ILLINOIS
Gies College of Business

Financial Accounting

Module 4 Cases

Oktay Urcan

QUESTION ONE

Refer to the 2017 annual report of Samsung Electronics Co., Ltd. Using the information in the statements of financial position, statements of profit or loss, and the excerpts of the notes provided below, please answer the following questions.

1. What is the amount of trade receivables as of December 31, 2017, that Samsung Electronics does not expect to collect?

Provisions for impairment (note 10, table A): 639,223 million Korean Won

QUESTION ONE

10. Trade and Other Receivables

(A) Trade and other receivables as at December 31, 2017 and 2016 are as follows:

(In millions of Korean won)	December 31, 2017		December 31, 2016	
	Trade	Non-Trade	Trade	Non-Trade
Receivables	₩ 30,316,958	₩ 4,275,407	₩ 24,704,524	₩ 3,582,229
Less: Provisions for impairment	(639,223)	(27,305)	(420,889)	(25,503)
Receivables, net	29,677,735	4,248,102	24,283,635	3,556,726
Less: Non-current portion	(1,981,740)	(139,141)	(4,424)	(35,529)
Current portion	₩ 27,695,995	₩ 4,108,961	₩ 24,279,211	₩ 3,521,197

QUESTION ONE

2. What is the amount of trade receivables written-off in 2017?

Receivables written off (note 10, table B): 14,367 million Korean Won

QUESTION ONE

(B) Movements in the provisions for impairment of receivables for the years ended December 31, 2017 and 2016 are as follows:

(In millions of Korean won)	2017 Trade	2017 Non-Trade	2016 Trade	2016 Non-Trade
Balance as at January 1	₩ 420,889	₩ 25,503	₩ 326,861	₩ 49,291
Provisions for impaired receivables / (reversals of unused amounts)	206,561	8,277	117,207	(19,209)
Receivables written off during the year as uncollectible	(14,367)	(1,133)	(20,421)	(3,978)
Other	26,140	(5,342)	(2,758)	(601)
Balance as at December 31	₩ 639,223	₩ 27,305	₩ 420,889	₩ 25,503

QUESTION ONE

3. Suppose that during 2017 Samsung Electronics has collected 150,000,000 million Korean Won worth of trade receivables.

[Hint: Use the movement in gross trade receivables to estimate credit sales.]

QUESTION ONE

a. What is your estimate of the amount of credit sales that Samsung Electronics has recognized in fiscal year 2017?

Gross Trade Receivables (T/R)
BB: 24,704,524
EB: 30,316,958

EB (Gross T/R) = BB (Gross T/R) + Credit Sales – Collections – Write-Offs
30,316,958 = 24,704,524 + Credit Sales – 150,000,000 – 14,367
Credit Sales = 155,626,801 million Korean Won

QUESTION ONE

10. Trade and Other Receivables

(A) Trade and other receivables as at December 31, 2017 and 2016 are as follows:

(In millions of Korean won)	December 31, 2017		December 31, 2016	
	Trade	Non-Trade	Trade	Non-Trade
Receivables	₩ 30,316,958	₩ 4,275,407	₩ 24,704,524	₩ 3,582,229
Less: Provisions for impairment	(639,223)	(27,305)	(420,889)	(25,503)
Receivables, net	29,677,735	4,248,102	24,283,635	3,556,726
Less: Non-current portion	(1,981,740)	(139,141)	(4,424)	(35,529)
Current portion	₩ 27,695,995	₩ 4,108,961	₩ 24,279,211	₩ 3,521,197

QUESTION ONE

(B) Movements in the provisions for impairment of receivables for the years ended December 31, 2017 and 2016 are as follows:

	2017		2016	
(In millions of Korean won)	Trade	Non-Trade	Trade	Non-Trade
Balance as at January 1	₩ 420,889	₩ 25,503	₩ 326,861	₩ 49,291
Provisions for impaired receivables / (reversals of unused amounts)	206,561	8,277	117,207	(19,209)
Receivables written off during the year as uncollectible	(14,367)	(1,133)	(20,421)	(3,978)
Other	26,140	(5,342)	(2,758)	(601)
Balance as at December 31	₩ 639,223	₩ 27,305	₩ 420,889	₩ 25,503

QUESTION ONE

b. What is your estimate of the amount of cash sales that Samsung Electronics has recognized in fiscal year 2017?

Total Sales = Cash Sales + Credit Sales

239,575,376 = Cash Sales + 155,626,801

Cash Sales = 83,948,575 million Korean Won

Samsung Electronics Co., Ltd. and its subsidiaries

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

(In millions of Korean won, in thousands of US dollars (Note 2.30))

		For the year ended December 31,			
	Notes	2017	2016	2017	2016
		KRW	KRW	USD	USD
Revenue	32	239,575,376	201,866,745	211,811,887	178,473,168
Cost of sales	24	129,290,661	120,277,715	114,307,653	106,339,183
Gross profit		**110,284,715**	**81,589,030**	**97,504,234**	**72,133,985**
Selling and administrative expenses	24, 25	56,639,677	52,348,358	50,075,918	46,281,904
Operating profit		**53,645,038**	**29,240,672**	**47,428,316**	**25,852,081**
Other non-operating income	26	3,010,657	3,238,261	2,661,763	2,862,991
Other non-operating expense	26	1,419,648	2,463,814	1,255,130	2,178,292
Share of profit of associates and joint ventures	12	201,442	19,501	178,098	17,241
Financial income	27	9,737,391	11,385,645	8,608,961	10,066,205
Financial expense	27	8,978,913	10,706,613	7,938,380	9,465,864
Profit before income tax		**56,195,967**	**30,713,652**	**49,683,628**	**27,154,362**
Income tax expense	28	14,009,220	7,987,560	12,385,744	7,061,911
Profit for the period		**42,186,747**	**22,726,092**	**37,297,884**	**20,092,451**
Profit attributable to owners of the parent		41,344,569	22,415,655	36,553,302	19,817,989
Profit attributable to non-controlling interests		842,178	310,437	744,582	274,462
Earnings per share (in Korean Won, in US dollars)	29				
- Basic		299,868	157,967	265.12	139.66
- Diluted		299,868	157,967	265.12	139.66

Samsung Electronics - Accounts Receivable

QUESTION ONE

4. Suppose that in 2017 Samsung Electronics was considering recording a higher (than currently) recorded provision for impairment of trade receivables by 13,000 million Korean Won. How would the following financial reporting items have changed had Samsung Electronics taken the additional charge of 13,000 million Korean Won? [Ignore any income tax effects.]

Total assets as of December 31, 2017:	*Lower by 13,000 million*
Net income for fiscal 2017:	*Lower by 13,000 million*

QUESTION TWO

Please consider the excerpts from Marathon Petroleum Corporation’s annual report for fiscal year 2015 below and answer the following questions.

1. What inventory cost flow assumption(s) does Marathon Petroleum Corporation (Marathon) use to determine the cost of inventories?

Primarily LIFO

QUESTION TWO

Notes to Consolidated Financial Statements

2. Summary of Principal Accounting Policies

Inventories – Inventories are carried at the lower of cost or market value. Cost of inventories is determined primarily under the LIFO method. Costs for crude oil, refinery feedstocks and refined product inventories are aggregated on a consolidated basis for purposes of assessing if the LIFO cost basis of these inventories may have to be written down to market value.

QUESTION TWO

2. What is the value of inventory write-downs in fiscal year 2015?

$370 million

QUESTION TWO

Notes to Consolidated Financial Statements
13. Inventory

The LIFO method accounted for 91 percent and 94 percent of total inventory value at December 31, 2015 and 2014, respectively. Costs of crude oil, refinery feedstocks and refined products are aggregated on a consolidated basis for purposes of assessing if the LIFO cost basis of these inventories may have to be written down to market values. At December 31, 2015, market values for these inventories were lower than their LIFO cost basis and, as a result, we recorded an inventory valuation charge of $370 million to cost of revenues to value these inventories at the lower of cost or market.

QUESTION TWO

3. What is the impact of this inventory write-down in 2015 on the balance sheet and on the income statement? [Ignore any income tax effects.]

Balance sheet: Decreases inventory account by $370 million

Income statement: Increases cost of revenues (inventory market valuation charge) by $370 million

Note: Cost of revenues (inventory market valuation change) name is NOT important. The point is that there will be an expense recorded on the income statement associated with the inventory write-down.

QUESTION TWO

13. Inventories

(In millions)	December 31, 2015	2014
Crude oil and refinery feedstocks	$ 2,180	$ 2,219
Refined products	2,804	2,955
Materials and supplies	438	302
Merchandise	173	166
Lower of cost or market reserve	(370)	-
Total	$ 5,225	$ 5,642

Marathon Petroleum Corporation

Consolidated Statements of Income

(In millions, except per share data)	2015	2014	2013
Revenues and other income:			
Sales and other operating revenues (including consumer excise taxes)	$ 72,051	$ 97,817	$ 100,160
Income from equity method investments	88	153	36
Net gain on disposal of assets	7	21	6
Other income	112	111	52
Total revenues and other income	72,258	98,102	100,254
Costs and expenses:			
Cost of revenues (excludes items below)	55,583	83,770	87,401
Purchases from related parties	308	505	357
Inventory market valuation charge	370	-	-
Consumer excise taxes	7,692	6,685	6,263
Depreciation and amortization	1,646	1,326	1,220
Selling, general and administrative expenses	1,576	1,375	1,248
Other taxes	391	390	340
Total costs and expenses	67,566	94,051	96,829
Income from operations	4,692	4,051	3,425
Net interest and other financial income (costs)	(318)	(216)	(179)
Income before income taxes	4,374	3,835	3,246
Provision for income taxes	1,506	1,280	1,113
Net income	2,868	2,555	2,133
Less net income attributable to noncontrolling interests	16	31	21
Net income attributable to MPC	$ 2,852	$ 2,524	$ 2,112

QUESTION TWO

4. What is the amount of inventory purchases in fiscal year 2015?

End inventory = Beg inventory + Inventory purchases – COGS – Inventory write-downs

5,225 = 5,642 + Inventory purchases – 55,583 – 370

Inventory purchases = $55,536 million

QUESTION TWO

Marathon Petroleum Corporation
Consolidated Balance Sheets

(In millions, except share data)	December 31, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 1,127	$ 1,494
Receivables, less allowance for doubtful accounts of $12 and $13	2,927	4,058
Inventories	5,225	5,642
Other current assets	192	145
Total current assets	9,471	11,339
Equity method investments	3,622	865
Property, plant and equipment, net	25,164	16,261
Goodwill	4,019	1,566
Other noncurrent assets	839	394
Total assets	$ 43,115	$ 30,425

Marathon Petroleum Corporation
Consolidated Statements of Income

(In millions, except per share data)	2015	2014	2013
Revenues and other income:			
Sales and other operating revenues (including consumer excise taxes)	$ 72,051	$ 97,817	$ 100,160
Income from equity method investments	88	153	36
Net gain on disposal of assets	7	21	6
Other income	112	111	52
Total revenues and other income	72,258	98,102	100,254
Costs and expenses:			
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Selling, general and administrative expenses	1,576	1,375	1,248
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Provision for income taxes	1,506	1,280	1,113
Net income	2,868	2,555	2,133
Less net income attributable to noncontrolling interests	16	31	21
Net income attributable to MPC	$ 2,852	$ 2,524	$ 2,112

QUESTION TWO

5. What is a LIFO liquidation? When was the last time Marathon had a material LIFO liquidation? What was the effect of that LIFO liquidation on Marathon’s cost of revenues and reported profit?

QUESTION THREE

There is a LIFO liquidation when a company sells more units of inventory than it buys and as a result has to sell old inventory layers, valued at a lower price.

The last time Marathon had a material LIFO liquidation was in the fiscal year ended December 31, 2015. This liquidation increased cost of revenues by $78 million and decreased income from operations by $78 million.

QUESTION THREE

Notes to Consolidated Financial Statements

13. Inventories

During 2015, we recorded LIFO liquidations caused by permanently decreased levels in crude oil and refined products inventory volumes. Cost of revenues increased and income from operations decreased by $78 million for the year ended December 31, 2015. There were no liquidations of LIFO inventories in 2014 and 2013.

QUESTION THREE

Please consider the excerpts from Honeywell International Inc.'s annual report for fiscal year 2010 below and answer the following questions.

1. Which cost flow assumption does Honeywell use to value most of its inventory?

Honeywell uses FIFO or the average cost, and LIFO for certain US inventories.

QUESTION THREE

HONEYWELL INTERNATIONAL INC. NOTES TO FINANCIAL STATEMENTS (Dollars in millions, except per share amounts)

Note 1—Summary of Significant Accounting Policies

Inventories—Inventories are valued at the lower of cost or market using the first-in, first-out or the average cost method and the last-in, first-out (LIFO) method for certain qualifying domestic inventories.

QUESTION THREE

2. Suppose Honeywell had used FIFO as a cost flow assumption for all of their inventories. Would the book value of inventories at December 31, 2010, be higher than, lower than, or the same as the amount currently recorded? If different, by how much?

Higher by $154 million

QUESTION THREE

Note 9—Inventories

	December 31, 2010	December 31, 2009
Raw materials	$1,158	$ 988
Work in process	810	796
Finished products	2,144	1,823
	4,112	3,607
Reduction to LIFO cost basis	(154)	(161)
	$3,958	$3,446

Honeywell International, Inc. - Inventory

QUESTION THREE

3. What is the amount of COGS if inventory purchases is $35,000 million in 2010?

End inventory = Beg inventory + Inventory purchases – COGS – Inventory write-downs

3,958 = 3,446 + 35,000 – COGS – 0

COGS = $34,488 million

QUESTION THREE

Note 9—Inventories

	December 31, 2010	December 31, 2009
Raw materials	$1,158	$ 988
Work in process	810	796
Finished products	2,144	1,823
	4,112	3,607
Reduction to LIFO cost basis	(154)	(161)
	$3,958	$3,446

Honeywell International, Inc. - Inventory

QUESTION THREE

4. What is a LIFO liquidation? When was the last time Honeywell had a material LIFO liquidation? What was the effect of that LIFO liquidation on Honeywell's cost of products sold and reported profit?

QUESTION THREE

There is a LIFO liquidation when a company sells more units of inventory than it buys and as a result has to sell old inventory layers, valued at a lower price.

The last time Honeywell had a material LIFO liquidation was in the fiscal year ended December 31, 2009. This liquidation decreased cost of products sold by approximately $12 million and increased reported profit by the same amount in fiscal year 2009.

QUESTION THREE

Note 9—Inventories

	December 31, 2010	December 31, 2009
Raw materials	$1,158	$ 988
Work in process	810	796
Finished products	2,144	1,823
	4,112	3,607
Reduction to LIFO cost basis	(154)	(161)
	$3,958	$3,446

During the year ended December 31, 2009, the quantity of inventory valued using the last-in, firstout (LIFO) method in our Specialty Materials segment declined. This reduction resulted in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the cost of 2009 purchases, the effect of which decreased cost of products sold by $12 million during the year ended December 31, 2009.

QUESTION THREE

5. Suppose that the value of COGS given on Honeywell's fiscal year ending December 31, 2010, consolidated statement of operations was $20,701 million. If Honeywell had used FIFO as a cost flow assumption for all of their inventories, recalculate the value of COGS on a FIFO basis.

COGS FIFO = COGS LIFO – change in LIFO reserve

COGS FIFO = 20,701 – (154-161)

COGS FIFO = $20,708 million

QUESTION THREE

Note 9—Inventories

	December 31,	
	2010	2009
Raw materials	$1,158	$ 988
Work in process	810	796
Finished products	2,144	1,823
	4,112	3,607
Reduction to LIFO cost basis	(154)	(161)
	$3,958	$3,446

QUESTION FOUR

Refer to the 2018 annual report of Microsoft Corporation. Using the information in the income statement, balance sheet, and the excerpts of the notes provided below, please answer the following questions.

1. What is the amount of accounts receivable as of June 30, 2018, that Microsoft does not expect to collect?

Allowance for doubtful accounts (balance sheet and Note 1): $397 million ($377 million current A/R + $20 million long-term A/R)

QUESTION FOUR

NOTE 1 — ACCOUNTING POLICIES; *Contract Balances*

Activity in the allowance for doubtful accounts was as follows:

(In millions)			
Year Ended June 30,	2018	2017	2016
Balance, beginning of period	$ 361	$ 409	$ 289
Charged to costs and other	134	58	175
Write-offs	(98)	(106)	(55)
Balance, end of period	$ 397	$ 361	$ 409

Allowance for doubtful accounts included in our consolidated balance sheets:

June 30,	**2018**	**2017**	**2016**
Accounts receivable, net of allowance for doubtful accounts	$ 377	$ 345	$ 392
Other long-term assets	20	16	17
Total	$ 397	$ 361	$ 409

Microsoft- Accounts Receivable

QUESTION FOUR

2. What is the amount of accounts receivables written-off in the fiscal year ended June 30, 2018?

$98 million (Note 1 to financial statements)

QUESTION FOUR

NOTE 1 — ACCOUNTING POLICIES; *Contract Balances*

Activity in the allowance for doubtful accounts was as follows:

(In millions)			
Year Ended June 30,	2018	2017	2016
Balance, beginning of period	$ 361	$ 409	$ 289
Charged to costs and other	134	58	175
Write-offs	(98)	(106)	(55)
Balance, end of period	$ 397	$ 361	$ 409

Allowance for doubtful accounts included in our consolidated balance sheets:

June 30,	2018	2017	2016
Accounts receivable, net of allowance for doubtful accounts	$ 377	$ 345	$ 392
Other long-term assets	20	16	17
Total	$ 397	$ 361	$ 409

QUESTION FOUR

3. Suppose that during the fiscal year ended 2018 Microsoft has collected $86,000 million worth of accounts receivable.

[Hint: Use the movement in gross accounts receivable to estimate credit sales.]

QUESTION FOUR

a. What is your estimate of the amount of credit sales that Microsoft has recognized in the fiscal year ended June 30, 2018?

Gross Accounts Receivable (A/R)
BB: Net A/R (2017) + Allowance (2017) = (22,431+1,700) + 361 = $24,492 million
EB: Net A/R (2018) + Allowance (2018) = (26,481+1,800) + 397 = $28,678 million

EB (Gross A/R) = BB (Gross A/R) + Credit Sales – Collections – Write-Offs
28,678 = 24,492 + Credit Sales – 86,000 – 98
Credit Sales = $90,284 million

QUESTION FOUR

BALANCE SHEETS

(In millions)

June 30,	**2018**	**2017**
Assets		
Current assets:		
Cash and cash equivalents	**$ 11,946**	$ 7,663
Short-term investments	**121,822**	125,318
Total cash, cash equivalents, and short-term investments	**133,768**	132,981
Accounts receivable, net of allowance for doubtful accounts of **$377** and $345	**26,481**	22,431
Inventories	**2,662**	2,181
Other	**6,751**	5,103
Total current assets	**169,662**	162,696
Property and equipment, net of accumulated depreciation of **$29,223** and $24,179	**29,460**	23,734
Operating lease right-of-use assets	**6,686**	6,555
Equity and other investments	**1,862**	6,023
Goodwill	**35,683**	35,122
Intangible assets, net	**8,053**	10,106
Other long-term assets	**7,442**	6,076
Total assets	**$ 258,848**	$ 250,312

Microsoft- Accounts Receivable

QUESTION FOUR

NOTES TO FINANCIAL STATEMENTS

NOTE 1 — ACCOUNTING POLICIES

Contract Balances

Timing of revenue recognition may differ from the timing of invoicing to customers. We record a receivable when revenue is recognized prior to invoicing, or unearned revenue when revenue is recognized subsequent to invoicing. For multi-year agreements, we generally invoice customers annually at the beginning of each annual coverage period. We record a receivable related to revenue recognized for multi-year on-premises licenses as we have an unconditional right to invoice and receive payment in the future related to those licenses.

The opening balance of current and long-term accounts receivable, net of allowance for doubtful accounts, was $22.3 billion as of July 1, 2016.

As of June 30, 2018 and 2017, long-term accounts receivable, net of allowance for doubtful accounts, were $1.8 billion and $1.7 billion, respectively, and are included in other long-term assets in our consolidated balance sheets.

The allowance for doubtful accounts reflects our best estimate of probable losses inherent in the accounts receivable balance. We determine the allowance based on known troubled accounts, historical experience, and other currently available evidence.

QUESTION FOUR

NOTE 1 — ACCOUNTING POLICIES; *Contract Balances*

Activity in the allowance for doubtful accounts was as follows:

(In millions)			
Year Ended June 30,	2018	2017	2016
Balance, beginning of period	$ 361	$ 409	$ 289
Charged to costs and other	134	58	175
Write-offs	(98)	(106)	(55)
Balance, end of period	$ 397	$ 361	$ 409

Allowance for doubtful accounts included in our consolidated balance sheets:

June 30,	2018	2017	2016
Accounts receivable, net of allowance for doubtful accounts	$ 377	$ 345	$ 392
Other long-term assets	20	16	17
Total	$ 397	$ 361	$ 409

QUESTION FOUR

b. What is your estimate of the amount of cash sales that Microsoft has recognized in the fiscal year ended June 30, 2018?

Total Sales = Cash Sales + Credit Sales

$110,360 million = Cash Sales + $90,284 million

Cash Sales = $20,076

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
INCOME STATEMENTS

(In millions, except per share amounts)			
Year Ended June 30,	2018	2017	2016
Revenue:			
Product	$ 64,497	$ 63,811	$ 67,336
Service and other	45,863	32,760	23,818
Total revenue	110,360	96,571	91,154
Cost of revenue:			
Product	15,420	15,175	17,880
Service and other	22,933	19,086	14,900
Total cost of revenue	38,353	34,261	32,780
Gross margin	72,007	62,310	58,374
Research and development	14,726	13,037	11,988
Sales and marketing	17,469	15,461	14,635
General and administrative	4,754	4,481	4,563
Impairment and restructuring	0	306	1,110
Operating income	35,058	29,025	26,078
Other income (expense), net	1,416	876	(439)
Income before income taxes	36,474	29,901	25,639
Provision for income taxes	19,903	4,412	5,100
Net income	$ 16,571	$ 25,489	$ 20,539

QUESTION FOUR

4. Suppose that in the fiscal year ended June 30, 2018, Microsoft was considering recording a lower (than currently) recorded provision for impairment of trade receivables by $35 million. How would the following financial reporting items have changed had Microsoft Electronics taken the additional charge of $35 million? [Ignore any income tax effects.]

Total assets as of June 30, 2018: *Higher by $35 million*

Net income for the fiscal year ended June 30, 2018: *Higher by $35 million*

QUESTION FIVE

Please consider the excerpts from BlackBerry Limited's annual report for fiscal year 2014 below and answer the following questions.

1. What inventory cost flow assumption(s) does BlackBerry Limited (BlackBerry) use to determine the cost of inventories?

FIFO

QUESTION FIVE

1. BLACKBERRY LIMITED AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

Inventories

Raw materials, work in process and finished goods are stated at the lower of cost or market value. Cost includes the cost of materials plus direct labour applied to the product and the applicable share of manufacturing overhead. Cost is determined on a first-in-first-out basis. Market is generally considered to be replacement cost; however, market is not permitted to exceed the ceiling (net realizable value) or be less than the floor (net realizable value less a normal markup). Net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion and disposal.

QUESTION FIVE

2. What is the value of inventory write-downs in fiscal year 2014?

$1.6 billion

QUESTION FIVE

5. CONSOLIDATED BALANCE SHEETS DETAILS

Inventories

Inventories were comprised of the following:

	As at	
	March 1, 2014	March 2, 2013
Raw materials	$ 51	$ 271
Work in process	156	278
Finished goods	37	54
	$ 244	$ 603

During fiscal 2014, the Company recorded charges against inventory and supply commitments of approximately $2.4 billion. The charges included a write-down of inventory of approximately $1.6 billion and supply commitments of approximately $782 million.

QUESTION FIVE

3. What is the impact of this inventory write-down in 2014 on the balance sheet and on the statement of operations? [Ignore any income tax effects.]

Balance sheet: Decreases inventory account by $1.6 billion

Statement of operations: Increases cost of sales by $1.6 billion

Note: Increase to cost of sales name is NOT important. The point is that there will be an expense recorded on the statement of operations associated with the inventory write-down.

QUESTION FIVE

4. What is the amount of inventory purchases in fiscal year 2014?

End inventory = Beg inventory + Inventory purchases – COGS – Inventory write-downs

244 = 603 + Inventory purchases – 6,856 – 1,600

Inventory purchases = $8,097 million

QUESTION FIVE

BlackBerry Limited
Incorporated under the Laws of Ontario
(United States dollars, in millions)

Consolidated Balance Sheets

	As at	
	March 1, 2014	March 2, 2013
Assets		
Current		
Cash and cash equivalents	$ 1,579	$ 1,549
Short-term investments	950	1,105
Accounts receivable, net	972	2,353
Other receivables	152	272
Inventories	244	603
Income taxes receivable	373	597
Other current assets	505	469
Deferred income tax asset	73	139
Assets held for sale	209	354
	5,057	7,441
Long-term investments	129	221
Property, plant and equipment, net	942	2,073
Intangible assets, net	1,424	3,430
	$ 7,552	$ 13,165

BlackBerry Limited - Inventory

BlackBerry Limited
(United States dollars, in millions, except per share data)

Consolidated Statements of Operations

	For the Year Ended		
	March 1, 2014	March 2, 2013	March 3, 2012
Revenue			
Hardware and other	$ 3,880	$ 6,902	$ 14,031
Service and software	2,933	4,171	4,392
	6,813	11,073	18,423
Cost of sales			
Hardware and other	6,383	7,060	11,217
Service and software	473	579	631
	6,856	7,639	11,848
Gross margin	(43)	3,434	6,575
Operating expenses			
Research and development	1,286	1,509	1,556
Selling, marketing and administration	2,103	2,111	2,600
Amortization	606	714	567
Impairment of long-lived assets	2,748	—	—
Impairment of goodwill	—	335	355
Debentures fair value adjustment	377	—	—
	7,120	4,669	5,078
Operating income (loss)	(7,163)	(1,235)	1,497
Investment income (loss), net	(21)	15	21
Income (loss) from continuing operations before income taxes	(7,184)	(1,220)	1,518
Provision for (recovery of) income taxes	(1,311)	(592)	347
Income (loss) from continuing operations	(5,873)	(628)	1,171
Loss from discontinued operations, net of tax	—	(18)	(7)
Net income (loss)	$ (5,873)	$ (646)	$ 1,164

QUESTION SIX

Please consider the excerpts from General Electric Company's (GE) annual report for fiscal year 2016 below and answer the following questions.

1. Which cost flow assumption does GE use to value most of its inventory?

A portion of GE's US inventories is valued on a LIFO basis. Other inventories are valued on a FIFO basis.

QUESTION SIX

Notes to Consolidated Financial Statements:

NOTE 1 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES; *Inventories*

All inventories are stated at the lower of cost or realizable values. Cost for a portion of GE U.S. inventories is determined on a last-in, first-out (LIFO) basis. Cost of other GE inventories is determined on a first-in, first-out (FIFO) basis. LIFO was used for 34% of GE inventories in both 2016 and 2015.

QUESTION SIX

2. Suppose GE had used FIFO as a cost flow assumption for all of their inventories. Would the book value of inventories at December 31, 2016, be higher than, lower than, or the same as the amount currently recorded? If different, by how much?

Lower by $383 million

QUESTION SIX

FINANCIAL STATEMENTS | INVENTORIES & FINANCING RECEIVABLES

NOTE 5. INVENTORIES

December 31 (In millions)		2016		2015
Raw materials and work in process	$	12,636	$	13,415
Finished goods		8,798		8,265
Unbilled shipments		536		628
		21,971		22,308
Revaluation to LIFO		383		207
Total inventories	$	22,354	$	22,515

General Electric - Inventory

QUESTION SIX

3. What is the amount of COGS if inventory purchases is $72,000 million in 2016?

End inventory = Beg inventory + Inventory purchases – COGS – Inventory write-downs

22,354 = 22,515 + 72,000 – COGS – 0

COGS = $72,161 million

QUESTION SIX

FINANCIAL STATEMENTS | INVENTORIES & FINANCING RECEIVABLES

NOTE 5. INVENTORIES

December 31 (In millions)		2016		2015
Raw materials and work in process	$	12,636	$	13,415
Finished goods		8,798		8,265
Unbilled shipments		536		628
		21,971		22,308
Revaluation to LIFO		383		207
Total inventories	$	22,354	$	22,515

General Electric - Inventory

QUESTION SIX

4. If GE had used FIFO as a cost flow assumption for all of their inventories, recalculate the value of COGS on a FIFO basis.

COGS FIFO = COGS LIFO – change in LIFO reserve

COGS FIFO = 72,161 – (–383+207)

COGS FIFO = $72,337 million

QUESTION SIX

FINANCIAL STATEMENTS | INVENTORIES & FINANCING RECEIVABLES

NOTE 5. INVENTORIES

December 31 (In millions)		2016		2015
Raw materials and work in process	$	12,636	$	13,415
Finished goods		8,798		8,265
Unbilled shipments		536		628
		21,971		22,308
Revaluation to LIFO		383		207
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