

MGMT 401 Financial Accounting

Fall 2017

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By signing this document, I acknowledge my obligations under the UCLA Anderson Honor Code and pledge to follow the ethical standards for exam taking it implies. Specifically, I pledge that I shall use only the allowed resources in taking this exam, (and use only the time permitted) and shall neither give nor receive any type of forbidden aid.

**1 2**

**Print Name  *Circle Section***

Show your computations in order to earn partial credit. An incorrect answer that does not show computations will not receive any points.

**Part 1: Financial Statements (30 points)**

Excerpts from AMD’s (Advanced Micro Devices, Inc.) 2016 10-K appear in a separate document. Please use this information to answer the following questions. Provide all relevant calculations.

1. What is AMD’s current ratio (Current Assets / Current Liabilities) for 2016? Is it likely that AMD can meet its current liabilities from current assets?

2530 / 1346

1. What is AMD’s rate of return on assets - ROA (**Gross margin** / Average Total Assets) for 2016? Breakdown this ratio into two components: profit margin (Gross margin / Net Revenue) and average total asset turnover (Net Revenue / Average Total Assets).

998 / ((3321 + 3084)/2)

Profit margin = 998 / 4272

Average total asset turnover = 4272 / ((3321 + 3084)/2)

1. What is AMD’s rate of return on equity - ROE (Net Income / Average Total Equity) for 2016?

ROE = -497 / ((416 – 412)/2)

1. What is AMD’s leverage ratio (Debt/ Average Total Equity) for 2016?

(440 + 1435) / ((416 – 412)/2)

1. What is AMD’s gross profit (Revenues-COGS) for 2016?

998

1. What is AMD’s ratio of cash flow from operations to net income for 2016?

90 / -497

1. How much cash did AMD collect from customers during 2016? Please include both accounts receivables and deferred income in your calculations.

= 4272 – 222 + 63 - 53

1. Assuming accounts payable (all payables) and inventories relate to COGS, please estimate how much cash AMD paid to suppliers during 2016.

= 3274 – 73 – 128 -10 - 58

1. Why is depreciation and amortization added to net income in arriving at cash provided by operations when we use the indirect method? Please provide amount and direction (plus or minus).

Affected net income but not cash

133 plus

1. Had AMD doubled the depreciation and amortization, what is the impact on the following (ignore taxes).

2016 Income Statement

Net income decrease

2016 Cash Flow from operations

No effect

2016 Balance Sheet

Asset and equity will decrease

1. By how much did AMD’s income tax expense for 2016 (stated as provision for income taxes) exceed or fall short of the income taxes it paid for 2016? (Both numbers are explicitly provided in the income statement and cash flows statement).

1. Please explain what might explain the difference between the income tax expense and income taxes paid in cash?
2. Using the Cash flows statement what was the amount of cash dividends paid during 2016?
3. Did AMD acquire any companies during fiscal year 2016?
4. What was the amount of cash AMD used to purchase property, plant and equipment in 2016?

**Part 2: Financial Statements (28 points)**

Identify an account listed on AMD’s 2016 Balance Sheet (attached) arising from each of the following timing differences that characterize accrual accounting:

1. Revenue recognized before cash is received.
2. Expense recognized after cash is paid.
3. Revenue recognized after cash is received.
4. Expense recognized before cash is paid.

For each event below, state the direction (positive or negative) and magnitude ($ amount) of how each balance sheet category would be affected **at the time of the event**: current assets (CA), non-current assets (NCA), current liabilities (CL), non-current liabilities (NCL), or equity (E), gross profit (GP), operating income (OI) or net income (NI). The company’s operating cycle is one year long.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Assets** | | **Liabilities** | |  |  |  |  |
| **Transaction** | **CA** | **NCA** | **CL** | **NCL** | **E** | **GP** | **OI** | **NI** |
| The company sold semiconductors to customers on credit for $100,000 (ignore the COGS). |  |  |  |  |  |  |  |  |
| The company purchased $80,000 of inventory on credit. |  |  |  |  |  |  |  |  |
| The company received cash advances of $60,000 from distributors. Product will be delivered within a year. |  |  |  |  |  |  |  |  |
| The company pays salary expense for workers directly involved in production, $50,000 with cash. |  |  |  |  |  |  |  |  |
| The company raised $500,000 in cash by issuing long-term debt. |  |  |  |  |  |  |  |  |
| The company accrues $10,000 of interest expense. The payment will be made within a year. |  |  |  |  |  |  |  |  |
| The company delivers semiconductors to customers for $100,000 (ignore the COGS). The costumers paid in advance last year. |  |  |  |  |  |  |  |  |
| The company records depreciation expense of $15,000 on PP&E that is not directly involved in manufacturing products or services. |  |  |  |  |  |  |  |  |

**Part3: Allowance for warranties (12 points)**

Using the footnote on warranties and indemnities and **ignoring** Changes in liability for pre-existing warranties during the period, including expirations, please answer the following questions:

1) What was the dollar amount of warranty expense recognized during fiscal year 2016?

2) What was the dollar amount of warranty service provided to costumers during fiscal year 2016?

3) What effect did this warranty service provided have on the income statement, cash flow from operations, and balance sheet during fiscal year 2016? (Assume that all warranty claims were paid in cash to employees that provided the repairs).

**Part4: Cash Flow Statement (30 points)**

Below is the balance sheet for American Science and Engineering, Inc., a firm that develops, manufactures, markets, and sells X-ray inspection and other detection products for homeland security.

**Note:**

* Net Income is $21,422
* Depreciation and amortization is $5,768.

REQUIRED:

Construct the section of the cash flow statement pertaining to operating activities using the indirect method. Please include all working capital accounts even if the change is zero.

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| --- | --- | --- |
| **Balance Sheet** |  |  |
| For the year ending December 31 | 2016 | 2015 |
| **Assets** |  |  |
| **Current assets** |  |  |
| Cash | 49,658 | 101,020 |
| Accounts Receivable | 25,439 | 37,180 |
| Short-term investments | 170,834 | 110,141 |
| Inventories | 48,179 | 46,992 |
| Prepaid expenses | 10,386 | 6,698 |
| Deferred income taxes | 3,329 | 3,469 |
| **Total Current Assets** | 307,825 | 305,500 |
|  |  |  |
| PP&E net | 17,998 | 18,559 |
| **Total Assets** | 325,823 | 324,059 |
|  |  |  |
| **Liabilities and Equity** |  |  |
| **Current Liabilities** |  |  |
| Accounts payable | 7,461 | 9,378 |
| Accrued salaries and benefits | 11,722 | 15,988 |
| Accrued warranty costs | 358 | 1,225 |
| Deferred revenue | 16,731 | 16,924 |
| Current portion of lease financing liability | 1,351 | 1,321 |
| **Total Current Liabilities** | 37,623 | 44,836 |
|  |  |  |
| lease financing liability | 4,403 | 5,755 |
| Deferred revenue | 2,913 | 3,288 |
|  |  |  |
| Equity | 280,884 | 270180 |
| **Total Liabilities and Equity** | 325,823 | 320,593 |

**Statement of Cash Flows**

**For the Year Ended 12/31/2016**

|  |  |
| --- | --- |
| Net income |  |
|  |  |
| Adjustments to reconcile net income to operating cash flows: |  |
| Depreciation and amortization expense |  |
| Other:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |
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| Changes in operating assets and liabilities: |  |
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| Cash flow from operating activities |  |