**1. Questions based on the Fiscal 2012 financial statements of General Mills, Inc. (Note: Fiscal 2012 ended on May 27, 2012.)** Excerpts from General Mills, Inc.’s Fiscal 2012 Annual Report on Form 10-K are attached. Note that dollar amounts are presented *in millions, so you should give your answers in millions. This may be typed or handwritten.*

**A. Complete the following breakdown for General Mill’s *Receivables*:**

**As of May 27, 2012 As of May 29, 2011**

Receivables from customers (**gross** A/R) $ 1,325.3 $ 1,178.6

Allowance for Doubtful Accounts 21.7 16.3

Receivables, total (net) (*Balance Sheet amount)* 1,323.6 1,162.3

**B. General Mills values its Receivables at “net realizable value.” Explain what net realizable value means.**

Net realizable value is the net amount the company expects to receive in cash. (Text 373) According to our class notes, NRV is the amount management expects to collect on accounts receivable.

**C. What does General Mills’ “allowance for doubtful accounts” represent, and how does management determine the appropriate amount to record? (See footnotes.)**

The allowance for doubtful accounts represents our estimate of probable non-payments and credit losses in General Mills’ existing receivables, as determined based on a review of past due balances and other specific account data. Account balances are written off against the allowance when they deem the amount is uncollectable.

**D. Give General Mills’ journal entries for the year ended December 31, 2012 for the following:**

**(1) Net sales revenues for 2012, *assuming that all net sales were “credit sales.”***

Accounts Receivable (+A) $16,657.9

Sales Revenue (+R) $16,657.9

**(2) Write-offs (net of recoveries) of customers’ accounts during 2012 *(See Schedule II,***

***Valuation of Qualifying Accounts.)*** (12.9) \*Bad debt write-offs + 5.0 Surprise Collections

Allowance for Doubtful Accounts (-XA) $7.9

Accounts Receivable (-A) $7.9

**(3) Adjusting journal entry for bad debt expense during 2012: *(See Schedule II, Valuation of***

***Qualifying Accounts.)***

Bad Debt Expense (+E) $13.3

Allowance for Doubtful Accounts $13.3

**E. Give the journal entry for the amount of *cash collected from customers* on Accounts Receivable during 2012. (You must infer this amount. *Show your work by giving the equation solving for the missing amount, or completing the T-account or BASE account for Accounts Receivable (gross).***

*BASE Account for Accounts Receivable (gross):*

**B**eg. Balance $1,162.3 Accounts receivable at the end of fiscal year 2011

**A**dditions (Describe): $16,657.9 Net sales for fiscal year 2012

**S**ubtractions (Describe) $16,496.6 Solve (B-A –S = A, solve for S)

Bad debt expense and bad debt write offs?

**E**nd. Balance $1,323.6 Account receivable at the end of fiscal year 2012

=======

**Journal Entry for Collections from Customers:**

Cash $16,496.6

Accounts Receivable $16,496.6

**F. Revenue Recognition (see footnote)**

**1. When does General Mills recognize sales revenue?**

General mills recognizes sales revenue when their customers accept the shipment. Sales includes all shipping and handling charges billed to the customer and are reported net of consumer coupon redemption, trade promotion, and other costs, including estimated allowances for returns, unsalable product, and prompt pay discounts. (Revenue Recognition section of the General Mills, Inc. financial statements)

**2. Sales returns**

**a. General Mills states that it does not generally allow returns, but that it does allow limited returns in certain situations with prior approval. Why do you think General Mills does not generally allow returns?**

According to the principal products section of the General Mill’s financial statement “our major product categories in the United States are ready to eat cereals, refrigerated yogurt, […].” Food products are hard to return when they are already opened or eaten, and the company could potentially loose a substantial amount of net sales that could not be resold to other customers if it was stale or outdated.

**b. How does General Mills account for sales returns? In your answer, state which of the three alternative methods they use (see Chapter 18 Outline or textbook discussion).**

General Mills uses the deposit method. Under the deposit method, the seller reports the cash received from the buyer as a deposit on a contract and classifies it on the balance sheet as a liability. The seller continues to report the property as an asset on its balance sheet, along with any related existing debt. The seller does not recognize revenue or income until the sale is complete. At that time it closes the deposit account and applies one of the revenue recognition methods. The deposit method postpones recognizing a sale until the company determines that a sale has occurred for accounting purposes. (Text pg 1102)

**3. How does General Mills treat sales discounts—as part of Net Sales, or as an operating expense? How do you know this?**

The sales discount is treated as part of Net Sales in the section labeled “divestitures”.

**4. How does General Mills treat customer coupon redemptions—as part of Net Sales, or as an operating expense? How do you know this?**

Coupons are recorded when distributed, based on estimated redemption rates. This is listed on the Revenue Recognition of the General Mills financial statements.

**2. Comprehensive Income - Apple, Inc.**

**Attached are excerpts from Apple’s Fiscal 2011 financial statements.**

The company disclosed its transactions affecting *accumulated* *other comprehensive income* and its Total Comprehensive Income in the Statement of Shareholders’ Equity (called “method 3” in the Chapter 4 Outline and related Cox Company example).

*Required*: **Prepare a Statement of Comprehensive Income (“method 2”) for Apple ONLY for its fiscal year ended September 24, 2011. (You do not have to also show the two comparative years.)** ***This should be typed.***

|  |  |  |  |
| --- | --- | --- | --- |
| Apple, Inc. | | | |
| Income Statement | | | |
| For the Year Ended September 24, 2011 | | | |
| (In Millions, except number of shares which are reflected in thousands and per share amounts) | | | |
|  |  |  |  |
| Net sales | | | $108,249 |
| Cost of sales | | | 64,431 |
|  | Gross margin | | 43,818 |
| Operating expenses: | | |  |
|  | Research and development | | 2,429 |
|  | Selling, general and administrative | | 7,599 |
|  |  | Total operating expenses | 10,028 |
| Operating Income | | | 33,790 |
| Other income and expense | | | 415 |
| Income before provision for income taxes | | | 34,205 |
| Provision for income taxes | | | 8,283 |
| Net income | | | $25,922 |
|  |  |  |  |
| Apple, Inc. | | | |
| Income Statement | | | |
| For the Year Ended September 24, 2011 | | | |
| (In Millions, except number of shares which are reflected in thousands) | | | |
|  |  |  |  |
| Net income | | | $25,922 |
| Other comprehensive income: | | |  |
|  | Change in foreign currency translation | | (12) |
|  | Change in unrealized gains/loss on marketable securities, net of tax | | (41) |
|  | Change in unrecognized gains/losses on derivative instruments, net of tax | | 542 |
|  |  | Comprehensive income | $26,411 |

**5. Sale of Receivables, With and Without Recourse – Monsanto Company**

**Shown below is an excerpt from the Fiscal 2012 annual report of Monsanto Company:**

**The gross amount of receivables sold under transactions that qualify for sales treatment were:**

Gross Amount of Receivables Sold

Year Ended Aug. 31,

(Dollars in millions)

**2012** 2011 2010

**Transactions that Qualify for Sales Treatment**

U.S. agreement to sell customer receivables(1) **$506** $ 3 $221

*(1) Monsanto has an agreement in the United States to sell customer receivables up to a maximum outstanding balance of $500 million and to service such accounts. These receivables qualify for sales treatment under the Transfers and Servicing topic of the ASC {Students: This is the relevant GAAP as stated in the FASB’s Accounting*

*Standards Codification—ASC} and, accordingly, the proceeds are included in net cash provided by operating activities in the Statements of Consolidated Cash Flows. The agreement includes recourse provisions and thus a liability is established at the time of sale that approximates fair value based upon the company’s historical collection experience and a current assessment of credit exposure.*

**Answer the following questions:**

**A. List the three criteria under GAAP (see Chapter 7) that must all be met in order for Monsanto to be able to record the transfer of its receivables as a *sale.***

1. The transferred asset has been isolated from the transferor (put beyond reach of the transferor and its creditors)
2. The transferees have obtained the right to pledge or exchange either the transferred assets or beneficial interests in the transferred assets.
3. The transferor does not maintain effective control over the transferred assets through an agreement to repurchase or redeem them before their maturity.

**B. When Monsanto sells receivables “with recourse,” it records a recourse liability. What does this mean—to whom does it have a liability, and for what?**

When receivables are sold with recourse, the seller guarantees payment of the accounts receivable to the purchaser (factor). So, if the debtor (customer) who owes the accounts receivable defaults on payment, the seller must pay the factor. The dues from factor include estimated sales discounts, allowances, and returns. The recourse liability is considered probable payment to factor for estimated bad debt. (Ch 7 notes, pg 11)

**C. During the fiscal year ended August 31, 2012, Monsanto sold receivables (as listed in the chart above) to Factor Company. Assume the following:**

* **The fair value of the recourse liability was $25 million.**
* **The finance charge was 10% of the gross amount of receivables sold.**
* **There was no “Due from Factor” amount for estimated sales discounts, etc.)**

**Give Monsanto’s journal entry to record the sale of these receivables. (Refer to Chapter 7 Outline.)**

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**6. Accounting for Long-term Contract – Putnam Construction (Chapter 18)**

In 2010, the Putnam Construction Company entered into a contract to construct a bridge for Dallas County for **$35,000,000**. The road was to be completed in 2012. Information related to the contract is as follows.

**2010 2011 2012**

Costs incurred during the year $ 7,560,000 $13,160,000 $8,000,000

Estimated costs to complete as of year-end 20,440,000 7,280,000 -0-

Billings during the year 7,000,000 12,000,000 16,000,000

Cash collections during the year 5,300,000 11,500,000 18,200,000

**Required:**

**A**. Assume that Putnam Construction uses the **Percentage of Completion** method to account for the

above contract.

**1**. Calculate the amount of **Revenue, Cost of Construction, and Gross Profit** to be recognized

in each of the three years. Show your work.

* + ***Note: An optional worksheet is attached for your use. The worksheet may be handwritten or typed. It is part of the Word file posted to Blackboard.***

**2**. Prepare all necessary **journal entries** for each of the years. (Credit “*Various accounts”* for

construction costs incurred.) ***Journal entries must be typed*. There is no form provided.**

**3**. Prepare a partial **Balance Sheet** for 2010 and 2011 showing any items related to the contract.

*The Balance Sheet must be typed. There is no form provided.*

**B**. Now, assume that Putnam uses the ***Completed Contract Method*** instead of the Percentage of

Completion method. Determine the amount of Revenue, Cost of Construction, and Gross Profit to be

recognized in each of the three years under this method, and **complete the partial income statement**

**provided**.

* + *This may be handwritten or typed. It is part of the Word file posted to Blackboard.*

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***Problem Set 2,* Question 6*, Requirement A-* Worksheet – Percentage of Completion Method**

**2010 2011 2012**

Contract price \_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_

Less: Estimated cost

Actual cost incurred-prior periods \_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_

Actual cost incurred-this period \_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_

Total cost incurred to date \_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_

Estimated cost to complete \_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_

Total estimated cost \_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_

Estimated gross profit \_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_

**% complete (Show calculations):**

# Actual cost incurred to date =

Estimated \_\_\_\_\_\_\_\_\_\_\_\_\_

## Income Statement Calculations (Percentage of Completion Method)

**2010 2011 2012**

**Revenue:**

% complete x \_\_\_\_\_\_\_\_\_\_\_\_

**2010**: \_\_\_\_\_% x $\_\_\_\_\_\_\_\_\_\_\_\_ = \_\_\_\_\_\_\_\_\_\_\_

**2011**: \_\_\_\_\_% x $\_\_\_\_\_\_\_\_\_\_\_\_ = \_\_\_\_\_\_\_\_\_\_\_\_

Less: Revenue recognized previously \_\_\_\_\_\_\_\_\_\_\_\_

= Revenue in 2011 \_\_\_\_\_\_\_\_\_\_\_\_

**2012**: \_\_\_\_\_% X $\_\_\_\_\_\_\_\_\_\_\_\_ = \_\_\_\_\_\_\_\_\_\_\_

Less: Revenue recognized previously \_\_\_\_\_\_\_\_\_\_\_

= Revenue in 2012 \_\_\_\_\_\_\_\_\_\_\_

**Gross profit (loss):**

% complete x Estimated Total Gross Profit

**2010**: \_\_\_\_% x $\_\_\_\_\_\_\_\_\_\_\_ = \_\_\_\_\_\_\_\_\_\_\_

**2011**: \_\_\_\_% x $\_\_\_\_\_\_\_\_\_\_\_ = \_\_\_\_\_\_\_\_\_\_\_\_

Less: Gross profit (loss) recognized previously \_\_\_\_\_\_\_\_\_\_\_\_

= Gross profit (loss) recognized in **2011** \_\_\_\_\_\_\_\_\_\_\_\_

**2012**: \_\_\_\_% x $\_\_\_\_\_\_\_\_\_\_ = \_\_\_\_\_\_\_\_\_\_

Less: Gross profit (loss) recognized previously \_\_\_\_\_\_\_\_\_\_

= Gross profit (loss) recognized in **2012** \_\_\_\_\_\_\_\_\_\_

**Recap – Income Statement Effect – Percentage-of-Completion Method – Question 5.A.**

2010 2011 2012 Total Contract

Revenue (from above) $\_\_\_\_\_\_\_\_\_ $\_\_\_\_\_\_\_\_\_\_ $\_\_\_\_\_\_\_\_\_\_ $\_\_\_\_\_\_\_\_\_\_\_

Cost of construction \_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_

Gross profit (loss) (from above) $\_\_\_\_\_\_\_\_\_ $\_\_\_\_\_\_\_\_\_\_ $\_\_\_\_\_\_\_\_\_\_ $\_\_\_\_\_\_\_\_\_\_\_\_

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***Problem Set 2, Question 6.B. – Accounting for Long-term Contract***

**Putnam Construction - Completed Contract Method**

**Income Statement (Partial) – Completed Contract Method**

2010 2011 2012 Total Contract

Revenue $\_\_\_\_\_\_\_\_\_ $\_\_\_\_\_\_\_\_\_\_ $\_\_\_\_\_\_\_\_\_\_\_ $\_\_\_\_\_\_\_\_\_\_\_

Cost of construction \_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_

Gross profit (loss) $\_\_\_\_\_\_\_\_\_ $\_\_\_\_\_\_\_\_\_\_ $\_\_\_\_\_\_\_\_\_\_\_ $\_\_\_\_\_\_\_\_\_\_\_

ACCOUNTING 3311 – SPRING 2013 – DREHER

***PROBLEM SET #2 - COVER SHEET***

**(This sheet should be Page 1 of your assignment.)**

#### HONOR STATEMENT

I confirm that the enclosed Accounting Cycle Project represents my own work and/or my team’s work, and that I/we worked independently of others to complete it, as required by the instructions given for this assignment. I have neither given nor received unauthorized assistance on this project. I have read the SMU Honor Code and understand that it is in effect for this assignment.

Student #1:

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Student Name (Please print) Date

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Class Section: MW 9:30\_\_\_ MW 11:00\_\_\_\_\_

# Student Signature

Student #2:

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Student Name (Please print) Date

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Class Section: MW 9:30\_\_\_ MW 11:00\_\_\_

# Student Signature

Student #3:

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Student Name (Please print) Date

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Class Section: MW 9:30\_\_\_ MW 11:00\_\_\_

# Student Signature

***ACCT 3311 – SPRING 2013 – PROBLEM SET #2***

**PARTNER EVALUATION FORM – Required for Each Student Who Worked With Partner(s)**

**YOUR NAME: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Class Section: \_\_ 9:30 \_\_ 11:00**

**Your Partner #1: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_Class Section: \_\_ 9:30 \_\_ 11:00**

**Rate this partner as objectively as you can in the space below:**

Indicate whether your partner's performance was satisfactory (S) or unsatisfactory (U) regarding the following criteria:

Time devoted to the project \_\_\_\_\_ Timely accomplishment of assigned tasks \_\_\_\_\_

Ideas contributed \_\_\_\_\_ Quality of work completed \_\_\_\_\_

*Did this partner contribute to the work on each question in the project? Circle: Yes No*

(If you answered “no” please explain:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_)

If you had this project to do over again, would you choose to work with this partner? Circle: Yes No

Comments: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Your Partner #2: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_Class Section: \_\_ 9:30 \_\_ 11:00**

**Rate this partner as objectively as you can in the space below:**

Indicate whether your partner's performance was satisfactory (S) or unsatisfactory (U) regarding the following criteria:

Time devoted to the project \_\_\_\_\_ Timely accomplishment of assigned tasks \_\_\_\_\_

Ideas contributed \_\_\_\_\_ Quality of work completed \_\_\_\_\_

*Did this partner contribute to the work on each question in the project? Circle: Yes No*

(If you answered “no” please explain:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_)

If you had this project to do over again, would you choose to work with this partner? Circle: Yes No

Comments: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

***RATE YOUR OWN PERFORMANCE BELOW, AS OBJECTIVELY AS POSSIBLE:***

***Your assessment of your own performance on this project as satisfactory (S) or unsatisfactory (U):***

*Time devoted to the project \_\_\_\_\_ Timely accomplishment of assigned tasks \_\_\_\_\_*

*Ideas contributed \_\_\_\_\_ Quality of work completed \_\_\_\_\_*

***Did you do your fair share of the work on this project? Yes No (If no, explain.)\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_***

*\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_*

*Did you contribute to the work on each question in the project? Circle: Yes No*

(If you answered “no” please explain:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_)

**What percentage of the total credit should you and your partners receive on the project? (Allocate total of 100%)**

**You\_\_\_\_\_\_% + Partner #1 \_\_\_\_\_\_\_\_% + Partner #2 \_\_\_\_\_\_\_\_% = 100%**

**Please justify any negative ratings of any of your partners on the back, or attach a separate sheet. Also explain what you did to communicate any frustration or concerns to your partners.**