finished goods had arrived at BGS's regional distribution centers around the world. Thus, related shipping and handling costs had already been charged to WIP.

| E32 Transfer costs from WIP to FGI | | | | | | | | | | |
|------------------------------------|---------|------|---------|---|---|-------|--------|--|--|--|
| | Ass | sets | | = | | Debit | Credit | | | |
| + | WIP | + | FGINS | = | Finished goods inventories (not segregated) | \$190 | | | | |
| + | - \$190 | + | + \$190 | = | Work in process | | \$190 | | | |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | |
|--|-----------|-----------------------------------|--|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Inventories (Net zero effect. NONE is also acceptable.) | x | x | NONE | | |
| | | | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| NONE | | | Inventories (Net zero effect. NONE is also acceptable.) | X | X |
| | | | | | |
| | | | | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

LONG-LIVED ASSETS ENTRIES AND FINANCIAL-STATEMENT EFFECTS

Related entries:

In addition to the entries in this section, you may want to review the following entries related to this chapter that were covered earlier in this workbook:

| E3 | Purchased PP&E with cash | <u>page 17</u> |
|-----|---|-----------------|
| E15 | Recognized depreciation expense | <u>page 95</u> |
| E16 | Sold PP&E for cash | <u>page 101</u> |
| E31 | Recognized production-PP&E depreciation | <u>page 205</u> |

BISCHOFF GLOBAL SPORTSWEAR CHART OF ACCOUNTS

OWNERS' EQUITY

Permanent

Net income

RE

Retained earnings SCap Share capital

AmtEx Amortization expense

CGS Cost of goods sold DepEx Depreciation expense G/L Gain/loss

IncS Income summary MSGA Miscellaneous SG&A expense

Rev Revenues, net

OSGA Other SG&A expense

OPOE Other permanent owners' equity

Grev Gross revenue

OOI Other operating income net of expenses ONOI Other non-operating income net of expenses

PPEGL Gain/Loss on PP&E disposals ONOGL Other non-operating gains/losses

PRCnR Product returns contra revenue

ASSETS Cur

| Current | | |
|-------------|-----------|--|
| AR | Accounts | s receivable |
| | ARG | Accounts receivable, gross |
| | Allbd | Allowance for bad debts |
| | Allprr | Allowance for product returns: revenue component |
| С | Cash an | d cash equivalents |
| Inven | Inventori | es |
| | Minv | Materials inventories |
| | WIP | Work in process |
| | FGI | Finished goods inventories |
| | Sldr | Segregated inventories: deferred revenue |
| | Slprc | Segregated inventories: product returns allowance cost component |
| PrEx | Prepaid | expenses |
| OCA | Other cu | rrent assets |
| Non-current | | |
| PPE | Property | , plant, and equipment, net |
| | PPEhc | PP&E (historical cost) |
| | AcDep | Accumulated depreciation |
| Intan | Acquire | d intangibles |
| | Inthc | Intangibles (historical cost) |
| | AcAmt | Accumulated amortization |
| ONCA | Other no | n-current assets |
| TIES | | |
| Current | | |
| | | |
| AcrL | Accrued | liabilities |
| DivP | Dividend | l payable |
| Drev | Deferred | I revenue |
| OCL | | rrent liabilities |

Non-current

LTD Long-term debt ONCL Other non-current liabilities

BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

Recognized amortization expense E33

At the end of interim periods during 2013, BGS recognized a total of \$12 million of amortization expense that represented the portion of the historical cost of acquired intangible assets used up during the periods. All of BGS's intangibles were acquired when BGS purchased businesses and none are related to production.

Record the entry in the space below:



BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION

| December 31, 2013 and December 31, 2012 | | |
|--|-----------------------|--------------|
| (In Millions) Assets Current | 2013 | 2012 |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | پ ون 84 | ب |
| Inventories | 158 | 109 |
| | 10 | 20 |
| Prepaid expenses Other current assets | | 158 |
| | 219 | |
| Total current assets Non-current | 502 | 366 |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | \$740 |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | \$740 |
| | | |

| | E33 Recognized amortization expense | | | | | | | | | |
|----|-------------------------------------|--------|---|----|------------|---------------------------|--------|--|--|--|
| Iſ | | Assets | П | 0 | wners' Eq. | Debit | Credit | | | |
| | - | AcAmt | = | I | AmtEx | Amortization expense \$12 | | | | |
| | - | + \$12 | Ш | I. | + \$12 | Accumulated amortization | \$12 | | | |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | |
|----------------------------------|-----------|-----------|
| Line Items | Increases | Decreases |
| | | |
| | | |
| | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| For years ended December 31, 2012 and 2013 | | |
|--|-------|-------|
| (In Millions) | 2013 | 2012 |
| Net revenues | \$505 | \$440 |
| Cost of goods sold | (253) | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative | (117) | (105) |
| Total | (124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | \$113 | \$100 |

| E33 Recognized amortization expense | | | | | | | | | |
|-------------------------------------|--------|-------------------|-----------------------|----------------------------|---|---|--|--|--|
| | Assets | Ш | 0 | vners' Eq. | | D | ebit | Credit | |
| - | AcAmt | Ш | I | AmtEx | | Amortization expense S | \$12 | | |
| - | + \$12 | I | I. | + \$12 | | Accumulated amortizati | on | \$12 | |
| | | Assets - AcAmt | Assets = - AcAmt = | Assets = Ov - AcAmt = - | Assets = Owners' Eq. - AcAmt = - AmtEx | Assets = Owners' Eq. - AcAmt = - AmtEx | Assets = Owners' Eq. De - AcAmt = - AmtEx Amortization expense State | Assets = Owners' Eq. Debit - AcAmt = - AmtEx Amortization expense \$12 | |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INCOME | | | | |
|--|-----------|-----------|-----------------------------------|-----------|-----------|--|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | | |
| Other non-current assets (Intangible assets less accumulated amortization) Retained earnings | | x | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CHANGES IN EQUITY

| | Share | Retained | | |
|--------------------------|---------|----------|----------|-------|
| (In Millions) | Capital | Earnings | Reserves | Total |
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inco | ome | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inco | ome | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| E33 Recognized amortization expense | | | | | | | | | |
|-------------------------------------|--------|---|----|------------|--|----------------------|------------|--------|--|
| | Assets | Ш | Ov | vners' Eq. | | | Debit | Credit | |
| - | AcAmt | Ш | I. | AmtEx | | Amortization expense | \$12 | | |
| - | + \$12 | I | - | + \$12 | | Accumulated amo | ortization | \$12 | |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INCOME | | | | |
|--|-----------|-----------|---|-----------|-----------|--|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | | |
| Other non-current assets (Intangible assets less accumulated amortization) Retained earnings | | x x | Other selling, general, and administrative (Reported negative number decreases.) | | | | |
| STATEMENT OF CHANGES IN EQUITY Line Items | | | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | | _ |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5 | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |

| E3 | E33 Recognized amortization expense | | | | | | | | | | | |
|----|-------------------------------------|---|---|------------|--|----------------------|------------|--------|--|--|--|--|
| | Assets | = | 0 | wners' Eq. | | | Debit | Credit | | | | |
| - | AcAmt | = | - | AmtEx | | Amortization expense | \$12 | | | | | |
| - | + \$12 | = | - | + \$12 | | Accumulated amo | ortization | \$12 | | | | |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | COME | |
|--|-----------|-----------|---|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Other non-current assets (Intangible assets less accumulated amortization) Retained earnings | | x | Other selling, general, and administrative (Reported negative number decreases.) | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Profit (loss) | | x | | | |
| | | | | | |
| | | | | | |
| | | | | | |

Complete Solution: E33 Recognized amortization expense

At the end of interim periods during 2013, BGS recognized a total of \$12 million of amortization expense that represented the portion of the historical cost of acquired intangible assets used up during the periods. All of BGS's intangible assets were acquired when BGS purchased businesses and none are related to production.

| | E33 Recognized amortization expense | | | | | | | | | | | |
|---|-------------------------------------|--------|---|----|--------|--------|----------------------|------------|------|--|--|--|
| l | Assets = Owners' Eq. | | | | Debit | Credit | | | | | | |
| L | - | AcAmt | = | I. | AmtEx | | Amortization expense | \$12 | | | | |
| L | - | + \$12 | = | I | + \$12 | | Accumulated amo | ortization | \$12 | | | |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | OME | |
|--|-----------|-----------|---|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Other non-current assets (Intangible assets less accumulated amortization) Retained earnings | | x | Other selling, general, and administrative (Reported negative number decreases.) | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Profit (loss) | | x | Net profit | | x |
| | | | Other | x | |
| | | | | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

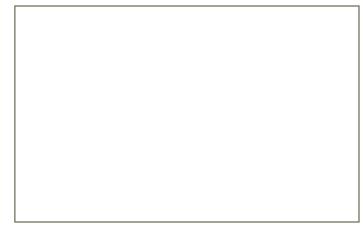
Debt Entries and Financial-Statement Effects

| SSETS | | | | OWNERS' EQU | ITY | | |
|-----------|-------|---------|--|-------------|-------|--|----|
| Current | | | | Permanent | | | Γ |
| | AR | Accoun | ts receivable | | RE | Retained earnings | 0 |
| | | ARG | Accounts receivable, gross | | SCap | Share capital | |
| | | Allbd | Allowance for bad debts | | OPOE | Other permanent owners' equity | С |
| | | Allprr | Allowance for product returns: revenue component | Net incom | ə | | В |
| | С | Cash a | nd cash equivalents | | AmtEx | Amortization expense | |
| | Inven | Invento | ries | | CGS | Cost of goods sold | ti |
| | | Minv | Materials inventories | | | Depreciation expense | |
| | | WIP | Work in process | | FinEx | Finance expense | а |
| | | FGI | Finished goods inventories | | G/L | Gain/loss | t |
| | | Sldr | Segregated inventories: deferred revenue | | | PPEGL Gain/Loss on PP&E disposals | |
| | | Slprc | Segregated inventories: product returns allowance cost component | | | ONOGL Other non-operating gains/losses | |
| | PrEx | | expenses | | IncS | Income summary | |
| | OCA | Other c | urrent assets | | - | Miscellaneous SG&A expense | R |
| Non-curre | nt | | | | Rev | Revenues, net | |
| | PPE | | y, plant, and equipment, net | | | Grev Gross revenue | |
| | | | PP&E (historical cost) | | | PRCnR Product returns contra revenue | Г |
| | | | Accumulated depreciation | | | Other SG&A expense | |
| | Intan | | ed intangibles | | 001 | Other operating income net of expenses | |
| | | Inthc | Intangibles (historical cost) | | ONOI | Other non-operating income net of expenses | |
| | | | Accumulated amortization | | | | |
| | ONCA | Other n | on-current assets | | | | |
| ABILITIES | | | | | | | |
| Current | | | | | | | |
| | AP | Accoun | ts payable | | | | |
| | AcrL | | l liabilities | | | | |
| | | | portion of long-term debt | | | | |
| | DivP | Dividen | d payable | | | | |
| | Drev | Deferre | d revenue | | | | |
| | OCL | Other c | urrent liabilities | | | | |
| Non-curre | nt | | | | | | |
| | LTD | Long-te | rm debt | | | | |
| | ONCL | Other n | on-current liabilities | | | | |

E34a Paid finance costs previously expensed

During 2013, BGS paid a total of \$7 million of interest previously recognized as finance expense. These interest payments could have been combined with the principal payments in E34b. BGS's policy is to classify interest payments as operating activities. Under IFRS, they could have been classified as financing activities. ["Finance expense" is also call "interest expense" in this context.]

Record the entry in the space below:



BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION

| December 31, 2013 and December 31, 2012 | | |
|--|---------------|-------------|
| (In Millions) Assets Current | 2013 | 2012 |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | 4 31 | 66 |
| Inventories | 158 | 109 |
| Prepaid expenses | 10 | 20 |
| Other current assets | 219 | 158 |
| Total current assets | 502 | 366 |
| Non-current | 502 | |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | \$740 |
| | Ψ 3 23 | |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | 100 | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | \$740 |
| | <u> </u> | |

| E34a Paid finance costs previously expensed | | | | | | | | | | |
|---|--------|---|---|------------|--|---------------------|------------|--------|--|--|
| | Assets | = | L | iabilities | | | Debit | Credit | | |
| + | С | = | + | AcrL | | Accrued liabilities | \$7 | | | |
| + | - \$7 | = | + | - \$7 | | Cash and cash e | quivalents | \$7 | | |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | |
|----------------------------------|-----------|-----------|
| Line Items | Increases | Decreases |
| | | |
| | | |
| | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| For years ended December 31, 2012 and 2013 | | |
|--|-------|-------|
| (In Millions) | 2013 | 2012 |
| Net revenues | \$505 | \$440 |
| Cost of goods sold | (253) | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative | (117) | (105) |
| Total | (124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | \$113 | \$100 |
| | | |

| E34a Paid finance costs previously expensed | | | | | | | | | | | |
|---|--------|---|---|------------|---------------------------|--------|--|--|--|--|--|
| | Assets | = | L | iabilities | Debit | Credit | | | | | |
| + | С | = | + | AcrL | Accrued liabilities \$7 | | | | | | |
| + | - \$7 | = | + | - \$7 | Cash and cash equivalents | \$7 | | | | | |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | |
|----------------------------------|-----------|-----------------------------------|------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Cash and cash equivalents | | x | | | |
| Accrued liabilities | | x | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CHANGES IN EQUITY

| (In Millions) | Share Capital | Retained Earnings | Reserves | Total |
|--------------------------|------------------|----------------------|----------|-------|
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inco | ome | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inco | ome | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| E34a Paid finance costs previously expensed | | | | | | | | | | | | | |
|---|--------|---|---|------------|---------------------------|------|--------|--|--|--|--|--|--|
| | Assets | = | L | iabilities | D | əbit | Credit | | | | | | |
| + | С | I | + | AcrL | Accrued liabilities | \$7 | | | | | | | |
| + | - \$7 | = | + | - \$7 | Cash and cash equivalents | | \$7 | | | | | | |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | | |
|----------------------------------|-----------|-----------------------------------|------------|-----------|-----------|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| Cash and cash equivalents | | X | NONE | | | |
| Accrued liabilities | | x | | | | |
| | | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | | |
| Line Items | Increases | Decreases | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |

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BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | 10 | _ |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5 | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |

| E3 4 | la Paid f | ina | nce | e costs p | eviously expensed | |
|-------------|--------------|-----|------------|-----------|---------------------------|-----|
| ŀ | Assets = Lia | | iabilities | Debit | Credit | |
| + | С | = | + | AcrL | Accrued liabilities \$7 | |
| + | - \$7 | = | + | - \$7 | Cash and cash equivalents | \$7 |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | |
|----------------------------------|-----------|-----------------------------------|-------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Cash and cash equivalents | | x | NONE | | |
| Accrued liabilities | | x | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| NONE | | | | | |
| | | | | | |
| | | | | | |

Complete Solution: E34a Paid finance costs previously expensed

"During 2013, BGS paid a total of \$7 million of interest previously recognized as finance expense. These interest payments could have been combined with the principal payments in E34b. BGS's policy is to classify interest payments as operating activities. Under IFRS, they could have been classified as financing activities. ["Finance expense" is also call "interest expense" in this context.]



Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | COME | |
|----------------------------------|-----------|-----------|--|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Cash and cash equivalents | | x | NONE | | |
| Accrued liabilities | | x | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| NONE | | | Accrued liabilities (Reported negative number decreases.) | | x |
| | | | Net cash provided by (used in) operations | | x |
| | | | | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

| SSETS | | | | | OWNERS' EQU | тү | |
|------------|-------|----------|--|--------|-------------|-------|---|
| Current | | | | | Permanent | | |
| | AR | Account | s receivable | | | RE | Retained earnings |
| | | ARG | Accounts receivable, gross | | | SCap | Share capital |
| | | Allbd | Allowance for bad debts | | | OPOE | Other permanent owners' equity |
| | | Allprr | Allowance for product returns: revenue component | | Net income | | |
| | С | Cash an | d cash equivalents | | | AmtEx | Amortization expense |
| | Inven | Inventor | ies | | | CGS | Cost of goods sold |
| | | Minv | Materials inventories | | | DepEx | Depreciation expense |
| | | WIP | Work in process | | | FinEx | Finance expense |
| | | FGI | Finished goods inventories | | | G/L | Gain/loss |
| | | Sldr | Segregated inventories: deferred revenue | | | | PPEGL Gain/Loss on PP&E disposals |
| | | Slprc | Segregated inventories: product returns allowance cost con | ponent | | | ONOGL Other non-operating gains/loss |
| | PrEx | Prepaid | expenses | | | IncS | Income summary |
| | OCA | Other cu | irrent assets | | | MSGA | Miscellaneous SG&A expense |
| Non-curre | nt | | | | | Rev | Revenues, net |
| | PPE | Property | , plant, and equipment, net | | | | Grev Gross revenue |
| | | PPEhc | PP&E (historical cost) | | | | PRCnR Product returns contra revenue |
| | | AcDep | Accumulated depreciation | | | OSGA | Other SG&A expense |
| | Intan | Acquire | d intangibles | | | 001 | Other operating income net of expenses |
| | | Inthc | Intangibles (historical cost) | | | ONOI | Other non-operating income net of expen |
| | | AcAmt | Accumulated amortization | | | - | |
| | ONCA | Other no | on-current assets | | | | |
| IABILITIES | | | | | | | |
| Current | | | | | | | |
| | AP | Account | s payable | | | | |
| | AcrL | | liabilities | | | | |
| | CPLTD | Current | portion of long-term debt | | | | |
| | DivP | | l payable | | | | |
| | Drev | | revenue | | | | |
| | OCL | Other cu | rrent liabilities | | | | |
| Non-curre | nt | | | | | | |
| | LTD | Long-ter | | | | | |

BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

E34b Paid debt principal classified as current portion

During 2013, BGS repaid a total of \$5 million of long-term debt principal. In anticipation of these payments, BGS had reclassified the principal from non-current to current liabilities on December 31, 2012: the end of the prior year. This entry could have been combined with the interest payments in entry E34a.

Record the entry in the space below:



BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION

| December 31, 2013 and December 31, 2012 | | |
|--|---------------|-------------|
| (In Millions) Assets Current | 2013 | 2012 |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | 4 31 | 66 |
| Inventories | 158 | 109 |
| Prepaid expenses | 10 | 20 |
| Other current assets | 219 | 158 |
| Total current assets | 502 | 366 |
| Non-current | 502 | |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | \$740 |
| | Ψ 3 23 | |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | 100 | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | \$740 |
| | <u> </u> | |

| E | E34b Paid debt principal classified as CPLTD | | | | | | | | | | | | |
|---|--|--------|---|---|------------|--|------------------------------|-------|--------|--|--|--|--|
| | | Assets | = | L | iabilities | | | Debit | Credit | | | | |
| | + | С | = | + | CPLTD | | Current portion of long-term | \$5 | | | | | |
| | + | - \$5 | = | + | - \$5 | | Cash and cash equivalents | | \$5 | | | | |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | |
|----------------------------------|-----------|-----------|
| Line Items | Increases | Decreases |
| | | |
| | | |
| | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| For years ended December 31, 2012 and 2013 | | |
|--|-------|-------|
| (In Millions) | 2013 | 2012 |
| Net revenues | \$505 | \$440 |
| Cost of goods sold | (253) | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative | (117) | (105) |
| Total | (124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | \$113 | \$100 |

| E 3 | E34b Paid debt principal classified as CPLTD | | | | | | | | | | | | |
|------------|--|---|---|------------|------------------------------|-------|--------|--|--|--|--|--|--|
| | Assets | = | L | iabilities | | Debit | Credit | | | | | | |
| + | С | = | + | CPLTD | Current portion of long-term | \$5 | | | | | | | |
| + | - \$5 | = | + | - \$5 | Cash and cash equivalents | | \$5 | | | | | | |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | СОМЕ | |
|---|-----------|-----------|-------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Cash and cash equivalents Other current liabilities (Current portion of long-term debt) | | x x | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CHANGES IN EQUITY

| (In Millions) | Share Capital | Retained Earnings | Reserves | Total |
|--------------------------|------------------|----------------------|----------|-------|
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inco | ome | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inco | ome | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| E | E34b Paid debt principal classified as CPLTD | | | | | | | | | | | | | |
|---|--|--------|-----------|---------------|-------|----------------------------------|-----|-------|--------|--|--|--|--|--|
| | | Assets | = | = Liabilities | | = Liabilities | | Debit | Credit | | | | | |
| - | + | С | = | + | CPLTD | Current portion of long-term \$5 | | | | | | | | |
| - | + | - \$5 | = + - \$5 | | - \$5 | Cash and cash equivalents | \$5 | | | | | | | |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | l | | STATEMENT OF COMPREHENSIVE IN | COME | |
|-------------------------------------|-----------|-----------|-------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Cash and cash equivalents | | x | NONE | | |
| Other current liabilities | | x | | | |
| (Current portion of long-term debt) | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | |
| Line Items | Increases | Decreases | | | |
| | | | | | |
| | | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | | |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5 | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |

| E34b Paid debt principal classified as CPLTD | | | | | | | | | | | | | | |
|--|---------|---|---|------------|----------------------------------|--|--|--|--|--|--|--|--|--|
| | Assets | = | L | iabilities | Debit Credit | | | | | | | | | |
| + | С | = | + | CPLTD | Current portion of long-term \$5 | | | | | | | | | |
| + | + - \$5 | | + | - \$5 | Cash and cash equivalents \$5 | | | | | | | | | |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | COME | |
|-------------------------------------|-----------|-----------|---------------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Cash and cash equivalents | | x | NONE | | |
| Other current liabilities | | x | | | |
| (Current portion of long-term debt) | | | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | STATEMENT OF CASH FLOWS Line Items | Increases | Decreases |
| | Increases | Decreases | | Increases | Decreases |
| Line Items | | | | | Decreases |
| Line Items | Increases | Decreases | | Increases | |

Complete Solution: E34b Paid debt principal classified as current-portion of long-term debt During 2013, BGS repaid a total of \$5 million of long-term debt principal. In anticipation of these payments, BGS had reclassified the principal from non-current to current liabilities on December 31, 2012: the end of the prior year. This entry could have been combined with the interest payments in entry E34a.

| E3 | 4b Paid c | leb | t p | rincipal c | la | ssified as CPLTD | |
|----------|-----------|---------------|-----|------------|-------|----------------------------------|-----|
| Assets = | | = Liabilities | | | Debit | Credit | |
| + | С | = | + | CPLTD | | Current portion of long-term \$5 | |
| + | - \$5 | П | + | - \$5 | | Cash and cash equivalents | \$5 |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | СОМЕ | |
|--|-----------|-----------|---|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Cash and cash equivalents | | X | NONE | | |
| Other current liabilities (Current portion of long-term debt) | | x | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| NONE | | | Other financing cash flows (Repayment of borrowings) | | x |
| | | | (repayment of borrowingo) | | |
| | | | | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

| ASSETS | | | | OWN | ERS' EQUI | тү | |
|-------------|-------|----------|--|-----|------------|-------|--|
| Current | | | | | Permanent | | |
| | AR | Account | ts receivable | | | RE | Retained earnings |
| | | ARG | Accounts receivable, gross | | | SCap | • |
| | | Allbd | Allowance for bad debts | _ | | | Other permanent owners' equity |
| | | Allprr | Allowance for product returns: revenue component | | Net income | | |
| | С | Cash ar | nd cash equivalents | | | AmtEx | Amortization expense |
| | Inven | Inventor | | | | CGS | Cost of goods sold |
| | | Minv | Materials inventories | | | DepEx | Depreciation expense |
| | | WIP | Work in process | | | FinEx | Finance expense |
| | | FGI | Finished goods inventories | | | G/L | Gain/loss |
| | | Sldr | Segregated inventories: deferred revenue | | | | PPEGL Gain/Loss on PP&E disposals |
| | | Slprc | Segregated inventories: product returns allowance cost component | | | | ONOGL Other non-operating gains/losses |
| | PrEx | Prepaid | expenses | | | IncS | Income summary |
| | OCA | Other cu | urrent assets | | | MSGA | Miscellaneous SG&A expense |
| Non-curre | nt | | | | | Rev | Revenues, net |
| | PPE | Property | y, plant, and equipment, net | | | | Grev Gross revenue |
| | | PPEhc | PP&E (historical cost) | | | | PRCnR Product returns contra revenue |
| | | AcDep | Accumulated depreciation | | | OSGA | Other SG&A expense |
| | Intan | Acquire | ed intangibles | | | 001 | Other operating income net of expenses |
| | | Inthc | Intangibles (historical cost) | | | ONOI | Other non-operating income net of expens |
| | | AcAmt | Accumulated amortization | | | | |
| | ONCA | Other n | on-current assets | | | | |
| LIABILITIES | | | | | | | |
| Current | | | | | | | |
| | AP | Account | is payable | | | | |
| | AcrL | Accrueo | liabilities | | | | |
| | CPLTD | Current | portion of long-term debt | | | | |
| | DivP | Dividen | d payable | | | | |
| | Drev | Deferre | d revenue | | | | |
| | OCL | Other cu | urrent liabilities | | | | |
| Non-curre | nt | | | | | | |
| | LTD | Long-te | rm debt | | | | |
| | ONCL | Other n | on-current liabilities | | | | |

E35 Recognized finance expense

At the end of interim periods during 2013, BGS recognized a total of \$7 million of finance expense that represented the interest costs associated with long-term debt for the periods. BGS's policy is to classify interest as operating activities. Under IFRS, they could have been classified as financing activities. ["Finance expense" is also call "interest expense" in this context.]

Record the entry in the space below:



BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION

| December 31, 2013 and December 31, 2012 | | |
|--|-------|----------|
| (In Millions) Assets | 2013 | 2012 |
| Current | 2013 | |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | 84 | 66 |
| Inventories | 158 | 109 |
| Prepaid expenses | 10 | 20 |
| Other current assets | 219 | 158 |
| Total current assets | 502 | 366 |
| Non-current | 502 | |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | \$740 |
| | | <u> </u> |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | \$740 |
| | | |

| | E35 Recognized finance expense | | | | | | | | | | | | | | |
|---|--------------------------------|-------------|------|------------------------|-------|--------------------|-------|--------|--|--|--|--|--|--|--|
| L | ш | Liabilities | | Liabilities Owners' Eq | | | Debit | Credit | | | | | | | |
| L | Ш | + | AcrL | - | FinEx | Finance expense | \$7 | | | | | | | | |
| | = | + +\$7 | | - | + \$7 | Accrued liabilitie | S | \$7 | | | | | | | |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | |
|----------------------------------|-----------|-----------|
| Line Items | Increases | Decreases |
| | | |
| | | |
| | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| For years ended December 31, 2012 and 2013 | | |
|--|-------|-------|
| (In Millions) | 2013 | 2012 |
| Net revenues | \$505 | \$440 |
| Cost of goods sold | (253) | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative | (117) | (105) |
| Total | (124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | \$113 | \$100 |
| | | |

| E35 Recognized finance expense | | | | | | | | | | |
|--------------------------------|---|------------|---|-----------|--------------------|-------|--------|--|--|--|
| = | L | iabilities | 0 | wners' Eq | | Debit | Credit | | | |
| = | + | AcrL | - | FinEx | Finance expense | \$7 | | | | |
| = | + | + \$7 | - | + \$7 | Accrued liabilitie | es | \$7 | | | |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | |
|----------------------------------|-----------|-----------------------------------|------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Accrued liabilities | x | | | | |
| Retained earnings | | x | | | |
| | | | | | |



| (In Millions) | Share Capital | Retained Earnings | Reserves | Total |
|--------------------------|------------------|----------------------|----------|-------|
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inco | ome | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inco | ome | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| E35 Recognized finance expense | | | | | | | | | | | |
|--------------------------------|---|------------|---|-----------|--|---------------------|-------|--------|--|--|--|
| = | L | iabilities | 0 | wners' Eq | | | Debit | Credit | | | |
| = | + | AcrL | - | FinEx | | Finance expense | \$7 | | | | |
| = | + | + \$7 | - | + \$7 | | Accrued liabilities | | \$7 | | | |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | |
|----------------------------------|-----------|-----------------------------------|-----------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Accrued liabilities | x | | Other income and (expenses) | | х |
| Retained earnings | | x | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | |
| Line Items | Increases | Decreases | | | |
| | | | | | |
| | | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

.....

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | | |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5 | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |
| | | |

| E35 Recognized finance expense | | | | | | | | | | | | |
|--------------------------------|------------------------|-------|---|-------|---------------------|-----|-----|--|--|--|--|--|
| = | Liabilities Owners' Eq | | | Debit | Credit | | | | | | | |
| = | + | AcrL | - | FinEx | Finance expense | \$7 | | | | | | |
| = | + | + \$7 | - | + \$7 | Accrued liabilities | | \$7 | | | | | |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| | STATEMENT OF COMPREHENSIVE INCOME | | | | |
|-----------|-----------------------------------|--|--|--|--|
| Increases | Decreases | Line Items | Increases | Decreases | |
| x | | Other income and (expenses) | | x | |
| | x | | | | |
| | | | | | |
| | | STATEMENT OF CASH FLOWS | | | |
| Increases | Decreases | Line Items | Increases | Decreases | |
| | x | | | | |
| | | | | | |
| | | | | | |
| | | x x x <td>Increases Decreases Line Items X Other income and (expenses) X How Service X <</td> <td>Increases Decreases Line Items Increases X Other income and (expenses) Image: Comparison of the comp</td> | Increases Decreases Line Items X Other income and (expenses) X How Service X < | Increases Decreases Line Items Increases X Other income and (expenses) Image: Comparison of the comp | |

Complete Solution: E35 Recognized finance expense

"At the end of interim periods during 2013, BGS recognized a total of \$7 million of finance expense that represented the interest costs associated with long-term debt for the periods. BGS's policy is to classify interest as operating activities. Under IFRS, they could have been classified as financing activities. ["Finance expense" is also call "interest expense" in this context.]

| E35 Recognized finance expense | | | | | | | | | | | |
|--------------------------------|---|-----------------------|---|-------|-------|--------------------|--------|-----|--|--|--|
| = | L | iabilities Owners' Eq | | | | Debit | Credit | | | | |
| = | + | AcrL | - | FinEx | Finar | nce expense | \$7 | | | | |
| = | + | + \$7 | - | + \$7 | A | Accrued liabilitie | es | \$7 | | | |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | | |
|----------------------------------|-----------|-----------------------------------|-----------------------------|-----------|-----------|--|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| Accrued liabilities | x | | Other income and (expenses) | | x | |
| Retained earnings | | x | | | | |
| · | | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases | |
| Profit (loss) | | x | Net profit | | X | |
| | | | Accrued liabilities | x | | |
| | | | | | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

ASSETS

Current

Non-current

LIABILITIES Current

Non-current

AR

Accounts receivable

Inven Inventories

Sldr

Slprc

PrEx Prepaid expenses OCA Other current assets

Intan Acquired intangibles

ONCA Other non-current assets

AP Accounts payable AcrL Accrued liabilities CPLTD Current portion of long-term debt DivP Dividend payable Drev Deferred revenue OCL Other current liabilities

LTD Long-term debt ONCL Other non-current liabilities

ARG Accounts receivable, gross

Allprr Allowance for product returns: revenue component

Segregated inventories: deferred revenue

Segregated inventories: product returns allowance cost component

Allowance for bad debts

Cash and cash equivalents

PPE Property, plant, and equipment, net PPEhc PP&E (historical cost) AcDep Accumulated depreciation

Inthc Intangibles (historical cost)

AcAmt Accumulated amortization

Minv Materials inventories WIP Work in process FGI Finished goods inventories

| CHOFF ENTRIES AND FINANCI | AL-STATEM | ENT | EFFECTS WORKBOOK | | |
|---|---------------------------|-------|--|-----------|---------------------------|
| BISCHOFF GLOBAL SPORTSWEAR CHAR | T OF ACCOUNTS | | | E36 | Anticipated pa |
| | OWNERS' EQUI Permanent | | | At the | end of interim periods |
| |] | RE | Retained earnings | total of | \$5 million of long-term |
| e, gross | | SCap | Share capital | | 0 |
| debts | | OPOE | Other permanent owners' equity | to curr | ent liabilities. These tr |
| uct returns: revenue component | Net income | | | liability | reported at the end of |
| | | AmtEx | Amortization expense | | |
| | | CGS | Cost of goods sold | paymer | its for the subsequent 12 |
| es | | | Depreciation expense | 1 / | 1 |
| | | FinEx | Finance expense | | |
| entories | | G/L | Gain/loss | | |
| ories: deferred revenue | | | PPEGL Gain/Loss on PP&E disposals | Record | the entry in the space |
| pries: product returns allowance cost component | - | | ONOGL Other non-operating gains/losses | | |
| | | IncS | Income summary | | |
| | | MSGA | Miscellaneous SG&A expense | | |
| | | Rev | Revenues, net | | |
| nt, net | | | Grev Gross revenue | | |
| st) |] | | PRCnR Product returns contra revenue | | |
| ciation |] | OSGA | Other SG&A expense | | |
| | | 001 | Other operating income net of expenses | | |

ONOI Other non-operating income net of expenses

aying non-current debt

ds during 2013, BGS reclassified a m debt principal from non-current transfers ensured that the current of each period anticipated principal 12 months.

ce below:



BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION

| December 31, 2013 and December 31, 2012 | | |
|--|-------|----------|
| (In Millions) Assets Current | 2013 | 2012 |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | 84 | 66 |
| Inventories | 158 | 109 |
| Prepaid expenses | 100 | 20 |
| Other current assets | 219 | 158 |
| Total current assets | 502 | 366 |
| Non-current | 502 | |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | \$740 |
| | ++ | <u> </u> |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | \$740 |
| | | |

| E36 Anticipated paying non-current debt | | | | | | | | | |
|---|-------------|-------|---|-------|--------|-----------------------------------|-----|--|--|
| = | Liabilities | | | Debit | Credit | | | | |
| = | + | CPLTD | + | LTD | | Long-term debt \$5 | | | |
| = | + | + \$5 | + | - \$5 | | Current portion of long-term debt | \$5 | | |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | |
|----------------------------------|-----------|-----------|
| Line Items | Increases | Decreases |
| | | |
| | | |
| | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| For years ended December 31, 2012 and 2013 | | |
|--|-------|-------|
| (In Millions) | 2013 | 2012 |
| Net revenues | \$505 | \$440 |
| Cost of goods sold | (253) | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative | (117) | (105) |
| Total | (124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | \$113 | \$100 |

| = Liabilities Debit Credit = + CPLTD + LTD Long-term debt \$5 = + + \$\$5 + - \$\$5 Current portion of long-term debt \$\$5 | E3 | E36 Anticipated paying non-current debt | | | | | | | | |
|---|----|---|-------|---|-------|--|-----------------------------------|--------|--|--|
| | = | = Liabilities | | | S | | Debit | Credit | | |
| = + + \$5 + - \$5 Current portion of long-term debt \$5 | = | + | CPLTD | + | LTD | | Long-term debt \$5 | | | |
| | = | + | + \$5 | + | - \$5 | | Current portion of long-term debt | \$5 | | |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | COME | |
|--|-----------|-----------|-------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Other current liabilities (Current portion of long-term debt) Long-term borrowings | x | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CHANGES IN EQUITY

| | Share | Retained | | |
|-------------------------|---------|----------|----------|-------|
| (In Millions) | Capital | Earnings | Reserves | Total |
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inc | ome | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inc | ome | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| E3 | E36 Anticipated paying non-current debt | | | | | | | | |
|----|---|-------|---|-------|-----------------------------------|-----|--|--|--|
| = | = Liabilities | | S | Debit | Credit | | | | |
| = | + | CPLTD | + | LTD | Long-term debt \$5 | | | | |
| = | + | + \$5 | + | - \$5 | Current portion of long-term debt | \$5 | | | |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | COME | |
|--|-----------|-----------|-------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Other current liabilities (Current portion of long-term debt) Long-term borrowings | | x | NONE | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | |
| Line Items | Increases | Decreases | | | |
| | | | | | |
| | | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

| For years ended December 31, 2012 and 2013 | | |
|--|------|------|
| (In Millions) | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net profit | \$89 | \$76 |
| Adjustments | | |
| (Gain) loss on sale of PP&E | (3) | (3) |
| Depreciation | 32 | 28 |
| Accounts receivable | 0 | (38) |
| Inventories | (32) | (36) |
| Prepaid expenses | 15 | 13 |
| Accounts payable | (22) | (21) |
| Accrued liabilities | (12) | (10) |
| Other | 29 | 16 |
| Net cash provided by (used in) operations | 96 | 25 |
| Cash flows from investing activities | | |
| Payments for property, plant, and equipment | (20) | (17) |
| Proceeds from disposal of property, plant, and equipment | 15 | 14 |
| Other investing cash flows | (80) | (37) |
| Net cash provided by (used in) investing activities | (85) | (40) |
| Cash flows from financing activities | | |
| Proceeds from issue of share capital | 10 | 7 |
| Proceeds from borrowings | 10 | 9 |
| Payment of dividends | (20) | (18) |
| Other financing cash flows | 5 | 4 |
| Net cash provided by (used in) financing activities | 5 | 2 |
| Net increase (decrease) in cash during year | 16 | (13) |
| Other | 2 | 2 |
| Cash and Cash equivalents at start of year | 13 | 24 |
| Cash and Cash equivalents at end of year | \$31 | \$13 |
| | | |

| E36 Anticipated paying non-current debt | | | | | | | | |
|---|-------------|-------|---|-------|--|-----------------------------------|--------|--|
| = | Liabilities | | | S | | Debit | Credit | |
| = | + | CPLTD | + | LTD | | Long-term debt \$5 | | |
| = | + | + \$5 | + | - \$5 | | Current portion of long-term debt | \$5 | |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | COME | |
|--|-----------|-----------|--------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Other current liabilities (Current portion of long-term debt) Long-term borrowings | × | □ × | NONE | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| NONE | | | | | |
| | | | | | |
| | | | | | |

Complete Solution: E36 Anticipated paying non-current debt

At the end of interim periods during 2013, BGS reclassified a total of \$5 million of long-term debt principal from non-current to current liabilities. These transfers ensured that the current liability reported at the end of each period anticipated principal payments for the subsequent 12 months.

| E36 Anticipated paying non-current debt | | | | | | | | |
|---|---|-------|--------|-------|------------------------|--------------|--------|--|
| = | | Liab | ilitie | S | | Debit | Credit | |
| = | + | CPLTD | + | LTD | Long-term debt | \$5 | | |
| = | + | + \$5 | + | - \$5 | Current portion of lor | ng-term debt | \$5 | |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE INC | COME | |
|--|-----------|-----------|--------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Other current liabilities (Current portion of long-term debt) | x | | NONE | | |
| Long-term borrowings | | x | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| NONE | | | NONE | | x |
| | | | | | |
| | | | | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

| | AF AI AI C Ca | BISCHOFF GLOBAL SPORTSWEAR CHAI counts receivable RG Accounts receivable, gross Ibd Allowance for bad debts Ibjrr Allowance for product returns: revenue component ash and cash equivalents ventories inv Materials inventories | RT OF ACCOUNTS OWNERS' EQUI Permanent | RE SCap OPOE | Retained earnings Share capital Other permanent owners' equity |
|----------------------------|--|--|---|--------------------|--|
| Current | AF AI AI C Ca nven Inv Mi | RG Accounts receivable, gross Ibd Allowance for bad debts Iprr Allowance for product returns: revenue component ash and cash equivalents ventories State | Permanent | RE SCap OPOE | Share capital Other permanent owners' equity |
| | AF AI AI C Ca nven Inv Mi | RG Accounts receivable, gross Ibd Allowance for bad debts Iprr Allowance for product returns: revenue component ash and cash equivalents ventories State | _ | RE SCap OPOE | Share capital Other permanent owners' equity |
| | AF AI AI C Ca nven Inv Mi | RG Accounts receivable, gross Ibd Allowance for bad debts Iprr Allowance for product returns: revenue component ash and cash equivalents ventories State | Net income | SCap OPOE | Share capital Other permanent owners' equity |
| - - - - - - | Al Al C Ca nven In Mi | Ibd Allowance for bad debts Iprr Allowance for product returns: revenue component ash and cash equivalents ventories | Net income | OPOE | Other permanent owners' equity |
| - - - - | Al C Ca nven Inv Mi | Ilprr Allowance for product returns: revenue component ash and cash equivalents ventories | Net income | | |
| | C Ca nven Inv Mi | ash and cash equivalents ventories | Net income | | |
| | nven Inv Mi | ventories | _ | | |
| | Mi | | 1 | AmtEx | Amortization expense |
| - | | Anteriolo inventorios | | CGS | Cost of goods sold |
| - | w | | _ | | Depreciation expense |
| _ | | | | | Finance expense |
| | FC | | _ | G/L | Gain/loss |
| | SI | | _ | | PPEGL Gain/Loss on PP&E disposals |
| | | prc Segregated inventories: product returns allowance cost component | _ | | ONOGL Other non-operating gains/losses |
| | | repaid expenses | _ | IncS | Income summary |
| | | ther current assets | | | Miscellaneous SG&A expense |
| Non-current | | | - | Rev | Revenues, net |
| P | | operty, plant, and equipment, net | | | Grev Gross revenue |
| _ | | PEhc PP&E (historical cost) | | | PRCnR Product returns contra revenue |
| _ | | cDep Accumulated depreciation | | | Other SG&A expense |
| Ir | | cquired intangibles | | 001 | Other operating income net of expenses |
| | | thc Intangibles (historical cost) | _ | ONOI | Other non-operating income net of expenses |
| _ | | cAmt Accumulated amortization | | | |
| | ONCA Ot | ther non-current assets | | | |
| LIABILITIES | | | | | |
| Current | | | | | |
| A | AP Ac | ccounts payable | | | |
| A | | ccrued liabilities | | | |
| | | urrent portion of long-term debt | | | |
| | | vidend payable | | | |
| D | | eferred revenue | 7 | | |
| c | OCL Ot | ther current liabilities | 7 | | |
| Non-current | | | | | |

E37 Recognized lease classified as finance lease

On December 20, 2013, equipment leased by BGS was installed and ready to use. BGS chose not to put it into service until January 10, 2014. BGS concluded the lease met the IFRS criteria for a finance lease and estimated its present value to be \$20 million. Finance leases are recorded under IFRS when the lessee has the right to use property. ["Finance lease" is also call "capital lease" in this context.]

Record the entry in the space below:



BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION

| December 31, 2013 and December 31, 2012 | | |
|--|-----------------------|--------------|
| (In Millions) Assets Current | 2013 | 2012 |
| Cash and cash equivalents | \$31 | \$13 |
| Accounts receivable, net | پ ون 84 | ب |
| Inventories | 158 | 109 |
| | 10 | 20 |
| Prepaid expenses Other current assets | | 158 |
| | 219 | |
| Total current assets Non-current | 502 | 366 |
| Property, plant, and equipment: | | |
| Historical cost of PP&E | 264 | 220 |
| Less accumulated depreciation | (70) | (45) |
| Net | 194 | 175 |
| Other non-current assets | 233 | 199 |
| Total non-current assets | 427 | 374 |
| Total assets | \$929 | \$740 |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current | | |
| Accounts payable | 25 | 35 |
| Accrued liabilities | 14 | 20 |
| Dividends payable | 12 | 7 |
| Other current liabilities | 58 | 61 |
| Total current liabilities | 109 | 123 |
| Non-current | | |
| Long-term borrowings | 105 | 60 |
| Other non-current liabilities | 102 | 71 |
| Total non-current liabilities | 207 | 131 |
| Total liabilities | 316 | 254 |
| Stockholders' equity | | |
| Share capital | 253 | 214 |
| Retained earnings | 310 | 239 |
| Reserves | 50 | 33 |
| Total stockholders' equity | 613 | 486 |
| Total liabilities and stockholders' equity | \$929 | \$740 |
| | | |

| E3 | E37 Recognized lease classified as finance lease | | | | | | | | |
|----|--|---|---|------------|--|------------------------|-------|--------|--|
| | Assets | Ш | L | iabilities | | | Debit | Credit | |
| + | PPEhc | Ш | + | LTD | | PP&E (historical cost) | \$20 | | |
| + | + \$20 | = | + | + \$20 | | Long-term debt | | \$20 | |

Identify the balance sheet line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "cash and cash equivalents" rather than "cash" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | |
|----------------------------------|-----------|-----------|
| Line Items | Increases | Decreases |
| | | |
| | | |
| | | |
| | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF COMPREHENSIVE INCOME

| For years ended December 31, 2012 and 2013 | | |
|--|-------|-------|
| (In Millions) | 2013 | 2012 |
| Net revenues | \$505 | \$440 |
| Cost of goods sold | (253) | (220) |
| Gross profit | 252 | 220 |
| Selling, general, and administrative expenses: | | |
| Depreciation | (7) | (6) |
| Other selling, general, and administrative | (117) | (105) |
| Total | (124) | (111) |
| Other operating income and (expense): | | |
| Gain (loss) on sale of building | 3 | 3 |
| Other | (3) | (3) |
| Total | 0 | 0 |
| Operating profit | 128 | 109 |
| Other income and (expenses) | 1 | 1 |
| Profit before taxes | 129 | 110 |
| Income tax expense | (40) | (34) |
| Net profit (loss) | 89 | 76 |
| Other comprehensive income | 24 | 24 |
| Comprehensive income (loss) | \$113 | \$100 |

| E3 | E37 Recognized lease classified as finance lease | | | | | | | | | |
|----|--|---|---|------------|--|------------------------|-------|--------|--|--|
| | Assets | = | L | iabilities | | | Debit | Credit | | |
| + | PPEhc | = | + | LTD | | PP&E (historical cost) | \$20 | | | |
| + | + \$20 | = | + | + \$20 | | Long-term debt | | \$20 | | |

Identify the income statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "net revenues" rather than "revenue" or "sales" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | | STATEMENT OF COMPREHENSIVE IN | COME | |
|----------------------------------|-----------|-----------|-------------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Historical cost of PP&E | X | | | | |
| Long-term borrowings | X | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CHANGES IN EQUITY

| (In Millions) | Share Capital | Retained Earnings | Reserves | Total |
|--------------------------|------------------|----------------------|----------|-------|
| December 31, 2011 | \$180 | \$179 | \$16 | \$375 |
| Comprehensive income | | | | |
| Profit (loss) | | 76 | | 76 |
| Other comprehensive inco | me | | 24 | 24 |
| Total | | 76 | 24 | 100 |
| Common stock issued | 7 | | | 7 |
| Dividends declared | | (23) | | (23) |
| Other | 27 | 7 | (7) | 34 |
| December 31, 2012 | \$214 | \$239 | \$33 | \$486 |
| Comprehensive income | | | | |
| Profit (loss) | | 89 | | 89 |
| Other comprehensive inco | me | | 24 | 24 |
| Total | | 89 | 24 | 113 |
| Common stock issued | 10 | | | 10 |
| Dividends declared | | (25) | | (25) |
| Other | 29 | 7 | (7) | 29 |
| December 31, 2013 | \$253 | \$310 | \$50 | \$613 |

| E37 Recognized lease classified as finance lease | | | | | | | | | |
|--|---------------------------------|--|--|--|--|--|--|--|--|
| Assets = Liabil | ilities Debit Credit | | | | | | | | |
| + PPEhc = + L | LTD PP&E (historical cost) \$20 | | | | | | | | |
| + + \$20 = + + | + \$20 Long-term debt \$20 | | | | | | | | |

Identify the statement of changes in owners' equity line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry. **Note: "profit (loss)" not a total on the statement of changes in owners' equity.** Be aware of totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | |
|----------------------------------|-----------|-----------------------------------|------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Historical cost of PP&E | X | | NONE | | |
| Long-term borrowings | х | | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | | | |
| Line Items | Increases | Decreases | | | |
| | | | | | |
| | | | | | |
| | | | | | |

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CASH FLOWS

| (In Millions)20132012Cash flows from operating activitiesNet profit\$89\$76Adjustments(Gain) loss on sale of PP&E(3)(3)Depreciation3228Accounts receivable0(38)Inventories(32)(36)Prepaid expenses1513Accounts payable(22)(21)Accrued liabilities(12)(10)Other2916Net cash provided by (used in) operations9625Cash flows from investing activities7Payments for property, plant, and equipment(20)(17)Proceeds from disposal of property, plant, and equipment1514Other investing cash flows(80)(37)Net cash provided by (used in) investing activities(85)(40)Cash flows from financing activities(85)(40)Cash flows from financing activities09Payment of dividends(20)(18)Other financing cash flows54Net cash provided by (used in) financing activities52Net cash provided by (used in) financing activities52 <t< th=""><th>For years ended December 31, 2012 and 2013</th><th></th><th></th></t<> | For years ended December 31, 2012 and 2013 | | |
|--|--|------|----------|
| Net profit Adjustments\$89\$76Adjustments(Gain) loss on sale of PP&E(3)(3)Depreciation3228Accounts receivable0(38)Inventories(32)(36)Prepaid expenses1513Accounts payable(22)(21)Accrued liabilities(12)(10)Other2916Net cash provided by (used in) operations9625Cash flows from investing activities76Payments for property, plant, and equipment1514Other investing cash flows(80)(37)Net cash provided by (used in) investing activities(85)(40)Cash flows from financing activities(85)(40)Cash flows from financing activities107Proceeds from issue of share capital107Proceeds from borrowings109Payment of dividends(20)(18)Other financing cash flows54Net cash provided by (used in) financing activities52Net increase (decrease) in cash during year16(13) | (In Millions) | 2013 | 2012 |
| Adjustments(Gain) loss on sale of PP&E(3)(Gain) loss on sale of PP&E(3)Depreciation32Accounts receivable0Inventories(32)Accounts payable(22)Accounts payable(22)Accued liabilities(12)Other29Payments for property, plant, and equipment15Other investing cash flows(80)Payments for property, plant, and equipment(20)Other investing cash flows(80)Other investing cash flows(80)Other investing cash flows(80)Other investing cash flows(80)Other investing cash flows(20)Net cash provided by (used in) investing activities(80)Proceeds from financing activities(40)Cash flows from financing activities0Proceeds from borrowings10Payment of dividends(20)Other financing cash flows544Net cash provided by (used in) financing activities5Descende flows5Other financing cash flows5At cash provided by (used in) financing activities5Descende flows5At cash provided by (used in) financing activities5Other financing cash flows5At cash provided by (used in) financing activities5Other financing cash flows5At cash provided by (used in) financing activities5At cash provided by (used in) financing activities <t< td=""><td>Cash flows from operating activities</td><td></td><td></td></t<> | Cash flows from operating activities | | |
| (Gain) loss on sale of PP&E(3)(3)Depreciation3228Accounts receivable0(38)Inventories(32)(36)Prepaid expenses1513Accounts payable(22)(21)Accrued liabilities(12)(10)Other2916Net cash provided by (used in) operations9625Cash flows from investing activities9625Payments for property, plant, and equipment(20)(17)Proceeds from disposal of property, plant, and equipment1514Other investing cash flows(80)(37)Net cash provided by (used in) investing activities(85)(40)Cash flows from financing activities07Proceeds from borrowings109Payment of dividends(20)(18)Other financing cash flows54Net cash provided by (used in) financing activities52Net cash provided by (used in) financing activities52Net cash provided by (used in) financing activities16(13) | Net profit | \$89 | \$76 |
| Depreciation3228Accounts receivable0(38)Inventories(32)(36)Prepaid expenses1513Accounts payable(22)(21)Accrued liabilities(12)(10)Other2916Net cash provided by (used in) operations9625Cash flows from investing activities9625Payments for property, plant, and equipment(20)(17)Proceeds from disposal of property, plant, and equipment1514Other investing cash flows(80)(37)Net cash provided by (used in) investing activities(85)(40)Cash flows from financing activities07Proceeds from borrowings107Proceeds from borrowings109Payment of dividends(20)(18)Other financing cash flows54Net cash provided by (used in) financing activities52Net cash provided by (used in) financing activities52Net cash provided by (used in) financing activities52Net increase (decrease) in cash during year16(13) | Adjustments | | |
| Accounts receivable0(38)Inventories(32)(36)Prepaid expenses1513Accounts payable(22)(21)Accrued liabilities(12)(10)Other2916Net cash provided by (used in) operations9625Cash flows from investing activities9625Payments for property, plant, and equipment(20)(17)Proceeds from disposal of property, plant, and equipment1514Other investing cash flows(80)(37)Net cash provided by (used in) investing activities(85)(40)Cash flows from financing activities07Proceeds from borrowings109Payment of dividends(20)(18)Other financing cash flows54Net cash provided by (used in) financing activities52Net cash provided by (used in) financing activities52Net cash provided by (used in) financing activities16(13) | (Gain) loss on sale of PP&E | (3) | (3) |
| Inventories(32)(36)Prepaid expenses1513Accounts payable(22)(21)Accrued liabilities(12)(10)Other2916Net cash provided by (used in) operations9625Cash flows from investing activities9625Payments for property, plant, and equipment(20)(17)Proceeds from disposal of property, plant, and equipment1514Other investing cash flows(80)(37)Net cash provided by (used in) investing activities(85)(40)Cash flows from financing activities(85)(40)Cash flows from financing activities107Proceeds from borrowings109Payment of dividends(20)(18)Other financing cash flows54Net cash provided by (used in) financing activities52Net cash provided by (used in) financing activities16(13) | Depreciation | 32 | 28 |
| Prepaid expenses1513Accounts payable(22)(21)Accrued liabilities(12)(10)Other2916Net cash provided by (used in) operations9625Cash flows from investing activities9625Payments for property, plant, and equipment(20)(17)Proceeds from disposal of property, plant, and equipment1514Other investing cash flows(80)(37)Net cash provided by (used in) investing activities(85)(40)Cash flows from financing activities(85)(40)Cash flows from financing activities107Proceeds from borrowings109Payment of dividends(20)(18)Other financing cash flows54Net cash provided by (used in) financing activities52Net cash provided by (used in) financing activities16(13) | Accounts receivable | 0 | (38) |
| Accounts payable(22)(21)Accrued liabilities(12)(10)Other2916Net cash provided by (used in) operations9625Cash flows from investing activities9625Payments for property, plant, and equipment(20)(17)Proceeds from disposal of property, plant, and equipment1514Other investing cash flows(80)(37)Net cash provided by (used in) investing activities(85)(40)Cash flows from financing activities07Proceeds from borrowings107Proceeds from borrowings109Payment of dividends(20)(18)Other financing cash flows54Net cash provided by (used in) financing activities52Net cash provided by (used in) financing activities16(13) | Inventories | (32) | (36) |
| Accrued liabilities(12)(10)Other2916Net cash provided by (used in) operations9625Cash flows from investing activities9625Payments for property, plant, and equipment(20)(17)Proceeds from disposal of property, plant, and equipment1514Other investing cash flows(80)(37)Net cash provided by (used in) investing activities(85)(40)Cash flows from financing activities107Proceeds from issue of share capital107Proceeds from borrowings109Payment of dividends(20)(18)Other financing cash flows54Net cash provided by (used in) financing activities52Net cash provided by (used in) financing activities16(13) | Prepaid expenses | 15 | 13 |
| Other2916Other2916Net cash provided by (used in) operations9625Cash flows from investing activities20(17)Proceeds from disposal of property, plant, and equipment1514Other investing cash flows(80)(37)Net cash provided by (used in) investing activities(85)(40)Cash flows from financing activities107Proceeds from issue of share capital107Proceeds from borrowings109Payment of dividends(20)(18)Other financing cash flows54Net cash provided by (used in) financing activities52Net cash provided by (used in) financing activities52Net cash provided by (used in) financing activities16(13) | Accounts payable | (22) | (21) |
| Net cash provided by (used in) operations9625Cash flows from investing activities9625Payments for property, plant, and equipment(20)(17)Proceeds from disposal of property, plant, and equipment1514Other investing cash flows(80)(37)Net cash provided by (used in) investing activities(85)(40)Cash flows from financing activities107Proceeds from issue of share capital107Proceeds from borrowings109Payment of dividends(20)(18)Other financing cash flows54Net cash provided by (used in) financing activities52Net increase (decrease) in cash during year16(13) | Accrued liabilities | (12) | (10) |
| Cash flows from investing activities(20)Payments for property, plant, and equipment(20)Proceeds from disposal of property, plant, and equipment15Other investing cash flows(80)Other investing cash flows(80)Cash provided by (used in) investing activities(85)Proceeds from financing activities(40)Proceeds from issue of share capital10Proceeds from borrowings10Payment of dividends(20)Other financing cash flows5A4Net cash provided by (used in) financing activities5Deter financing cash flows5A2Net cash provided by (used in) financing activities5(13)16 | Other | 29 | 16 |
| Payments for property, plant, and equipment(20)(17)Proceeds from disposal of property, plant, and equipment1514Other investing cash flows(80)(37)Net cash provided by (used in) investing activities(85)(40)Cash flows from financing activities107Proceeds from issue of share capital107Proceeds from borrowings109Payment of dividends(20)(18)Other financing cash flows54Net cash provided by (used in) financing activities52Net increase (decrease) in cash during year16(13) | | 96 | 25 |
| Proceeds from disposal of property, plant, and equipment1514Other investing cash flows(80)(37)Net cash provided by (used in) investing activities(85)(40)Cash flows from financing activities107Proceeds from issue of share capital107Proceeds from borrowings109Payment of dividends(20)(18)Other financing cash flows54Net cash provided by (used in) financing activities52Net increase (decrease) in cash during year16(13) | | | |
| Other investing cash flows(80)(37)Net cash provided by (used in) investing activities(85)(40)Cash flows from financing activities107Proceeds from issue of share capital107Proceeds from borrowings109Payment of dividends(20)(18)Other financing cash flows54Net cash provided by (used in) financing activities52Net increase (decrease) in cash during year16(13) | | . , | · · / |
| Net cash provided by (used in) investing activities(85)(40)Cash flows from financing activities(40)Proceeds from issue of share capital107Proceeds from borrowings109Payment of dividends(20)(18)Other financing cash flows54Net cash provided by (used in) financing activities52Net increase (decrease) in cash during year16(13) | | | |
| Cash flows from financing activitiesProceeds from issue of share capital10Proceeds from borrowings10Payment of dividends(20)Other financing cash flows5A4Net cash provided by (used in) financing activities5Net increase (decrease) in cash during year16 | S S S S S S S S S S S S S S S S S S S | | <u> </u> |
| Proceeds from issue of share capital107Proceeds from borrowings109Payment of dividends(20)(18)Other financing cash flows54Net cash provided by (used in) financing activities52Net increase (decrease) in cash during year16(13) | | (85) | (40) |
| Proceeds from borrowings109Payment of dividends(20)(18)Other financing cash flows54Net cash provided by (used in) financing activities52Net increase (decrease) in cash during year16(13) | | | |
| Payment of dividends(20)(18)Other financing cash flows54Net cash provided by (used in) financing activities52Net increase (decrease) in cash during year16(13) | | | - |
| Other financing cash flows54Net cash provided by (used in) financing activities52Net increase (decrease) in cash during year16(13) | 5 | | |
| Net cash provided by (used in) financing activities52Net increase (decrease) in cash during year16(13) | , | | (18) |
| Net increase (decrease) in cash during year 16 (13) | , s | | |
| | | | |
| Other 2 2 | , , , | | • • |
| | Other | 2 | 2 |
| Cash and Cash equivalents at start of year <u>13</u> <u>24</u> | | | |
| Cash and Cash equivalents at end of year | Cash and Cash equivalents at end of year | \$31 | \$13 |

| E37 Recognized lease classified as finance lease | | | | | | | | |
|--|--------|---|---|------------|--|------------------------|-------|--------|
| | Assets | Ш | L | iabilities | | | Debit | Credit |
| + | PPEhc | Ш | + | LTD | | PP&E (historical cost) | \$20 | |
| + | + \$20 | I | + | + \$20 | | Long-term debt | | \$20 |

Identify the cash flow statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

Guidance

- (1) Determine the appropriate line item(s) affected using BGS's statement. For example, list "profit (loss)" rather than "net income" because this is how it's reported on BGS's statement.
- (2) Don't list totals or subtotals indirectly affected by the entry with one exception. Identify the subtotal "net cash provided by (used in) operations" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals. Be aware of other totals and subtotals when identifying ratio effects, but do not list them here.
- (3) Three lines were included below, but you may need none or more than one. Write "NONE" if no line item is affected on the statement.
- (4) Put an X in the appropriate column if the entry increased or decreased the number reported for the line item. For example, if the reported number is negative on BGS's statement and it changes from -2 to -3, it decreases; if it changes from 2 to 1, it increases.

(5) Check your answer with the solution on the next page.

| Line Items Increases Decreases Line Items Increases Decreases Historical cost of PP&E X NONE Increases Decreases | reases |
|--|--------|
| Historical cost of PP&E X NONE [| |
| | |
| Long-term borrowings | |
| | \Box |
| STATEMENT OF CHANGES IN EQUITY STATEMENT OF CASH FLOWS | |
| Line Items Increases Decreases Line Items Increases Dec | reases |
| NONE | |
| | |
| | |

Complete Solution: E37 Recognized lease classified as finance lease

"On December 20, 2013, equipment leased by BGS was installed and ready to use. BGS chose not to put it into service until January 10, 2014. BGS concluded the lease met the IFRS criteria for a finance lease and estimated its present value to be \$20 million. Finance leases are recorded under IFRS when the lessee has the right to use property. ["Finance lease" is also call "capital lease" in this context.]"

| E37 Recognized lease classified as finance lease | | | | | | | | |
|--|--------|---|---|------------|--|------------------------|-------|--------|
| Г | Assets | = | L | iabilities | | | Debit | Credit |
| + | PPEhc | = | + | LTD | | PP&E (historical cost) | \$20 | |
| + | + \$20 | = | + | + \$20 | | Long-term debt | | \$20 |

Identify the financial statement line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects:

| STATEMENTS OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | | | |
|----------------------------------|-----------|-----------------------------------|-------------------------|-----------|-----------|
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| Historical cost of PP&E | x | | NONE | | |
| Long-term borrowings | х | | | | |
| | | | | | |
| STATEMENT OF CHANGES IN EQUITY | | | STATEMENT OF CASH FLOWS | | |
| Line Items | Increases | Decreases | Line Items | Increases | Decreases |
| NONE | | | NONE | | |
| | | | | | |
| | | | | | |

Next step: Extend this exercise using a real company's financial statements to identify line items directly affected by this entry, including the effect(s) of closing entries, and the direction of the effects.

Watch for effects on fewer line items if amounts are netted together or effects on more line items if the company discloses more details. Also watch for synonyms and other differences like negative or positive reported numbers.

Related entries:

You may want to review the following entries in the context of a finance (capital) lease:

| Long-Lived Assets Entries | <u>page 217</u> |
|---------------------------|-----------------|
| Debt Entries | <u>page 224</u> |

- Because PP&E and long-term debt are recorded at the commencement of a finance (capital) lease, all the accounting entries thereafter are structurally identical to those that would have been recorded if the company had purchased the PP&E with debt financing. However, "depreciation" may be referred to as "amortization" by some companies.
- This means that if you understand how to account for PP&E and long-term debt, you know how to account for finance (capital) leases during the lease term.