<u>Question 1 (40 points --- 8 points each)</u>

For each event in (1) – (5):

(a) Record the transactions (if necessary) using either the balance sheet equation or the journal entry approach. Be specific about account names. Be sure to label each account as Asset (A) , Liability (L), or Equity (E). Equity (E) includes income statement items (i.e. revenue and expense accounts).

(b) Indicate the effect of the transactions on the <u>Indirect</u> Cash Flow Statement (start with net income and reconcile to Cash from Operations). Specify whether it affects the operating, investing or financing section and indicate the net cash effects of each section affected by the transaction. If there is no effect, write “no effect”.

The first event is given as example.

Event/Transaction	Statement of Cash Flows
Example: Recognize $8,000 of SG&A expense, of which $2,500 is paid. *<u>Cash (A)</u> = <u>Accrued Expenses (L)</u> + <u>Ret. Earnings (E)</u>* *-2,500 + 5,500 -8,000* *or* *Dr: SG&A Expense (E) 8,000* *Cr: Cash (A) 2,500* *Accrued Expenses (L) 5,500*	*<u>Operating Section</u>* *Net Income ¯ $8,000.* *Add back $5,500 (increase in Accrued Liabilities)* *Net cash flow effect = -$2,500.*

Event/Transactions	Statement of Cash Flows
(a) The company receives $50,000 cash for orders which will be delivered during the next fiscal year. The company acquires $30,000 inventory on account to fill the order.	
(b) The company delivers the all of the goods ordered in (a).	
(c) Warehouse flooding ruins $5,000 of inventory which is thrown away. No provision had been made for damaged inventory.	

Event/Transactions	Statement of Cash Flows
(d) The company rents office space for one year, paying the entire year’s rent of $12,000 in advance and recognizing the first month’s rental expense.	
(e) The company borrows $15,000 from the bank and purchases office equipment for $10,000 cash	

Question 2: Accounts Receivable (16 Points)

The following is an excerpt from the 10-K of Tootsie Roll Industries Inc.:

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Tootsie Roll Industries, Inc. and its consolidated subsidiaries (the
"Company") have been engaged in the manufacture and sale of candy for over 100
years. This is the only industry segment in which the Company operates and is
its only line of business. The majority of the Company's products are sold under
the registered trademarks TOOTSIE ROLL, TOOTSIE ROLL POPS, CHILD'S PLAY, CARAMEL
APPLE POPS, CHARMS, BLOW-POP, BLUE RAZZ, ZIP-A-DEE-DOO-DA POPS, CELLA'S, MASON
DOTS, MASON CROWS, JUNIOR MINT, CHARLESTON CHEW, SUGAR DADDY, SUGAR BABIES,
ANDES AND FLUFFY STUFF.
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Please refer to the financial statements for Tootsie Roll for additional information. Assume all sales are on account and there are no deferred revenues.

a. (3 points) What is the gross amount of Tootsie Roll's accounts receivable at the end of 2000?

b. (4 points) What percentage of these receivables does management estimate to be uncollectible? How does this compare with 1999?

c. (5 points) Using the balance sheet equation format or journal entries, reconstruct the transactions for (a) bad debt expense and (b) the actual write-offs of uncollectible accounts for the year ended December 31, 2000.

d. (4 points) Estimate the amount of cash Tootsie Roll collected from customers in 2000.

Question 3: Inventory (15 points)

Please refer to the financial statements for Tootsie Roll for additional information. The following footnote appears in Tootsie Roll's 2000 10K:

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INVENTORIES:

  Inventories are stated at cost, not in excess of market. The cost of
inventories ($37,505 and $29,111 at December 31, 2000 and 1999, respectively)
has been determined by the last-in, first-out (LIFO) method. The excess of
current cost over LIFO cost of inventories approximates $2,993 and $5,008 at
December 31, 2000 and 1999, respectively.
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a. (3 points) What is the 2000 LIFO reserve?

b. (4 points) Did Tootsie Roll experience inflation or deflation in raw materials costs during 2000? Provide evidence in support of your answer.

c. (8 points) Compute Tootsie Roll's inventory turnover (COGS / Average Inventory) in 2000 under LIFO. Compute inventory turnover under FIFO. Which measure gives the more accurate economic picture of Tootsie Roll's performance? Why?

Question 4: Long-Lived Assets (14 points)

The following is an excerpt from the 10-K of William Wrigley Jr. Co's for 2000:

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The consolidated financial statements include the accounts of the Wm. Wrigley Jr.
Company and its associated companies (the Company). The Company's principal
business is manufacturing and selling chewing gum. All other businesses constitute
less than 10% of combined revenues, operating profit and identifiable assets.
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Please refer to Wrigley's balance sheet, statement of operations, and statement of cash when answering the following questions.

a. (3 points) What was the gain or loss associated with the sale of property, plant and equipment in 2000? Be sure to specify whether it was a gain or a loss.

b. (3 points) Record the transaction (you may use either the balance sheet equation format or journal entries) for the depreciation of property, plant and equipment for Wrigley for 2000?

c. (8 points) In addition to selling PP&E, Wrigley purchased some PP&E. Record the transactions for (a) the purchase and (b) sale of retired PP&E. There were no non-cash purchases in 2000.

Question 5: Miscellaneous (15 points)

Please refer to both Tootsie Roll's and Wrigley's financial statements when answering the following questions.

a. (6 points) Calculate the components of return on assets (using the formulas below) for Tootsie Roll and Wrigley for 2000. Use ending balances (vs. average balances) for the balance sheet accounts.

$$\text{ROA} = \text{Profitability} \times \text{Asset Turnover}$$

$$\frac{\text{Net Income}}{\text{Assets}} = \frac{\text{Net Income}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Assets}}$$

Tootsie Roll	____________	____________	____________
Wrigley	____________	____________	____________

b. (3 points) Which company generates higher returns from its assets? What is the source of the higher returns?

(This question continues on the following page.)

c. (6 points) Suppose it is determined in 2001 that Junior Mints cause amnesia in MBA students. Tootsie Roll must reduce the value of intangible assets (the Junior Mints brand name) by $20 million. What would be the effect on each of the following ratios (increase, decrease, no effect)?

    i. Quick Ratio [(Cash + AR + Inventory) / Current Liabilities]

    ii. Return on Equity (Net Income / Shareholders' Equity)

    iii. Debt / Total Assets