Instructions:

Solutions must appear on the sheet where the problem appears. You may use Excel to solve the problem but cut and paste onto the Word Document. You may extend the number of sheets as necessary. The objective is to show the solutions directly after the problem which will facilitate grading.

Show all computations

1. (6 points)
   List three users of financial accounting information and explain how each might use financial information.

2. **(17 points)**
   Organic Floral is an organic flower shop. After its first quarter of operations, the company's accountant prepared the following trial balance, in alphabetical order. The accountant also tells you that net income for the quarter was $35,000.

   Use the trial balance along with the net income information to prepare a balance sheet for Organic Floral.

	Debits	Credits
Accounts payable		$4,600
Accounts receivable	$400	
Bank loan for van		26,400
Cash	26,000	
Common stock		2,000
Cost of goods sold	24,000	
Delivery van	36,000	
Gas for van	1,000	
Tax expense	4,000	
Insurance expense	2,000	
Inventory	7,600	
Prepaid insurance	2,000	
Rent expense	3,000	
Salaries expense	16,000	
Sales		85,000
Taxes payable		4,000
Total	$122,000	$122,000

3. (13 points)
Following is cash flow information for Home Furniture Inc. for three recent years. Prepare the statements of cash flow for 2011 through 2013.

(in thousands)	12/31/2013	12/31/2012	12/31/2011
Cash from operations		801,458	885,291
Cash from investing	(568,867)	(261,311)	(63,542)
Cash from financing	(409,752)	(998,959)	(316,732)
Cash at end of year	1,066,612		1,526,950

4. (10 points)
The unadjusted trial balance of Chicken Express for fiscal 2014, includes the following items:

	Debit	Credit
Inventory	$95,600	
Wages payable		$1,600
Prepaid insurance	7,600	
Taxes payable		0

Your analysis reveals additional information as follows:

- The cost of inventory items on hand is $46,400.
- Employee wages for the two weeks prior to year end were $15,600 and these will not be paid until the 2015 fiscal year (no other wages are owed).
- The unexpired portion of the company's insurance policy at year end was $9,200.
- The company's tax accountant reports that the company will owe $108,000 for income taxes for fiscal 2014.

Prepare journal entries for any required accounting adjustments.

5. (7 points)
The December 28, 2013 income statement of Snap-On Incorporated includes the amounts shown below. The company paid dividends of $93.2 (in millions). Prepare the closing entries for the company for 2013.

(in millions)	
Net sales	$3,056.5
Deferred revenue	1,567.0
Cost of goods sold	1,583.6
Other operating expenses	1,012.4
Interest expense, net	60.0
Accumulated depreciation	245.0
Operating income from financial services	125.7
Income tax expense	166.7

6. (19 points)

1. Income statements and balance sheets follow for The New York Times Company. Refer to these financial statements to answer the requirements.

The New York Times Company
Consolidated Statements of Income

(in thousands)	Fiscal year ended Dec. 29, 2013	Dec. 30, 2012
Operating revenues		
Circulation	$ 824,277	$ 795,037
Advertising	666,687	711,829
Other	86,266	88,475
Total revenues	1,577,230	1,595,341
Production Costs		
Raw materials	92,886	106,381
Wages and benefits	332,085	331,321
Other	201,942	213,616
Total production costs	626,913	651,318
Selling, general and administrative expenses	706,354	711,112
Depreciation and amortization	78,477	78,980
Total operating costs	1,411,744	1,441,410
Pension settlement expense	3,228	47,657
Multiemployer pension plan withdrawal expense	6,171	0
Other expense	0	2,620
Operating profit	156,087	103,654
Gain on sale of investments	0	220,275
Impairment of investments	0	5,500
(Loss)/income from joint ventures	(3,215)	2,936
Premium on debt redemption	0	0
Interest expense, net	58,073	62,808
Income from continuing operations before income taxes	94,799	258,557
Income tax expense	37,892	94,617
Income from continuing operations	56,907	163,940
Discontinued operations:		
(Loss) from discontinued operations, net of tax	(20,413)	(113,447)
Gain on sale, net of tax	28,362	85,520
Income/(loss) from discontinued operations, net of tax	7,949	(27,927)
Net income/(loss)	64,856	136,013
Net (income)/loss attributable to the noncontrolling interest	249	(166)
Net income/(loss) attributable to New York Times Company common stockholders	65,105	135,847

The New York Times Company
Consolidated Balance Sheets

(in thousands)	As of Dec. 29, 2013	As of Dec. 30, 2012
Cash and cash equivalents	$ 482,745	$ 820,490
Short-term investments	364,880	134,820
Accounts receivable, net	202,303	197,589
Deferred income taxes	65,859	58,214
Prepaid assets	20,250	23,085
Other current assets	36,230	26,320
Assets held for sale	0	137,050
Total current assets	1,172,267	1,397,568
Long-term marketable securities	176,155	4,444
Investments in joint ventures	40,213	40,872
Property plant and equipment, net	713,356	773,469
Goodwill, net	125,871	122,691
Deferred income taxes	179,989	302,212
Miscellaneous assets	164,701	166,214
Total assets	$2,572,552	$2,807,470
Accounts payable	$ 90,982	$ 88,990
Accrued payroll and other related liabilities	91,629	86,772
Unexpired subscriptions	58,007	57,336
Accrued expenses	107,755	118,753
Accrued incomes taxes	138	38,932
Liabilities held for sale	0	32,373
Total current liabilities	348,511	423,156
Long-term debt and capital lease obligations	684,142	696,752
Pension benefits obligation	444,328	737,889
Postretirement benefits obligation	90,602	110,347
Other	158,435	173,690
Total other liabilities	1,377,507	1,718,678
Stockholders' equity		
Common stock of $0.10 par value:		
Class A common stock	15,129	15,027
Class B convertible	82	82
Additional paid-in capital	33,045	25,610
Retained earnings	1,283,518	1,230,450
Common stock held in treasury, at cost	(86,253)	(96,278)
Accumulated other comprehensive income loss), net of tax	(402,611)	(512,566)
Total New York Times Company stockholders' equity	842,910	662,325
Noncontrolling interest	3,624	3,311

	2013	2012
Total stockholders' equity	846,534	665,636
Total liabilities and stockholders' equity	$2,572,552	$2,807,470

Required:

a. Compute net operating profit after tax (NOPAT) for 2013 and 2012. Assume that combined federal and state statutory tax rates are 37% for both years.
b. Compute net operating assets (NOA) for 2013 and 2012.
c. Compute return on net operating assets (RNOA) for 2013 and 2012. Net operating assets are $412,630 thousand in 2011.
d. Compute return on common shareholders equity (ROE) for 2013 and 2012. Stockholders' equity attributable to New York Times Company in 2011 is $506,360 thousand.
e. What is nonoperating return component of ROE for 2013 and 2012?
f. Comment on the difference between ROE and RNOA. What inference do you draw from this comparison?

7. (15 points)
The asset side of the 2013 balance sheet for CarMax Inc. is below.

CarMax, Inc.
CONSOLIDATED BALANCE SHEETS
As of February 28 or 29

(In thousands)	2013	2012
Cash and cash equivalents	$449,364	$ 442,658
Restricted cash from collection on auto loan receivables	224,287	204,314
Accounts receivable, net	91,961	86,434
Inventory	1,517,813	1,092,592
Deferred income taxes	5,193	9,938
Other current assets	21,513	17,512
Total current assets	2,310,131	1,853,448
Auto loan receivables, net	5,895,918	4,959,847
Property and equipment, net	1,428,970	1,278,722
Deferred income taxes	145,875	133,134
Other assets	107,708	106,392
Total assets	$9,888,602	$8,331,543

The footnotes to the annual report include the following:

(H) Inventory
Inventory is primarily comprised of vehicles held for sale or currently undergoing reconditioning and is stated at the lower of cost or market. Vehicle inventory cost is determined by specific identification. Parts and labor used to recondition vehicles, as well as transportation and other incremental expenses associated with acquiring and reconditioning vehicles, are included in inventory.

Required:

a. Does CarMax use the LIFO or the FIFO method of inventory costing? Explain.
b. Calculate common-sized inventories for both years and comment on any differences that you note. Given that the company is an automotive retailer, does this ratio seem appropriate?
c. At February 28, 2011, Inventory was $1,049,477 thousand. CarMax reports cost of sales of $9,498,456 thousand for the year ended February 28, 2013 and $8,624,838 thousand for the year ended February 29, 2012. Compute inventory turnover and average days inventory outstanding for both years. Do the two ratios tell the same story? Why or why not?
d. CarMax reports revenue of $10,962,818 thousand for the year ended February 28, 2013 and $10,003,599 thousand for the year ended February 29, 2012. Calculate gross profit margins for both years.
e. What is your opinion about the financial health of CarMax? Use the ratios you calculated above to support your opinion.

8. (5 points)

You are the CFO of a small start-up company and are trying to decide between using the straight-line depreciation method, the double-declining-balance depreciation method, or another use-based depreciation. What should you consider as you make your choice?

9. (11 points)

Selected financial information for Hewlett-Packard Corporation follows:

(in millions)	2013	2012
Average accounts payable	$ 13,685	$ 14,050
Year-end accounts payable	14,019	13,350
Sales (products)	72,398	77,887
Cost of goods sold (products)	55,632	59,468

Required:

a. Calculate accounts payable turnover (APT) for 2013 and 2012.
b. In general do companies prefer a higher or a lower APT? Why?
c. Calculate accounts payable days outstanding for both years.
d. What effect does the change in APT have on net cash flows from operating activities?

10. (5 points)

What is the difference between the reported gain (loss) on debt repurchase and the economic gain (loss) on the repurchase? How should such gains / losses be analyzed? Why are current values not reflected on a company's balance sheet?

11. (5 points)

As a shareholder of General Mills, how would you react to the following announcement? How would you expect the stock price to move? How does the company reflect the payment of cash dividends in its financial statements?

General Mills (NYSE: GIS) said today that its board of directors has approved an 8 percent dividend increase for General Mills common stock. The new quarterly dividend of $0.33 per share is payable Aug. 1, 2012, to shareholders of record July 10, 2012.

The new annualized dividend rate of $1.32 per share represents a yield of roughly 3.4 percent at recent market prices for General Mills shares.

"We view dividends and dividend growth as a key component of value creation for shareholders," said General Mills Chairman and Chief Executive Officer Ken Powell. Over the past five years, which was a challenging period for the capital markets overall, General Mills' dividends per share increased at an 11 percent compound annual rate. The company's dividend yield has averaged roughly 3 percent over this same period.

General Mills has one of the longest dividend histories in corporate America. The company and its predecessor firm have paid shareholder dividends, without interruption or reduction, for 113 years.

12. (18 points)

Below are excerpts from the 2013 Alleghany Corporation and Subsidiaries' balance sheet and statement of stockholders' equity:

($ in thousands)	2013	2012
Common stock Shares authorized: 2013 and 2012 – 22,000,000; issued and outstanding 2013 – 17,459,961; 2012 – 17,478,746	17,460	17,479
Contributed capital	3,613,151	3,619,912
Accumulated other comprehensive income	186,930	250,508
Treasury stock, at cost (2013 – 566,141 shares; 2012 – 351,532)	(213,911)	(175,818)
Retained earnings	3,320,127	2,691,706
Total stockholders' equity attributable to Alleghany stockholders	$6,923,757	$6,403,787

(in thousands)	Common Stock	Contributed Capital	Accumulated Other Comprehensive Income	Treasury Stock	Retained Earnings	Stockholders' Equity
Balance at December 31, 2012	$17,479	$3,619,912	$250,508	($175,818)	$2,691,706	$6,403,787
Net earnings	–	–	–	–	628,421	628,421
Other comprehensive loss, net:						
Retirement plans	–	–	(2,773)	–	–	(2,773)
Change in unrealized gains on investments, net	–	–	(24,919)	–	–	(24,919)
Change in unrealized currency translation adjustment, net	–	–	(35,886)	–	–	(35,886)
Comprehensive income	–	–	(63,578)	–	628,421	564,843
Dividends paid	–	–	–	–	–	–
Stock based compensation	–	–	–	–	–	–
Treasury stock purchase	–	–	–	(40,389)	–	(40,389)
Other, net	(19)	(6,761)	–	2,296	–	(4,484)
Balance at December 31, 2013	$17,460	$3,613,151	$186,930	($213,911)	$3,320,127	$6,923,757

Required:

a. How many common shares are issued at year-end 2013?
b. What is the par value of Alleghany's common stock?
c. At what average price was the common stock issued as of 2013?
d. Explain the treasury stock transaction of $40,389 thousand during the year.

e. How much was net income in 2013? How much was comprehensive income? Explain the difference between the two.