Accounting ACCT 611

SAMPLE PLACEMENT EXAM

NOTE: This exam reflects coursework for the first 3-4 weeks of ACCT 611 and is a good example of the knowledge needed to place into ACCT 612.

NAME

(Print)

PENN ID NUMBER

(10 middle digits)

Instructions

1. This is a 132 point exam. Budget your time to achieve maximum points.
2. Answer the problems only in the space indicated. Answers placed elsewhere will not be graded. Present your work in an orderly fashion to facilitate the awarding of partial credit. Partial credit can only be given for answers that are presented in a manner which is clear, logical, and easily read.
3. There are 18 numbered pages in this booklet. Make sure that you have all of the pages.
4. The exam is closed book and closed notes.
5. Please print your name in the space provided on the first page and on all subsequent pages if you take the exam apart.
6. Hand in the entire exam when you are done.

Question	Points Assigned	Points Scored
Question 1	78	
Question 2	54	
Total	132	

QUESTION I *(78 pts)*

Baiman-Carter Incorporated (BCI) released preliminary financial statements (balance sheet, income statement, and statement of cash flows) in a press release. Subsequent to the release, the company announced that it would have to restate those financial statements because of transactions that the bookkeeper had neglected to record or had recorded incorrectly. Wayne Guay, principal of Guay Capital, has asked you to indicate the effects these errors. In particular, for each transaction, record the transaction to correct the error or omission and indicate the effect on all line items in the Indirect Statement of Cash Flows and the section in which these changes would appear (i.e. operating, investing or financing). Treat each transaction as independent. Wayne did the first transaction as an example.

Example: Services of $5,000 were provided during the period at an expense (all cash) of $1,000, but BCI has not yet been paid for the services. The bookkeeper didn't record these.

Event/Transactions			Statement of Cash Flows	
Dr. Accounts Receivable	5,000		Net Income	+4,000
Cr. Revenue		5,000	- ↑Accts Rec.	-5,000
Dr. Operating Expense	1,000			
Cr. Cash		1,000		
			CFO	-1,000
			CFI	0
			CFF	0

1. *(6 pts)* The company paid cash for next year's insurance coverage ($2,000) on the last day of the accounting period. The bookkeeper never recorded this.

Event/Transactions	Statement of Cash Flows
	NI
	CFO
	CFI
	CFF

2. *(6 pts)* During the year, $3,000 of prepaid advertisements ran in the local newspaper. The bookkeeper recorded the original payment correctly but no other transactions related to this.

Event/Transactions	**Statement of Cash Flows**
	NI CFO CFI CFF

3. *(6 pts)* The bookkeeper recorded $1,000 of amortization expense during the year. However, that amount should have been $5,000 not $1,000.

Event/Transactions	**Statement of Cash Flows**
	NI CFO CFI CFF

4. *(6 pts)* Dividends of $5,000 were declared and paid on the last day of the year. The bookkeeper never recorded this.

Event/Transactions	Statement of Cash Flows
	NI CFO CFI CFF

5. *(6 pts)* The company has debt outstanding, with interest expense of $4,000 per year. The interest was incurred this year but will be paid next year. The bookkeeper never recorded this.

Event/Transactions	Statement of Cash Flows
	NI CFO CFI CFF

6. *(6 pts)* The company purchased, for cash, $10,000 worth of PP&E on the last day of the year. The bookkeeper mistakenly recorded it as $1,000.

Event/Transactions	Statement of Cash Flows
	NI CFO CFI CFF

7. *(6 pts)* A new customer placed an order for $3,000 of widgets whose historical cost on BCI's books was $2,000. The customer has not yet paid for the order. This order was not shipped at year end. However, the bookkeeper recorded it as a sale transaction during the year.

Event/Transactions	Statement of Cash Flows
	NI CFO CFI CFF

8. *(6 pts)* Because of an unexpected windfall of cash, the company repaid $8,000 of long-term debt on the last day of the year. The bookkeeper never recorded this event.

Event/Transactions	Statement of Cash Flows
	NI CFO CFI CFF

9. *(6 pts)* The company has a multistage project with a customer that is accounted for using the percentage-of-completion method. In the prior year, the customer paid a $9,000 deposit (total revenues for the project are $9,000). During the year, the company delivered 1/3 of the project to the customer incurring costs of $1,000 in cash (total costs for the project are $3,000). The bookkeeper recorded only the receipt of the deposit and not any other transactions related to this project.

Event/Transactions	Statement of Cash Flows
	NI CFO CFI CFF

10. *(6 pts)* The company issued shares for $5,000 cash. The bookkeeper mistakenly recorded this transaction as a $50,000 increase in owners' equity.

Event/Transactions	Statement of Cash Flows
	NI CFO CFI CFF

11. *(6 pts)* The company incurred $7,000 of administrative expenses, of which $3,000 were paid by year end. The bookkeeper never recorded these transactions.

Event/Transactions	Statement of Cash Flows
	NI CFO CFI CFF

12. *(6 pts)* A customer paid a deposit of $8,000 for an order to be delivered next year. The company acquired $2,000 of inventory on account to begin producing widgets. The bookkeeper never recorded these transactions.

Event/Transactions	Statement of Cash Flows
	NI CFO CFI CFF

13. *(6 pts)* The bookkeeper salary earned for the last month of the year was $10,000. The company will pay the bookkeeper this $10,000 in the next period.

Event/Transactions	Statement of Cash Flows
	NI CFO CFI CFF

QUESTION II *(54 pts)*

Callaway Golf Company designs, manufactures and sells high quality golf clubs and golf balls. The Company also sells golf accessories such as footwear, golf bags, golf gloves, golf headwear, golf towels and golf umbrellas. The Company's products are sold in the United States and in over 100 countries around the world. Refer to the Income Statement, Balance Sheet and Statement of Cash Flows for Callaway which are located on the last three pages of this exam booklet. Please answer the following questions.

Required

1. *(4 pts)* In which year (among those reported) did Callaway raise the most cash from financing activities?

2. *(4 pts)* If Callaway had not paid any dividends in 2003, 2004 and 2005, how much more cash from financing activities would have been raised over this three-year period?

3. *(4 pts)* What was the net book value of long-lived assets sold during 2005?

4. *(4 pts)* If Callaway had not sold any long-lived assets in 2005, how much would cash from investing activities have changed?

   Answer ____

   (circle one) HIGHER LOWER NO CHANGE

5. *(4 pts)* If Callaway had not sold any long-lived assets in 2005, how much would cash from operating activities have changed?

   Answer ____

   (circle one) HIGHER LOWER NO CHANGE

6. *(6 pts)* Callaway recognizes warranty expenses as a component of Selling Expenses on the income statement. Assume that Callaway's total costs (cash, replacement equipment, etc) in 2005 to satisfy customers who returned broken golf equipment under warranty was $15,000 thousands (i.e., $15 million). How much warranty expense was included in Selling Expenses by Callaway in their income statement during 2005?

7. *(4 pts)* Provide the entries that reconcile the Retained Earnings T-account between December 31, 2004 and December 31, 2005. Include descriptive titles and amounts for each entry. All dividends declared have been paid by the end of 2005.

Retained Earnings

	Beginning Balance	$437,269
	Ending Balance	$430,996

8. *(4 pts)* In 2005, Callaway recognized and paid $26,989 in research and development expenses. All of the research was done internally by Callaway. Which section of the Statement of Cash Flows is affected by these expenditures?

9. *(5 pts)* Assume that all of Callaway's 2005 revenues were cash sales. How much cash did Callaway collect from its customers in 2005?

10. *(5 pts)* Now ignore Part 9 above and instead assume that 50% of Callaway's 2005 revenues were cash sales, and the other 50% on account. How much cash would Callaway have collected from its customers in 2005?

11. *(4 pts)* Provide the journal entry to record Callaway's capital expenditures made in cash in 2005. Assume there were no capital expenditures through acquisitions. Include the account titles and amounts. Make as many entries as necessary.

Debit ______________________________

Credit ______________________________

Debit ______________________________

Credit ______________________________

12. *(6 pts)* Assume that all of Callaway's inventory costs are paid in cash except for raw materials that are bought on account from suppliers (also assume that Accounts Payable reflect only raw material purchases). How much cash did Callaway spend on inventory costs in 2005?

CALLAWAY GOLF COMPANY
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	DECEMBER 31, 2005	2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 49,481	$ 31,657
Accounts receivable, net	98,082	100,378
Inventories, net	241,577	175,982
Deferred taxes	38,192	32,959
Income taxes receivable	2,026	28,697
Other current assets	9,232	14,036
Total current assets	438,590	393,732
Property, plant and equipment, net	127,739	135,865
Intangible assets, net	146,123	159,191
Goodwill	29,068	30,468
Deferred taxes	6,516	9,837
Other assets	16,462	16,667
	$ 764,498	$ 735,737
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 102,134	$ 69,394
Accrued employee compensation and benefits	24,783	26,322
Warranty liability	13,267	12,043
Bank line of credit	—	13,000
Capital leases, current portion	21	39
Total current liabilities	140,205	120,798
Long-term liabilities:		
Deferred compensation	8,323	8,674
Energy derivative valuation account	19,922	19,922
Capital leases, net of current portion	—	26
Commitments and contingencies (Note 13)		
Shareholders' equity:		
Preferred Stock, $.01 par value, 3,000,000 shares authorized, none issued and outstanding at December 31, 2005 and 2004	—	—
Common Stock, $.01 par value, 240,000,000 shares authorized, 84,950,694 shares and 84,785,694 shares issued at December 31, 2005 and 2004, respectively	850	848
Additional paid-in capital	393,676	387,950
Unearned compensation	(9,014)	(12,562)
Retained earnings	430,996	437,269
Accumulated other comprehensive income	3,377	11,081
Less: Grantor Stock Trust held at market value, 5,954,747 shares and 7,176,678 shares at December 31, 2005 and 2004, respectively	(82,414)	(96,885)
Less: Common Stock held in treasury, at cost, 8,500,811 shares and 8,497,667 shares at December 31, 2005 and 2004, respectively	(141,423)	(141,384)
Total shareholders' equity	596,048	586,317
	$ 764,498	$ 735,737

CALLAWAY GOLF COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	YEAR ENDED DECEMBER 31,					
	2005		2004		2003	
Net sales	$ 998,093	100%	$ 934,564	100%	$ 814,032	100%
Cost of sales	583,679	58%	575,742	62%	445,417	55%
Gross profit	414,414	42%	358,822	38%	368,615	45%
Selling expenses	290,074	29%	263,089	28%	207,783	26%
General and administrative expenses	80,145	8%	89,878	10%	65,448	8%
Research and development expenses	26,989	3%	30,557	3%	29,529	4%
Total operating expenses	397,208	40%	383,524	41%	302,760	37%
Income (loss) from operations	17,206	2%	(24,702)	(3)%	65,855	8%
Interest and other income (expense), net	(390)		1,934		3,550	
Interest expense	(2,279)		(945)		(1,522)	
Income (loss) before income taxes	14,537	1%	(23,713)	(3)%	67,883	8%
Provision for (benefit from) income taxes	1,253		(13,610)		22,360	
Net income (loss)	$ 13,284	1%	$ (10,103)	(1)%	$ 45,523	6%
Earnings (loss) per common share:						
Basic	$ 0.19		$ (0.15)		$ 0.69	
Diluted	$ 0.19		$ (0.15)		$ 0.68	
Common equivalent shares:						
Basic	68,646		67,721		66,027	
Diluted	69,239		67,721		66,471	

CALLAWAY GOLF COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	YEAR ENDED DECEMBER 31, 2005	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 13,284	$ (10,103)	$ 45,523
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	38,260	51,154	44,496
Loss on disposal of long-lived assets	4,031	7,669	24,163
Tax benefit (reversal of benefit) from exercise of stock options	2,408	2,161	(982)
Noncash compensation	6,527	1,741	15
Net noncash foreign currency hedging loss	—	1,811	2,619
Net loss from sale of marketable securities	—	—	98
Deferred taxes	(3,906)	7,707	(8,320)
Changes in assets and liabilities, net of effects from acquisitions:			
Accounts receivable	2,296	(1,048)	12,698
Inventories	(65,595)	10,299	4,897
Other assets	7,583	1,554	(4,743)
Accounts payable	32,740	(16,945)	(2,561)
Accrued employee compensation and benefits	5,121	(5,895)	(3,898)
Warranty liability	1,224	(584)	(838)
Income taxes receivable and payable	26,676	(40,711)	4,004
Deferred compensation	(351)	(273)	1,572
Net cash provided by operating activities	70,298	8,537	118,743
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures on PP&E	(34,259)	(25,986)	(7,810)
Proceeds from sale of long-lived assets	1,363	431	178
Acquisitions, net of cash acquired	—	(9,204)	(160,321)
Proceeds from sale of marketable securities	—	—	24
Net cash used in investing activities	(32,896)	(34,759)	(167,929)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of Common Stock	14,812	20,311	17,994
Acquisition of Treasury Stock	(39)	(6,298)	(4,755)
Proceeds from (payments on) Line of Credit, net	(13,000)	13,000	—
Dividends paid	(19,557)	(19,069)	(18,536)
Other financing activities	(44)	—	(8,117)
Net cash (used in) provided by financing activities	(17,828)	7,944	(13,414)
Effect of exchange rate changes on cash and cash equivalents	(1,750)	2,595	1,488
Net increase (decrease) in cash and cash equivalents	17,824	(15,683)	(61,112)
Cash and cash equivalents at beginning of year	31,657	47,340	108,452
Cash and cash equivalents at end of year	$ 49,481	$ 31,657	$ 47,340
Supplemental disclosures (See Note 3 for acquisition-related disclosures):			
Cash paid for interest and fees	$ (2,096)	$ (1,384)	$ (835)
Cash paid for income taxes	$ (24,837)	$ (17,379)	$ (30,925)

Accounting ACCT 611

SAMPLE WAIVER EXAM – PART 1

NOTE: The questions in SAMPLE WAIVER EXAM – Part 1 combined with the questions in SAMPLE WAIVER EXAM – Part 2 together comprise a good example of the knowledge needed to waive ACCT 611. SAMPLE WAIVER EXAM – Part 1 covers the topics of accounts receivable, inventory, long-lived assets, and long-term debt. SAMPLE WAIVER EXAM – Part 2 covers the topics of leases, taxes, shareholders' equity, and inter-corporate investments.

NAME

(Print) *Last* *First* *Nickname*

PENN ID NUMBER

(8 middle digits)

Instructions

1. Please PRINT your name and Penn ID number on THIS PAGE AND THE NEXT PAGE. USE THE FIRST NAME UNDER WHICH YOU ARE REGISTERED. SEPARATELY LIST YOUR NICKNAME IF YOU USE ONE. Please circle your instructor's name and your class time.

   Please PRINT your name and Penn ID number on the first page of the financial statement packet.

2. This is an 82 point exam. Budget your time to achieve maximum points.

3. This exam consists of a question packet and a separate financial statement packet. The question packet consists of 17 pages. The financial statement packet consists of 10 pages. Make sure you have all of the pages in each packet.

4. Answer the problems **only in the space indicated. Answers placed elsewhere will not be graded.** Present your work in an orderly fashion to facilitate the awarding of partial credit. Partial credit can only be given for answers that are presented in a manner which is clear, logical, and easily read.

5. The exam is closed book and closed notes.

6. Hand in both the question packet and the financial statement packet when you are done.

Question	Points Assigned	Points Scored
Question 1	18	
Question 2	20	
Question 3	23	
Question 4	21	
Total	82	

Questions 1 – 3 are based on the financial statement of Carter's Inc. **for the period ending Jan. 1, 2005 (referred to as fiscal 2004)**. Carter's Inc. is the largest branded marketer of apparel for babies and young children in the department store, national chain, outlet, specialty store, and off-price sales channels, with 8.2% of the market in 2004, up from 7.1% in 2003.

QUESTION I: ACCOUNTS RECEIVABLES AND INVENTORIES

(18 pts assigned) (______ pts scored)

Assume that Carter's treats Bad Debt Expense as a contra-revenue account, i.e., it is deducted from Sales Revenue to determine Net Sales.

1. *(3 pts)* What was the amount of Bad Debt Expense which Carter's recognized in fiscal 2004?

2. *(3 pts)* By how much would Carter's Inc. net income before taxes have been increased or decreased if they had used the Direct Write-Off method rather than the Allowance method to account for its bad debt? Indicate the amount and whether it would have been an increase or decrease.

$____

(circle one) INCREASED DECREASED

3. *(4 pts)* What was the net effect of business acquisitions, business divestitures and foreign currency translation adjustments on Accounts Receivables for fiscal 2004? Indicate the amount and whether the net effect resulted in an increase, decrease or no change in Accounts Receivables. **To receive credit you must show the work behind your answer.**

$____

(circle one) INCREASE DECREASE NO CHANGE

4. *(5 pts)* How much in cash did Carter's Inc. collect from its customers in fiscal 2004?

5. *(3 pts)* By how much did Carter's Inc. reduce fiscal 2004's net income before tax as a result of applying Lower of Cost or Market to its inventory?

QUESTION II: LONG-LIVED ASSETS *(20 pts assigned) (_____ pts scored)*

Assume:

1. The depreciation and amortization add-back on the Statement of Cash Flows includes depreciation on Property, Plant and Equipment **as well as amortization on other assets**.
2. The Loss (gain) on disposal of assets on the Statement of Cash Flows includes the loss (gain) on the sale of property, plant and equipment **as well as the loss (gain) on the sale of other assets**.
3. **All depreciation on property, plant and equipment is expensed**.
4. All property, plant and equipment acquired during fiscal 2004 was acquired for cash and all property, plant and equipment sold during fiscal 2004 was sold for cash.
5. Long-lived assets were not affected in fiscal 2004 by any business acquisitions, business divestitures or foreign currency translation adjustments.

1. *(3 pts)* How much depreciation expense on property, plant and equipment did Carter's Inc. recognize in fiscal 2004?

2. *(3 pts)* What was the amount of property, plant and equipment which Carter's Inc. purchased during fiscal 2004?

3. *(4 pts)* What was the net book value of the property, plant and equipment which Carter's Inc. sold (disposed of) during fiscal 2004.

4. *(4 pts)* What was the gain or loss which Carter's Inc. recognized on its sale of property, plant and equipment in fiscal 2004?

$ ______________________________

(circle one) GAIN LOSS NO GAIN OR LOSS

5. *(3 pts)* Refer to the long-lived asset, Trade name. Does Carter's Inc. treat this asset as one that has a definite life (and is therefore amortizable) or as one that has an indefinite life (and therefore not amortizable)? **You must present your reasoning in order to receive any points.**

6. *(3 pts)* In the fiscal year ending December 28, 2002, Carter's Inc. recorded a Write-down of long-lived assets. If that write-down had not been taken, how much greater or less would Carter's Inc. fiscal 2002 Cash from Operating Activities have been?

$ ______________________________

(circle one) GREATER LESS NO EFFECT

QUESTION III: LONG-TERM DEBT *(23 pts assigned) (_____ pts scored)*

Assume:

1. The beginning and ending balances in Current maturities of long-term debt consist entirely of debt that was **issued at par.**
2. All the debt in the fiscal 2004 beginning balance of Current maturities of long-term debt was retired in fiscal 2004.
3. All long-term debt issued in fiscal 2004 was issued for cash.
4. All long-term debt retired during fiscal 2004 was retired with cash.

1. *(3 pts)* What was the amount of long-term debt discount amortized by Carter's Inc. during fiscal 2004?

2. *(2 pts)* What was the amount of long-term debt issued by Carter's Inc. in fiscal 2004?

3a. *(3 pts)* What was the net book value of long-term debt retired **at maturity** by Carter's Inc. in fiscal 2004?

3b. *(3 pts)* What was the gain or loss on the long-term debt which Carter's Inc. retired **at maturity** in fiscal 2004?

$ ____

(circle one) GAIN LOSS NO GAIN OR LOSS

4a. *(5 pts)* What was the cash paid by Carter's Inc. in fiscal 2004 to retire long-term debt **prior to maturity?**

4b. *(4 pts)* What was the **net book value** of long-term debt retired **prior to maturity** by Carter's Inc. in fiscal 2004?

5. *(3 pts)* Consider Carter's Inc. senior subordinated debt. As of the end of fiscal 2004 is the yield to maturity (i.e., the market rate of interest) higher, lower, or the same as it was on the date the senior subordinated debt was issued (i.e., the historical yield to maturity)?

$____

(circle one) HIGHER LOWER THE SAME

QUESTION IV: INVENTORY *(21 pts assigned) (_____ pts scored)*

Question IV refers to the 2005 financial statements of AK Steel. Assume a 35% tax rate.

1. *(4 pts)* How much greater or less would AK Steel's **2005** cost of goods sold have been if it had always used FIFO for all of its inventory?

$____

(circle one) GREATER LESS

2. *(5 pts)* What was the dollar effect of input price inflation or deflation on AK Steel's LIFO Reserve during 2005?

3. *(4 pts)* The following statement is made in AK Steel's Management Discussion and Analysis:

"As a result of the progressively increasing cost of raw materials, the Company recorded LIFO charges in both 2005 and 2004, although those charges decreased to $60.1 from $200.7, year over year."

What was AK Steel's LIFO Reserve as of the end of 2003?

4. *(8 pts)* Assume that AK Steel had always used FIFO rather than LIFO for **both** financial reporting and tax reporting purposes. This would have affected its Statement of Cash Flows in each year. Below are several line items from AK Steel's **2005** Operating Activities section of its Statement of Cash Flows. Indicate the effect on the line items in the Cash flows from operating activities that would be different (both the amount of the difference and the sign) if AK Steel had always used FIFO rather than LIFO for financial and tax reporting purposes. **Note that we are just asking for the one-period effect on AK Steel's 2005 Operating Activities section of its Statement of Cash Flows of AK Steel using FIFO vs. LIFO.** Assume that any additional taxes (to be paid or refunded) in 2005 arising from the use of FIFO rather than LIFO have not yet been paid or received. Assume a 35% tax rate.

Name of "Cash flows from operating activities" line item	**Amount and direction of effect (use +/- to indicate increase/decrease)**
Net Income	
Adjustments to reconcile net income (loss) to cash flows	
Changes in Inventory	
Changes in Other Assets	
Changes in Other liabilities	
Net cash flows from operating activities of continuing operations	

CARTER'S, INC.
AND THE WILLIAM CARTER COMPANY
CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except for share data)

	January 1, 2005	January 3, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 33,265	$ 36,061
Accounts receivable, net of reserve for doubtful accounts of $2,878 in fiscal 2004 and $2,363 in fiscal 2003	80,440	65,318
Inventories, net	120,792	104,760
Prepaid expenses and other current assets	4,499	6,625
Deferred income taxes	12,571	9,045
Total current assets	251,567	221,809
Property, plant, and equipment, net	53,187	50,502
Tradename	220,233	220,233
Cost in excess of fair value of net assets acquired	139,282	139,282
Other assets	2,829	3,485
Total assets	$ 672,965	$ 646,102
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 724	$ 3,336
Accounts payable	26,453	30,436
Other current liabilities	40,696	37,405
Total current liabilities	67,873	71,177
Long-term debt	183,778	209,377
Deferred income taxes	83,579	83,196
Other long-term liabilities	9,802	9,816
Total liabilities	345,032	373,566
Commitments and contingencies		
Stockholders' equity:		
Carter's, Inc., preferred stock; par value $.01 per share; 100,000 shares authorized; none issued or outstanding at January 1, 2005 and January 3, 2004	—	—
Carter's, Inc., common stock, voting; par value $.01 per share; 40,000,000 shares authorized; 28,432,452 shares issued and outstanding at January 1, 2005; 27,985,360 shares issued and outstanding at January 3, 2004 (TWCC's common stock, voting; par value $.01 per share; 200,000 shares authorized, 1,000 shares issued and outstanding at January 1, 2005 and January 3, 2004)	284	280
Additional paid-in capital	247,610	241,780
Deferred compensation	(95)	—
Retained earnings	80,134	30,476
Total stockholders' equity	327,933	272,536
Total liabilities and stockholders' equity	$ 672,965	$ 646,102

The accompanying notes are an integral part of these financial statements.

CARTER'S, INC.
AND THE WILLIAM CARTER COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in thousands, except per share data)

	FOR THE FISCAL YEARS ENDED		
	January 1, 2005	**January 3, 2004**	**December 28, 2002**
Net sales	$ 823,121	$ 703,826	$ 579,547
Cost of goods sold	525,082	448,540	352,151
Gross profit	298,039	255,286	227,396
Selling, general, and administrative expenses	208,756	188,028	174,110
Write-down of long-lived assets	—	—	150
Closure costs	620	1,041	—
Deferred charge write-off	—	—	923
Management fee termination	—	2,602	—
Royalty income	(12,362)	(11,025)	(8,352)
Operating income	101,025	74,640	60,565
Income before income taxes	82,508	38,926	32,264
Provision for income taxes	32,850	15,648	13,011
Net income	$ 49,658	$ 23,278	$ 19,253
CARTER'S, INC.			
Basic net income per common share	$ 1.77	$ 0.99	$ 0.86
Diluted net income per common share	$ 1.66	$ 0.92	$ 0.82
Basic weighted average number of shares outstanding	28,125,584	23,611,372	22,453,088
Diluted weighted average number of shares outstanding	29,927,957	25,187,492	23,544,900

The accompanying notes are an integral part of these financial statements.

CARTER'S, INC.
AND THE WILLIAM CARTER COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	FOR THE FISCAL YEARS ENDED		
	January 1, 2005	**January 3, 2004**	**December 28, 2002**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 49,658	$ 23,278	$ 19,253
Loss on extinguishment of debt	xxxxxxxxx	xxxxxxxx	xxxxxxx
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	19,536	22,216	18,693
Amortization of long-term debt discount	75	126	130
Non-cash stock compensation expense	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx
Non-cash closure costs	—	184	—
Write-down of long-lived assets	—	—	150
Loss (gain) on disposal of assets	164	61	(9)
Tax benefit from exercise of stock options	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx
Deferred tax (benefit) provision	(3,143)	299	(1,264)
Effect of changes in operating assets and liabilities:			
Increase in accounts receivable	(15,122)	(11,718)	(18,132)
(Increase) decrease in inventories	(16,032)	940	(16,631)
Decrease (increase) in prepaid expenses and other assets	2,132	(2,258)	2,055
(Decrease) increase in accounts payable and other liabilities	(575)	(4,339)	20,660
Net cash provided by operating activities	42,676	40,506	27,304
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of Property, plant and equipment	(20,481)	(17,347)	(18,009)
Proceeds from sale of property, plant, and equipment	1,304	275	955
Collections on loan	600	600	1,500
Net cash used in investing activities	(18,577)	(16,472)	(15,554)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payments of term loan	(28,286)	(24,138)	(1,250)
Redemption of 10.875% Senior Subordinated Notes	—	(61,250)	—
Payment of debt redemption premium	—	(6,661)	—
Payment of dividend	—	(24,893)	—
Payments of debt issuance costs	—	(799)	—
Proceeds from stock option exercises	1,555	—	—
Proceeds from sale of common stock	—	600	1,000
Net cash used in financing activities	(26,895)	(23,535)	(880)
Net (decrease) increase in cash and cash equivalents	(2,796)	499	10,870
Cash and cash equivalents at beginning of period	36,061	35,562	24,692
Cash and cash equivalents at end of period	$ 33,265	$ 36,061	$ 35,562

The accompanying notes are an integral part of these financial statements.

NOTE 2: Summary of Significant Accounting Policies

Fiscal Year

Our fiscal year ends on the Saturday in December or January nearest to the last day of December. The accompanying consolidated financial statements reflect our financial position as of January 1, 2005 and January 3, 2004 and results of operations for the fiscal years ended January 1, 2005, January 3, 2004, and December 28, 2002. The fiscal year ended January 3, 2004 (fiscal 2003) contains 53 weeks. The fiscal years ended January 1, 2005 (fiscal 2004) and December 28, 2002 (fiscal 2002), each contain 52 weeks.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost, less accumulated depreciation. When fixed assets are sold or otherwise disposed, the accounts are relieved of the original costs of the assets, and the related accumulated depreciation and any resulting profit or loss is credited or charged to income. For financial reporting purposes, depreciation and amortization are computed on the straight-line method over the estimated useful lives of the assets as follows: buildings—15 to 26 years and machinery and equipment—3 to 10 years. We capitalize the cost of our fixtures designed and purchased for use at major wholesale and mass channel accounts. The cost of these fixtures is amortized over a three-year period.

Cost in Excess of Fair Value of Net Assets Acquired and Other Intangible Assets

Cost in excess of fair value of net assets acquired ("goodwill") represents the excess of the cost of the Acquisition over the fair value of the net assets acquired.

In connection with the Acquisition, we adopted the provisions of Statements of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" ("SFAS 141"), and applied the required provisions of SFAS No. 142, "Goodwill and other Intangible Assets" ("SFAS 142"). Accordingly, our tradename and goodwill are deemed to have indefinite lives and are not being amortized. Our licensing agreements, however, recognized in the allocation of the Acquisition purchase price, were amortized over the average three-year life of such agreements, as it was determined that these agreements have finite lives. Amortization expense on our licensing agreements was $3.1 million for fiscal 2004 and $5.0 million in fiscal 2003 and fiscal 2002. The licensing agreements were fully amortized as of August 15, 2004.

We adopted the remaining provisions of SFAS 142 as of the beginning of fiscal 2002. In accordance with this statement, we identified our reporting units, and have completed the required assessments for impairment of goodwill (by comparing the fair values of our reporting units to their respective carrying values, including allocated goodwill) and our tradename and found that there was no impairment of either asset, either at the initial adoption date or at the most recent assessment performed as of January 1, 2005.

We measure our goodwill and tradename for impairment on at least an annual basis or if events or changes in circumstances so dictate.

NOTE 4: Property, Plant, and Equipment

Property, plant, and equipment consisted of the following:

(dollars in thousands)

	January 1, 2005	January 3, 2004
Land, buildings, and improvements	$ 27,333	$ 26,326
Machinery and equipment	53,863	41,766
Marketing fixtures	11,301	14,686
Construction in progress	2,064	676
	94,561	83,454
Accumulated depreciation and amortization	(41,374)	(32,952)
Total	$ 53,187	$ 50,502

Depreciation expense on property, plant and equipment was $16,411,000 for the fiscal year ended January 1, 2005, $17,216,000 for the fiscal year ended January 3, 2004, and $13,693,000 for the fiscal year ended December 28, 2002.

NOTE 5: Long-term Debt

Long-term debt consisted of the following:

(dollars in thousands)

	January 1, 2005	January 3, 2004
Senior credit facility term loan	$ 71,326	$ 99,612
10.875% Series B Senior Subordinated Notes due 2011, net of unamortized discount of $574 in fiscal 2004 and $649 in fiscal 2003	113,176	113,101
	184,502	212,713
Current maturities	(724)	(3,336)
Total	$ 183,778	$ 209,377

The fair value of our senior subordinated notes was approximately $13.7 million greater than the book value as of January 1, 2005 and $17.6 million greater than the book value as of January 3, 2004. The fair values were estimated based on similar issues or on current rates offered to us for debt of the same remaining maturity.

NOTE 12: Valuation and Qualifying Accounts

Information regarding accounts receivable and inventory reserves is as follows:

(dollars in thousands)

	Accounts receivable reserves	Inventory reserves
Balance, December 29, 2001	$ 1,673	$ 1,681
Additions, charged to expense	2,578	1,177
Write-offs	(2,371)	—
Balance, December 28, 2002	1,880	2,858
Additions, charged to expense	2,161	6,682
Write-offs	(1,678)	(4,508)
Balance, January 3, 2004	2,363	5,032
Additions, charged to expense	3,520	11,119
Write-offs	(3,005)	(6,267)
Balance, January 1, 2005	$ 2,878	$ 9,884

AK STEEL HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share data)

Inventories

Inventories are valued at the lower of cost or market. The cost of the majority of inventories is measured on the last in, first out ("LIFO") method. Other inventories are measured principally at FIFO and consist mostly of foreign inventories and certain raw materials.

	2005	2004
Finished and semifinished	$ 776.3	738.7
Raw materials and supplies	344.4	229.4
Adjustment to state inventories at LIFO value	(351.7)	(291.6)
Total	769.0	676.5

During 2005, 2004 and 2003, liquidation of LIFO layers increased net income before taxes of $9.0, 25.1 and $11.1, respectively.

Accounting ACCT 611
SAMPLE WAIVER EXAM – PART 2

NAME

(Print) *Last* *First* *Nickname*

PENN ID NUMBER

(8 middle digits)

Instructions

1. Please PRINT your Penn ID number **on this page and every page of the exam**. Please circle your instructor's name and your class time.

2. This is a 99 point exam. Budget your time to achieve maximum points.

3. This exam consists of a question packet and a separate financial statement packet. The question packet consists of 19 pages. The financial statement packet consists of 13 pages. Make sure you have all of the pages in each packet.

4. Answer the problems **only in the space indicated. Answers placed elsewhere will not be graded**. Present your work in an orderly fashion to facilitate the awarding of partial credit. Partial credit can only be given for answers that are presented in a manner which is clear, logical, and easily read.

5. The exam is closed book and closed notes.

6. Hand in both the question packet and the excerpts from the financial statements when you are done.

Question	Points Assigned	Points Scored
Question 1	35	
Question 2	20	
Question 3	15	
Question 4	29	
Total	99	

Questions 1, 2 and 3 are based on the financial statement of Health Net Inc.

Health Net, Inc. is an integrated managed care organization that delivers managed health care services. We are among the nation's largest publicly traded managed health care companies. Our health plans and government contracts subsidiaries provide health benefits through our health maintenance organizations (HMOs), insured preferred provider organizations (PPOs) and point of service (POS) plans to approximately 6.3 million individuals in 27 states and the District of Columbia through group, individual, Medicare, Medicaid and TRICARE programs.

QUESTION I: TAXES *(35 pts assigned) (_____ pts scored)*

1. *(3 pts)* What was the journal entry to record income tax expense in 2005? You may record a "net" Deferred Tax Asset or Liability – you do not need to distinguish between the two.

Account	Debit	Credit

2. *(4 pts)* What was the company's income **before** tax in 2005? Note that the Income Statement has not been provided.

3. *(3 pts)* The company has a valuation allowance for deferred tax assets. What would be the impact on 2006 income **after taxes** if the company reduced the valuation allowance to $16.5 million in 2006?

$____

(circle one) INCREASE DECREASE NO CHANGE

4. *(3 pts)* Assume the balance in income taxes payable at January 1, 2005 was $20.3 million. What was the balance in income taxes payable at December 31, 2005?

All the parts of Question 5 pertain to the tax exempt interest income the company earned in 2005.

5a. *(2 pts)* Indicate whether the tax exempt interest income resulted in an INCREASE, DECREASE or NO CHANGE to the statutory tax rate during 2005:

(circle one) INCREASE DECREASE NO CHANGE

5b. *(2 pts)* Indicate whether the tax exempt interest income resulted in an INCREASE, DECREASE or NO CHANGE to the effective tax rate during 2005:

(circle one) INCREASE DECREASE NO CHANGE

5c. *(2 pts)* Indicate whether the tax exempt interest income resulted in an INCREASE, DECREASE or NO CHANGE to the deferred tax expense during 2005:

(circle one) INCREASE DECREASE NO CHANGE

5d. *(2 pts)* Indicate whether the tax exempt interest income resulted in an INCREASE, DECREASE or NO CHANGE to Net Deferred Tax Assets at December 31, 2005:

(circle one) INCREASE DECREASE NO CHANGE

All the parts of Question 6 pertain only to the **Unearned (or Deferred) Revenue** the company recorded in 2005.

6a. *(3 pts)* The company recorded greater revenue for tax purposes than for financial reporting purposes in 2005. Indicate TRUE or FALSE.

(circle one) TRUE FALSE

6b. *(3 pts)* The company has cumulatively recorded greater revenue for tax purposes than for financial reporting purposes as of Dec. 31, 2005. Indicate TRUE or FALSE.

(circle one) TRUE FALSE

6c. *(4 pts)* For this question only, assume that deferred taxes are recorded at 29%.

How much was the difference between the revenues recognized in 2005 for financial reporting purposes and for tax reporting purposes?

a. 27.7	**d.** 6.9
b. 58.3	**e.** 3.3
c. 2	**f.** 16.9

7. *(4 pts)* Note that Health Net has net Deferred Tax Assets (Deferred Tax Assets are greater than Deferred Tax Liabilities). Suppose Congress announced a tax rate increase commencing in 2006. What effect would this increase in expected future tax rates have on the following for the end of 2005. Indicate whether it would result in an: INCREASE, DECREASE, or NO EFFECT

Net Deferred Tax Asset ____

Income Taxes Payable ____

Income Tax Expense ____

QUESTION II: INTERCORPORATE INVESTMENTS *(20 pts assigned) (_____ pts scored)*

Assume:

1. All of Health Net's intercorporate investments are classified as Available for Sale
2. There were no business acquisitions, business divestitures, foreign currency translation adjustments or impairments which affected Health Net's intercorporate investments during 2005
3. All purchases of intercorporate investments were for cash and all sales were for cash.

1. *(4 pts)* What was the journal entry to record Health Net's overall adjustment to its cumulative unrealized holding gains and losses in 2005 arising either from increases or decreases in the market prices of investments or from the sales of investments for 2005? There is no need to distinguish between a Deferred Tax Asset and Deferred Tax Liability.

Account	Debit	Credit

2. *(4 pts)* What was the historical cost of the Available for Sale securities which Health Net sold or matured in 2005?

3. *(3 pts)* What was the realized holding or loss that Health Net recognized in 2005 on the sale of Available for Sale securities? Indicate the amount and whether it was a realized holding gain or loss.

$____

(circle one) REALIZED HOLDING GAIN REALIZED HOLDING LOSS

4. *(3 pts)* How much greater or smaller would Health Net's 2005 income before tax have been if it had always accounted for its Available for Sale securities as Trading Securities? Indicate the amount and whether income before tax would have been greater or smaller.

$____

(circle one) GREATER SMALLER NO DIFFERENT

5. *(3 pts)* **For this question, ignore information from all other parts of this exam.**

What tax rate is Health Net using in 2005 to account for the Deferred Taxes arising from the unrealized holding gain and loss of its Available for Sale securities?

6. *(3 pts)* Assume that Health Net had sold all of its Available for Sale securities on Dec. 31, 2005. How much greater or less would its net income after tax have been? Assume a 40% tax rate. Indicate the amount and whether net income after tax would have been greater or smaller.

____

(circle one) GREATER SMALLER NO DIFFERENT

QUESTION III: SHAREHOLDERS' EQUITY *(15 pts assigned) (_____ pts scored)*

Please refer to the 2005 financial statements and footnote disclosures of Health Net Inc.

1. *(3 pts)* How many common shares does Health Net have outstanding at Fiscal year-end 2005?

2. Refer to the Treasury Stock that Health Net held at Fiscal year-end 2005. Assume that all of these shares had been repurchased at the same stock price.

a. *(3 pts)* What is the average price per share that Health Net paid for its treasury shares held as of Fiscal year-end 2005?

b. *(3 pts)* Provide the journal entry that Health Net would have recorded if it had decided to reissue all of the treasury shares held at Fiscal year-end 2005 for $750 million.

Account	Debit	Credit

3. Consider the following information disclosed by Health Net:

Earnings Per Share

Diluted earnings per share is based upon the weighted average shares of common stock and dilutive common stock equivalents (this reflects the potential dilution that could occur if stock options were exercised and restricted stocks were vested) outstanding during the periods presented.

For the year ended December 31, 2004, common stock equivalents arising from dilutive stock options and restricted common stock amounted to 6,179 shares (thousands).

Health Net's 2004 Basic EPS = $ 0.38

Weighted average number of shares used in Health Net's 2004 Diluted EPS = 118,038 shares (thousands

a. *(3 pts)* What is Health Net's 2004 Net Income?

b. *(3 pts)* For this question only, assume Health Net's 2004 net income is $50 million. Also, assume Health Net had paid $10 million in preferred dividends in 2004 (in reality, they paid no preferred dividends in 2004). Compute diluted earnings per share in 2004 under this assumption.

QUESTION IV: LEASES *(29 pts assigned) (_____ pts scored)*

Please refer to the 2005 financial statements and footnote disclosures of Safeway Inc.

Safeway Inc. is one of the largest food and drug retailers in North America, with 1,775 stores at year-end 2005. The Company's U.S. retail operations are located principally on the West Coast. The Company's Canadian retail operations are located principally in British Columbia.

Assume that there were no business acquisitions, business divestitures, foreign currency translation adjustments or impairments associated with Safeway's leases during 2005. Further assume that all required payments on all leases are made on the last day of the fiscal year.

1. *(2 pts)* Safeway is considering a new noncancelable lease. The asset to be leased is worth $65,000 and has a useful life of 7 years. The lease would require the firm to pay $11,000 per year for 5 years. There would be no bargain purchase option or transfer of ownership at the end of the lease. Would Safeway categorize this lease as capital or operating?

(circle one) CAPITAL OPERATING

2. *(3 pts)* Record the journal entry that Safeway expects to make in 2006 related to obligations under capital leases. Assume that no leases are prematurely canceled in 2006 and no new leases are entered into in 2006. You are not required to record the journal entry for the capital leased assets (i.e., you are only required to record the entry for the capital lease liabilities).

Account	Debit	Credit

3. *(3 pts)* Estimate the average interest rate that Safeway is using to determine the net book value of its capital lease liabilities as of fiscal year-end 2005?

4. *(2 pts)* Relative to having no leases, what will be the total effect of Safeway's operating and capital leases on Cash Flow from Operations in 2006? Assume no leases are prematurely canceled in 2006 and no new leases are entered into in 2006.

(circle one) NO EFFECT GREATER SMALLER

by $ ______________________________

5. *(2 pts)* Relative to having no leases, what will be the total effect of Safeway's operating and capital leases on Cash Flow from Investing Activities in 2006? Assume no leases are prematurely canceled in 2006 and no new leases are entered into in 2006.

(circle one) NO EFFECT GREATER SMALLER

by $ ______________________________

6. *(2 pts)* Relative to having no leases, what will be the total effect of Safeway's operating and capital leases on Cash Flow from Financing Activities in 2006? Assume no leases are prematurely canceled in 2006 and no new leases are entered into in 2006.

(circle one) NO EFFECT GREATER SMALLER

by $ ______________________________

7. *(5 pts)* Safeway did cancel capital leases early in 2005. What was the net book value of the assets under capital leases that were cancelled in 2005?

8. *(7 pts)* Assume Safeway were to capitalize its operating leases on January 1, 2006. Further assume that the present value of the operating lease cash flows — using a discount rate of 10% — is $3,589 (millions) and that any resulting assets are amortized straight-line with no salvage value over 10 years.

a. Give the all journal entries for the fiscal year 2006 related to these leases.

Account	Debit	Credit

b. *(3 pts)* How would Safeway's 2006 Cash Flow from Operations be different as a result of capitalizing its operating leases. You need to provide only the direction of the difference — not the dollar value. Assume no leases are prematurely canceled in 2006 and no new leases are entered into in 2006.

(circle one) NO CHANGE GREATER SMALLER

HEALTH NET, INC.
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands)

	DECEMBER 31, 2005	2004
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 742,485	$ 722,102
Investments-available for sale	1,363,800	1,060,000
Premiums receivable, net of allowance for doubtful accounts (2005–$7,204, 2004–$9,016)	132,019	118,521
Amounts receivable under government contracts	122,796	129,483
Other assets	111,512	97,163
Total current assets	2,911,618	2,492,314
Property and equipment, net	125,773	184,643
Goodwill, net	723,595	723,595
Other noncurrent assets	130,267	207,050
Total Assets	$ 3,940,722	$ 3,653,194
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Reserves for claims and other settlements	$ 1,040,171	$ 1,169,297
Health care and other costs payable under government contracts	62,536	119,219
IBNR health care costs payable under TRICARE North contract	265,517	173,951
Unearned premiums	106,586	139,766
Accounts payable and other liabilities	364,266	258,923
Total current liabilities	1,839,076	1,861,156
Senior notes payable	387,954	397,760
Other noncurrent liabilities	124,617	121,398
Total Liabilities	2,351,647	2,380,314
Commitments and contingencies		
Stockholders Equity:		
Preferred stock ($0.001 par value, 10,000 shares authorized, none issued and outstanding)	—	—
Common stock ($0.001 par value, 350,000 shares authorized; issued 2005-137,898 shares; 2004-134,450 shares)	137	134
Restricted common stock	6,883	7,188
Unearned compensation	(2,137)	(4,110)
Additional paid-in capital	906,789	811,292
Treasury common stock, at cost (2005-23,182 shares; 2004-23,173 shares)	(633,375)	(632,926)
Retained earnings	1,324,165	1,094,380
Accumulated other comprehensive loss	(13,387)	(3,078)
Total Stockholders Equity	1,589,075	1,272,880
Total Liabilities and Stockholders Equity	$ 3,940,722	$ 3,653,194

See accompanying notes to consolidated financial statements.

HEALTH NET, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Amounts in thousands)

	Common Stock		Restricted Common Stock	Unearned Compensation	Additional Paid-In Capital	Common Stock Held in Treasury		Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
	Shares	Amount				Shares	Amount			
Balance as of December 31, 2004	134,450	134	7,188	(4,110)	811,292	(23,173)	(632,926)	1,094,380	(3,078)	1,272,880
Comprehensive income:										
Net income										
Minimum pension liability adjustment										
Change in unrealized holding gain or loss on investments, net of tax benefit									(10,341)	(10,341)
Total comprehensive income										219,476
Exercise of stock options including related tax benefit	3,411	3			94,106					94,109
Repurchases of common stock						(9)	(449)			(449)
Issuance of restricted stock	30		869	(869)						—
Forfeiture of restricted stock	(13)		(345)	345						—
Amortization of restricted stock grants				2,497						2,497
Lapse of restrictions of restricted stock grants			(829)		829					—
Employee stock purchase plan	20				562					562
Balance as of December 31, 2005	137,898	$137	$6,883	$(2,137)	$906,789	(23,182)	$(633,375)	$1,324,165	$(13,387)	$1,589,075

See accompanying notes to consolidated financial statements.

HEALTH NET, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(amounts in thousands)

	YEAR ENDED DECEMBER 31,		
	2005	**2004**	**2003**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ xxxxx	$ xxxxx	$ xxxxx
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Other changes	12,550	3,969	5,138
Changes in assets and liabilities, net of effects of dispositions:			
Premiums receivable and unearned premiums	(46,678)	(18,402)	20,163
Other current assets, receivables and noncurrent assets	2,356	(86,499)	35,915
Amounts receivable/payable under government contracts	(49,996)	(175,345)	23,596
Reserves for claims and other settlements	(129,126)	143,012	2,737
Accounts payable and other liabilities	117,556	(15,749)	(13,686)
Net cash provided by (used in) operating activities	191,394	(54,912)	379,772
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from Sales and Maturities of investments	513,640	556,774	867,221
Purchases of investments	(833,593)	(498,355)	(977,266)
Sales of property and equipment	79,845	9,670	37
Purchases of property and equipment	(48,846)	(47,616)	(54,952)
Cash received from the sale of businesses and properties	1,949	11,112	90,316
Other			
Net cash used in investing activities	(244,046)	(14,242)	(105,522)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from exercise of stock options and employee stock purchases	73,484	19,091	42,330
Proceeds from issuance of notes payable and other financing arrangements	—	—	5,680
Repurchases of common stock	(449)	(88,706)	(288,318)
Repayment of debt and other noncurrent liabilities	—	—	(5,864)
Net cash provided by (used in) financing activities	73,035	(69,615)	(246,172)
Net increase (decrease) in cash and cash equivalents	20,383	(138,769)	28,078
Cash and cash equivalents, beginning of year	722,102	860,871	832,793
Cash and cash equivalents, end of year	742,485	$ 722,102	$ 860,871
SUPPLEMENTAL CASH FLOWS DISCLOSURE:			
Interest paid	$ 41,120	$ 30,722	$ 36,296
Income taxes paid	96,324	110,316	126,709

See accompanying notes to consolidated financial statements.

HEALTH NET, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: Significant Accounting Policies

Cash and Cash Equivalents

Cash equivalents include all highly liquid investments with a maturity of three months or less when purchased.

Investments

Investments classified as available-for-sale are reported at fair value based on quoted market prices, with unrealized gains and losses excluded from earnings and reported as other comprehensive income, net of income tax effects. The cost of investments sold is determined in accordance with the specific identification method and realized gains and losses are included in net investment income.

NOTE 4: Investments

As of December 31, 2005 and 2004, the cost, gross unrealized holding gains and losses, and fair value of our available-for-sale investments were as follows:

	2005			
	COST	GROSS UNREALIZED HOLDING GAINS	GROSS UNREALIZED HOLDING LOSSES	CARRYING VALUE
(Dollars in millions)				
Mortgage-backed securities	$ 368.1	$ 0.4	$ (7.2)	$ 361.3
U.S. government and agencies	371.6	—	(8.7)	362.9
Obligations of states and other political subdivisions	462.8	1.3	(2.4)	461.7
Corporate debt securities	182.6	—	(4.9)	177.7
Other securities	0.2	—	—	0.2
	$ 1,385.3	$ 1.7	$ (23.2)	$ 1,363.8

	2004			
	COST	GROSS UNREALIZED HOLDING GAINS	GROSS UNREALIZED HOLDING LOSSES	CARRYING VALUE
(Dollars in millions)				
Mortgage-backed securities	$ 379.1	$ 0.8	$ (2.9)	$ 377.0
U.S. government and agencies	446.0	0.7	(2.9)	443.8
Obligations of states and other political subdivisions	34.8	0.3	(0.1)	35.0
Corporate debt securities	204.6	1.0	(1.4)	204.2
	$ 1,064.5	$ 2.8	$ (7.3)	$ 1,060.0

As of December 31, 2005, the contractual maturities of our available-for-sale investments were as follows:

	COST	ESTIMATED FAIR VALUE
	(Dollars in millions)	
Due in one year or less	$ 94.7	$ 93.9
Due after one year through five years	546.3	533.7
Due after five years through ten years	224.1	222.2
Due after ten years	152.1	152.7
Mortgage-backed securities	368.1	361.3
Total available for sale	$ 1,385.3	$ 1,363.8

NOTE 10: Income Taxes

Significant components of the provision for income taxes are as follows for the years ended December 31:

	2005
	(Dollars in millions)
CURRENT:	
Federal	$ 111.4
State	31.0
Total current	142.4
DEFERRED:	
Federal	3.6
State	0.5
Total deferred	4.1
Total income tax provision	$ 146.5

A reconciliation of the statutory federal income tax rate and the effective income tax rate on income is as follows for the years ended December 31:

	2005	2004	2003
Statutory federal income tax rate	35.0%	35.0%	35.0%
State and local taxes, net of federal income tax effect	5.4	4.1	3.6
Tax exempt interest income	(0.5)	(0.3)	(0.1)
Goodwill and intangible assets amortization	0.1	0.5	0.1
Examination settlements	—	(2.7)	(1.9)
Other, net	(1.1)	0.2	0.8
Effective income tax rate	38.9%	36.8%	37.5%

Significant components of our deferred tax assets and liabilities as of December 31 are as follows:

	2005	2004
	(Dollars in millions)	
DEFERRED TAX ASSETS:		
Accrued liabilities	$ 100.9	$ 101.0
Unearned (or Deferred) Revenues	16.9	18.9
Tax credit carryforwards	0.5	0.8
Accrued compensation and benefits	38.1	32.6
Net operating loss carryforwards	57.8	54.6
Other	9.1	2.9
Deferred tax assets before valuation allowance	223.3	210.8
Valuation allowance	(19.7)	(19.8)
Net deferred tax assets	$ 203.6	$ 191.0
DEFERRED TAX LIABILITIES:		
Depreciable and amortizable property	$ 45.5	$ 44.1
Deferred revenue	19.0	15.1
Other	14.2	9.4
Deferred tax liabilities	$ 78.7	$ 68.6

The net deferred tax assets and liabilities are reported as current and noncurrent deferred tax assets in our consolidated balance sheets for the years ended December 31, 2005 and 2004 based on when the amounts are expected to be realized.

As of December 31, 2005, we had federal and state net operating loss carryforwards of approximately $119.4 million and $282.0 million, respectively. The net operating loss carryforwards expire between 2007 and 2026. Limitations on utilization may apply to approximately $36.4 million and $126.0 million of the federal and state net operating loss carryforwards, respectively. Accordingly, valuation allowances have been provided to account for the potential limitations on utilization of these tax benefits.

SAFEWAY INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In millions, except per-share amounts)

	YEAR-END 2005	YEAR-END 2004
ASSETS		
Current assets:		
Cash and equivalents	$ 373.3	$ 266.8
Receivables	350.6	339.0
Merchandise inventories, net of LIFO reserve of $48.4 and $48.6	2,766.0	2,740.7
Prepaid expenses and other current assets	212.5	251.2
Total current assets	3,702.4	3,597.7
Property:		
Land	1,413.9	1,396.0
Buildings	4,419.1	4,269.7
Leasehold improvements	2,958.0	2,621.9
Fixtures and equipment	6,558.7	5,981.3
Property under capital leases	779.1	773.8
	16,128.8	15,042.7
Less accumulated depreciation and amortization	(7,031.7)	(6,353.3)
Total property, net	9,097.1	8,689.4
Goodwill	2,402.4	2,406.6
Prepaid pension costs	179.4	321.0
Investments in unconsolidated affiliates	201.8	187.6
Other assets	173.8	175.1
Total assets	$ 15,756.9	$ 15,377.4
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of notes and debentures	$ 714.2	$ 596.9
Current obligations under capital leases	39.1	42.8
Accounts payable	2,151.5	1,759.4
Accrued salaries and wages	526.1	426.4
Income taxes	124.2	270.3
Other accrued liabilities	708.8	696.3
Total current liabilities	4,263.9	3,792.1
Long-term debt:		
Notes and debentures	4,961.2	5,469.7
Obligations under capital leases	644.1	654.0
Total long-term debt	5,605.3	6,123.7
Deferred income taxes	223.1	463.6
Accrued claims and other liabilities	744.9	691.1
Total liabilities	10,837.2	11,070.5
Commitments and contingencies		
Stockholders' equity:		
Total stockholders' equity	4,919.7	4,306.9
Total liabilities and stockholders' equity	$ 15,756.9	$ 15,377.4

SAFEWAY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	52 WEEKS 2005	52 WEEKS 2004	53 WEEKS 2003
OPERATING ACTIVITIES:			
Net income (loss)	$ 561.1	$ 560.2	$ (169.8)
Reconciliation to net cash flow from operating activities:			
Net cash flow from operating activities	1,881.0	2,226.4	1,609.6
INVESTING ACTIVITIES:			
Cash paid for property additions	(1,383.5)	(1,212.5)	(935.8)
Proceeds from sale of property	105.1	194.7	189.0
Other	(35.1)	(52.5)	(48.2)
Net cash used by investing activities	(1,313.5)	(1,070.3)	(795.0)
FINANCING ACTIVITIES:			
Additions to short-term borrowings	$ 13.0	$ 11.2	$ 2.6
Payments on short-term borrowings	(23.8)	(1.5)	(3.1)
Additions on long-term borrowings	754.5	1,173.5	1,592.0
Payments on long-term borrowings	(1,188.6)	(2,278.6)	(2,331.0)
Purchase of treasury stock	(1.5)	(0.4)	—
Dividends paid	(44.9)	—	—
Net proceeds from exercise of stock options	18.9	24.8	19.1
Other	5.5	(6.6)	(3.6)
Net cash flow used by financing activities	(466.9)	(1,077.6)	(724.0)
Effect of changes in exchange rates on cash	5.9	13.5	8.2
Increase in cash and equivalents	106.5	92.0	98.8
CASH AND EQUIVALENTS:			
Beginning of year	266.8	174.8	76.0
End of year	$ 373.3	$ 266.8	$ 174.8
OTHER CASH INFORMATION:			
Cash payments during the year for:			
Interest	$ 412.1	$ 434.8	$ 464.2
Income taxes, net of refunds	624.4	43.8	361.6
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Tax benefit from stock options exercised	$ 9.1	$ 17.4	$ 13.6
Capital lease obligations entered into	27.1	35.9	113.2
Mortgage notes assumed in property additions	3.2	5.5	—

See accompanying notes to consolidated financial statements.

NOTE E: Lease Obligations

Approximately 62% of the premises that the Company occupies are leased. The Company had approximately 1,600 leases at year-end 2005, including approximately 225 that are capitalized for financial reporting purposes. Most leases have renewal options, some with terms and conditions similar to the original lease, others with reduced rental rates during the option periods. Certain of these leases contain options to purchase the property at amounts that approximate fair market value.

As of year-end 2005, future minimum rental payments applicable to non-cancelable capital and operating leases with remaining terms in excess of one year were as follows (in millions):

	CAPITAL LEASES	OPERATING LEASES
2006	$ 105.7	$ 426.1
2007	104.3	410.6
2008	103.9	397.3
2009	94.7	359.9
2010	86.1	330.2
Thereafter	875.0	2,645.9
Total minimum lease payments	1,369.7	$ 4,570.0
Less amounts representing interest	(686.5)	
Present value of net minimum lease payments	683.2	
Less current obligations	(39.1)	
Long-term obligations	$ 644.1	

Amortization expense for property under capital leases was $43.0 million in 2005, $43.4 million in 2004 and $35.4 million in 2003. Accumulated amortization of property under capital leases was $256.7 million at year-end 2005 and $230.9 million at year-end 2004.

The following schedule shows the composition of total rental expense for all operating leases (in millions).

	2005	2004	2003
Property leases:			
Minimum rentals	$ 422.4	$ 406.9	$ 411.4
Contingent rentals[1]	10.8	9.4	11.5
Less rentals from subleases	(30.2)	(28.1)	(31.4)
	403.0	388.2	391.5
Equipment leases	25.7	24.1	25.2
	$ 428.7	$ 412.3	$ 416.7

(1) In general, contingent rentals are based on individual store sales.

Sample Placement Exam Answers ACCT 611

QUESTION I *(78 pts)*

1.

Event/Transactions			**Statement of Cash Flows**	
Dr. Prepaid Expense	*2000*		NI	*0*
Cr. Cash		*2000*	*- Increase in Prepaid*	*-2000*
			CFO	*-2000*
			CFI	
			CFF	

2.

Event/Transactions			**Statement of Cash Flows**	
Dr. Advertising Expense	*3000*		NI	*-3000*
Cr. Prepaid Expense		*3000*	*+ Decrease in Prepaid*	*+3000*
			CFO	*0*
			CFI	
			CFF	

3.

Event/Transactions			Statement of Cash Flows	
Dr. Amortization Expense	*4000*		NI	*-4000*
Cr. Accumulated Amortization		*4000*	*+ Amortization*	*+4000*
(or Intangible Assets)				
			CFO	*0*
			CFI	
			CFF	

4.

Event/Transactions			Statement of Cash Flows	
Dr. Retained Earnings	*5000*		NI	*0*
Cr. Cash		*5000*		
			CFO	*0*
			CFI	
			Dividends Paid	*-5000*
			CFF	*-5000*

5.

Event/Transactions			Statement of Cash Flows	
Dr. Interest Expense	*4000*		NI	*-4000*
Cr. Interest Payable		*4000*	*+ Increase in Interest Pay*	*+4000*
			CFO	*0*
			CFI	
			CFF	

6.

Event/Transactions			Statement of Cash Flows	
Dr. PPE	*9000*		NI	*0*
Cr. Cash		*9000*		
			CFO	*0*
			Purchase PPE	*-9000*
			CFI	*-9000*
			CFF	

7.

Event/Transactions			Statement of Cash Flows	
Dr. Revenue	*3000*		NI	*-1000*
Cr. A/R		*3000*	*+ Decrease AR*	*+3000*
			- Increase Inventory	*-2000*
Dr. Inventory	*2000*		CFO	*0*
Cr. COGS		*2000*		
			CFI	
			CFF	

8.

Event/Transactions			Statement of Cash Flows	
Dr. Long Term Debt	*8000*		NI	*0*
Cr. Cash		*8000*		
			CFO	*0*
			CFI	*0*
			Repay Debt	*-8000*
			CFF	*-8000*

9.

Event/Transactions			Statement of Cash Flows	
Dr. Unearned Revenue	*3000*		NI	*+2000*
Cr. Revenue		*3000*	*- Decrease in Unearned Rev*	*-3000*
Dr. Expense	*1000*			
Cr. Cash		*1000*	CFO	*-1000*
			CFI	
			CFF	

10.

Event/Transactions			Statement of Cash Flows	
Dr. Contributed Capital	*45000*		NI	*0*
Cr. Cash		*45000*		
			CFO	*0*
			CFI	*0*
			- Reversal of issuance	*-45000*
			CFF	*-45000*

11.

Event/Transactions			Statement of Cash Flows	
Dr. Administrative Expense	*7000*		NI	*-7000*
Cr. Cash		*3000*	+ Increase in Accrued Exps	+4000
Cr. Accrued Expenses		*4000*		
			CFO	*-3000*
			CFI	
			CFF	

12.

Event/Transactions			Statement of Cash Flows	
Dr. Cash	*8000*		NI	*0*
Cr. Unearned Revenue		*8000*	*+ Increase in Unearned Rev*	*+8000*
			- Increase in Inventory	*-2000*
Dr. Inventory	*2000*		*+ Increase in Accts Payable*	*+2000*
Cr. Accts Payable		*2000*	CFO	*+8000*
			CFI	
			CFF	

13.

Event/Transactions			Statement of Cash Flows	
Dr. Salary Expense	*10000*		NI	*-10000*
Cr. Salary Payable		*10000*	*+ Increase in Salary Payable*	*+10000*
			CFO	*0*
			CFI	
			CFF	

QUESTION II *(54 pts)*

1. 2004

$7,944 in financing cash flow was raised in 2004.

2. $57,162

Total dividends = $19,557 + $19,069 + $18,536 = $57,162

3. $5394

Proceeds from sale of long-lived assets	$1,363
Add: Loss on disposal of long-lived assets	+$4,031
Book value of long-lived assets sold	$5,394

4. $1,363 LOWER

5. $0 NO CHANGE

All cash flow from the sale of long-lived assets is reflected in investing activities. The loss on the sale is a non-cash item that affects net income, but not cash flow. Therefore, it is added back in the operating activities section but does not result in higher operating cash flow.

6. $16,224

	Warranty Liability
Beginning Balance	12,043
Less: warranties serviced	(15,000)
Warranty expense (plug)	16,224
Ending Balance	13,267

Alternatively, change in warranty liability from CFO ($1,224) can be added to Warranties Serviced to obtain $16,224.

7.

Retained Earnings

Debit	Credit	
	Beginning Balance	$437,269
	+ Net Income	*13,284*
- Dividends 19,557		
	Ending Balance	$430,996

8. CFO

9. $1,000,389

Accounts Receivable	
Beginning Balance	100,378
Add: Sales on account	0
Less: Cash collected from A/R (plug)	(2,296)
Ending Balance	98,082

Cash revenues of $998,093 + $2,296 collected from A/R equals $1,000,389 in total cash collected from customers.

10. $1,000,389

Accounts Receivable	
Beginning Balance	100,378
Add: Sales on account	499,046.5***
Less: Cash collected from A/R (plug)	(501,342.5)
Ending Balance	98,082

*** 998,093 x 50%

Cash revenues of $499,046.5 + $501,342.5 collected from A/R equals $1,000,389 in total cash collected from customers.

11.

Debit	PPE	34,259
Credit	Cash	34,259

12. $616,534

Inventory		**A/P**	
BB	175,982	BB	69,394
Add: New Raw Mats.	649,274 (plug)	Add: New Raw Mats.	649,274
Less: COGS	(583,679)	Less: Cash paid for A/P	(616,534) (plug)
EB	241,577	EB	102,134

Note: Here, all new inventory is assumed to be raw materials. But, any amount of raw materials up to $649,274 may be assumed as long as the same figure is added to both inventory and A/P, and the remainder of new inventory is assumed to be paid directly in cash.

Sample Waiver Exam – Part 1 Answers ACCT 611

QUESTION I: ACCOUNTS RECEIVABLES AND INVENTORIES

(18 pts assigned) (______ pts scored)

1. 3520

See Note 12

2. $ 515 INCREASED

Expense – Allowance Method	3520
Expense – Direct Write off Method	3005
Difference	515

3. $0 NO CHANGE

ΔAR – BS	15,122
ΔAR – CFS	15,122

Since the reported changes are the same, the net effect of business acquisitions, etc. must have been zero.

4. $807,999

Sales - ΔAR = 823,121 -15,122 = 807,999

Also

GROSS AR		
BB	65,318+2363	3005 Write-Offs
Sales	823,121 + 3520	
		807,999 Cash Collected (Plug)
EB	80,440 + 2878	

5. $11,119

See Note 12, the column dealing with inventory

QUESTION II: LONG-LIVED ASSETS *(20 pts assigned) (_____ pts scored)*

1. $16,411

See Note 4

2. $20,481

See SCF

3. $1385

PPE, NET			
BB	50,502		
Additions	20,481		
		16,411	Depreciation
		1385	*NBV Disposals - Plug*
EB	53,187		

4. $81 LOSS

Proceeds – NBV sold = 1304 – 1385 = 81

5. INDEFINITE

No change in NBV number on Balance Sheet. Also see Note 2

6. $0 NO EFFECT

QUESTION III: LONG-TERM DEBT *(23 pts assigned) (_____ pts scored)*

1. $ 75

See CFO

2. $0

The change in the net book value of debt as reported in the footnote is completely explained by the discount amortization and the change in the reported NBV of the senior credit facility term loan.

3a. 3336

See beginning balance of Current maturities of long-term debt

3b. $0 NO GAIN OR LOSS

There is never a gain or loss on the retirement of debt at maturity.

4a. 24,950

See SCF

Total cash paid to retire debt - cash paid to retire debt at maturity = cash paid to retire debt prior to maturity

28,286 – 3,336 = 24,950

4b. 24,950

LONG-TERM DEBT, NET			
		209,377	BB
724	debt reclassified as current	0	issued
24,950	*nbv retired prior to maturity - PLUG*	75	discount amortized
		183,778	EB

5. LOWER

See note 5

QUESTION IV: INVENTORY *(21 pts assigned) (______ pts scored)*

1. $60.1

LESS

Since the question is asking for the effect in just one year, 2005, use change in the lifo reserve

2. $69.1

ΔLifo Reserve = price effect – liquidation effect
60.1 = price effect - 9
price effect = 69.1

3. $90.9

291.6 – 200.7 = 90.9

4.

Name of "Cash flows from operating activities" line item	**Amount and direction of effect (use +/- to indicate increase/decrease)**
Net Income	*39.07 = 60.1 x (1-.35)*
Adjustments to reconcile net income (loss) to cash flows	
Changes in Inventory	-*60.1*
Changes in Other Assets	
Changes in Other liabilities	*21.04 = 60.1 x .35*
Net cash flows from operating activities of continuing operations	*0*

Sample Waiver Exam – Part 2 Answers ACCT 611

QUESTION I: TAXES *(35 pts assigned) (______ pts scored)*

1.

Account	Debit	Credit
Tax Expense	*146.5*	
Deferred Tax (Asset or Liability)		*4.1*
Tax payable		*142.4*
See the first tax table		

2. $376.6

Effective Tax Rate = Tax Expense/Earnings before Taxes
Earnings before taxes = Tax expense/ETR = 146.5/.389 = 376.6

ETR comes from the second tax table.

3. $3.2 INCREASE

The journal entry for reducing the valuation allowance account is:
Allowance 3.2
Tax expense 3.2

4. $66.376

TAX PAYABLE	
	20.3 BB
Payment 96.324 See the supplementary cash flow information	142.4 current tax expense (see table 1 in the tax footnote and the answer to question 1)
	66.376 EB

5a. NO CHANGE

Tax exempt interest does not affect the statutory tax rate. The statutory tax rate is set by the taxing authorities.

5b. DECREASE

Tax exempt interest reduces the effective tax rate since it increases earnings before taxes but does not increase tax expense.

5c. NO CHANGE

Tax exempt interest represents a permanent difference. Deferred taxes arise from timing differences.

5d. NO CHANGE

Tax exempt interest represents a permanent difference. Deferred taxes arise from timing differences.

6a. FALSE

Notice that the deferred tax asset decreased in 2005, therefore there was a credit entry to the account. Hence, Tax expense must have been greater than Tax payable, hence financial income must have been greater than taxable income, hence more revenue must have been recorded for financial than for tax.

6b. TRUE

Since there is a deferred tax asset associated with the Unearned Revenue, cumulatively, more revenue has been recognized for tax than for financial.

6c. d. Change in deferred tax asset/.29 = (18.9 – 16.9)/.29 = 6.9

7. Net Deferred Tax Asset INCREASE

Income Taxes Payable NO EFFECT

Income Tax Expense DECREASE

With a higher tax rate the tax shield associated with the deferred tax asset becomes more valuable, reducing *future* tax payments associated with present and past deferrals, resulting in lower tax expense this period.

QUESTION II: INTERCORPORATE INVESTMENTS *(20 pts assigned) (_____ pts scored)*

1.

Account	Debit	Credit
Other Comprehensive Income	*10.341*	
Deferred Tax Liability (or Asset)	*6.659*	
Allowance for unrealized price changes		*17*
The credit entry is the change in the allowance account reported in the footnote. The entry to OCI is found in the statement of shareholders' equity. The entry to DTL is the plug.		

2. $512.793

AVAILABLE FOR SALE – HISTORICAL COST			
BB	1064.5		
Purchases	833.593 from the SCF	512.793	Historical cost sold - plug
EB	1385.3		

3. $847 REALIZED HOLDING GAIN

Gain = Proceeds – Historical Cost = 513.64 (from SCF) – 512.793 = 847

4. $17 SMALLER

NIBT(trading) = NIBT(afs) + ΔAllowance

5. 39.2 %

(17 – 10.341)/17 = .392
(Pretax effect – after tax effect)/pretax effect

6. $12.9 SMALLER

21.5 x (1 - .4) = cumulative unrealized holding loss x after tax rate

QUESTION III: SHAREHOLDERS' EQUITY *(15 pts assigned) (_____ pts scored)*

1. 114,716

Number of shares issued – treasury = 137,898 – 23,182 = 114,716

2. **a.** $27.33

633,375/23,173 = $27.33

b.

Account	Debit	Credit
Cash	*750*	
APIC		*116.625*
Treasury Shares		*633.375*

3. **a.** $42,506,420

Basic EPS x (weighted average number of shares – Basic)
.38 x (118,038,000 – 6,179,000) = $42,506,420

b. $.34

(50,000 – 10,000)/118,038 = .34

QUESTION IV: LEASES *(29 pts assigned) (_____ pts scored)*

1. OPERATING

None of the criteria for capital leases hold

2.

Account	Debit	Credit
Interest expense	*66.6*	
Current maturities of leases	*39.1*	
Cash		*105.7*
The cash payment and the current maturities come from the lease footnote		

3. 9.7 %

Interest expense/net book value of liability = 66.6/683.2 = 9.7%

4. SMALLER by $492.7

Interest expense (capital lease) + operating lease payment = 66.6 + 426.1 = 492.7

5. NO EFFECT

6. SMALLER by $39.1

The effect is the principal payment

7. $4.6

LEASE ASSET — NBV			
BB	773.8 – 230.9	4.6	retirements - plug
New leases	27.1	43	amortization expense
EB	779.1 – 256.7		

8.

Account	**Debit**	**Credit**
PPE		
Long Term Lease Obligations	*3589*	*3589*
Long Term Lease Obligation		
Current Portion of Lease Obligation	*67.2*	*67.2*
Interest Expense		
Current Portion of Lease Obligation	*358.9*	
Cash	*67.2*	*426.1*
Amortization Expense		
Accumulated Amortization	*358.9*	*3589*

b. GREATER

Cash flow from operations would be greater because instead of subtracting the entire lease payment you would only be subtracting the principal payment