Place (type) your answers beneath each question return this Word document in its entirety. Do not send excel spreadsheets, either as attachments or as responses to your questions. Calculations must be shown to receive partial credit. If you believe a question is unclear or that an assumption is needed, state the assumption that you are making. Points will not be deducted unless your assumption is inconsistent with data provided or trivializes the problem.

Be sure to allow sufficient time to upload your completed exam before the end of the 24 hour period.

All questions are based on the financial statements and footnotes of Cisco Systems (“Cisco”) for the year ended July 30, 2011 (fiscal 2011). Refer to the next two pages for additional information to be used in answering these questions.

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| Question | Possible Points | Points Awarded |
| I. Revenue Recognition | 25 |  |
| II. Accounts Receivable and Financing Receivables | 14 |  |
| III. Inventories | 11 |  |
| IV. AFS Investments | 26 |  |
| V. Equity Method Investments | 26 |  |
| VI. Property, Plant and Equipment | 21 |  |
| VII. Debt  | 16 |  |
| VIII. Leases | 11 |  |
| IX. Pensions | 5 |  |
| X. Income Taxes | 18 |  |
| XI. Business Combinations and Intangible Assets | 32 |  |
| XII. Shareholders Equity including Share Based Payments | 20 |  |
| XIII. Statement of Cash Flows | 10 |  |
| Total Score | 235 |  |

**Additional information to be used in answering questions on the test**

1. Cisco applies US GAAP. Its interim fiscal quarters end on October 31, January 31, April 30.
2. If Cisco were to capitalize its operating leases, the relevant interest rate would be .03. All lease payments are made in cash at the end of a year. Lease payments made after 2016 are all made at the end of 2017. If Cisco were to apply capital lease treatment to all of its operating leases as of July 30, 2011, the total obligation for capital leases, as at July 30, 2011 would be approximately 1203.
3. Operating Lease Assets are items owned by Cisco and leased to other firms. (Cisco is the lessor in these arrangements).
4. For purposes of this test, unless the question states otherwise, assume that Cisco always has vendor specific objective evidence (VSOE) of selling prices for any item or service that is part of a multiple element arrangement.
5. Because of the effects of acquisitions and divestitures, it is not necessarily possible to reconcile the changes in working capital accounts, and certain other accounts, shown on the SCF with the balance sheet changes in those accounts.
6. For accounting purposes, Cisco treats Accounts receivable separately from Financing receivables. Financing receivables are described in Note 7. The Allowance for credit loss pertains to Financing receivables and the Allowance for doubtful accounts pertains to Accounts receivable.
7. Cisco has inventories of Service related spares and Demonstration systems. These items are not included in Finished goods that are sold to customers. Cisco did not manufacture any of these items during fiscal 2011. Both Manufactured finished goods and Distributor inventory and deferred costs of sales are components of Finished goods; these items are available for sale to customers.
8. All of the interest income that Cisco received was cash.
9. An “Employee 401(k) Plan” is an example of a defined contribution pension plan.
10. Cisco credits impairment charges on tangible and intangible assets with definite service lives to accumulated depreciation (for tangible assets) and accumulated amortization (for intangible assets with definite service lives).
11. You should analyze a Variable Interest Entity as you would any other firm.
12. Unless otherwise stated, dollar amounts are in $ millions
13. To make this test easier, and less time-consuming, you are provided with excerpts from Cisco Systems’ (Cisco) fiscal 2011 financial report, not the entire financial report. In addition, I have marked through several portions of the text of the excerpts that you need not attend to, for purposes of this test.

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The Allowance for Excess and obsolete inventory pertains only to Finished goods.

1. **Revenue Recognition (25 points)**
2. Suppose that on July 31, 2011, a customer agreed to buy routing products plus technical support services. The customer paid as follows: 200 on July 31, 2011 and 250 over time (the customer will pay 50 every three months starting October 31, 2011 and ending October 31, 2012). VSOE for the routing products is 300 (Cisco’s cost to manufacture this item is 310) and VSOE for the technical support services is 225 (Cisco’s estimated cost of technical support is 120, incurred ratably over time and paid in cash at the end of each month). Cisco delivered the routing products (and the customer accepted the products) on October 1, 2011 and the technical support contract started the same day. The length of the technical support contract is the minimum length, as described by Cisco in its financial report. Cisco recognizes services revenue separately from products revenue. For this question, round amounts to the nearest whole number (for example, 63 not 63.2)

1a. What journal entry or entries did Cisco make on July 31, 2011? (3 points)

 1b. Suppose for purposes of this question that Cisco closes its books quarterly. What journal entry or entries did Cisco make on October 31, 2011? (15 points)

1. Suppose that during fiscal 2012 Cisco recorded no increases in deferred revenue and assume, for purposes of this question, that Cisco closes its books annually.

2a. What summary journal entry would Cisco make at the end of fiscal 2012, pursuant to deferred revenue? (3 points)

2b. How would the journal entry in 2a be reflected in Cisco’s income statement and statement of cash flows? Be specific as to the amount, the display, and the effect (increase or decrease). (4 points)

1. **Accounts receivable and Total Financing receivables (14 points)**

Refer to the Allowance for credit loss related to Total Financing receivables.

1. What summary journal entry or entries did Cisco make during the year ended July 30, 2011 to recognize changes in this account? Ignore Foreign exchange and other effects (6 points)
2. Suppose that on August 3, 2011, Cisco collected 3 from a customer whose Financing receivable had been written off during the preceding fiscal year. The customer’s account number is jbf1216
	1. What journal entry would Cisco make? (6 points)
	2. How would the collection of 3 from the customer be displayed on the income statement for the fiscal year ending in July 2012? Give the amount of any income statement effect and whether that amount increases or decreases net income. (2 points)
3. **Inventories (11 points)**
4. What summary journal entry or entries did Cisco make pursuant to its Allowance for Excess and Obsolete inventory during the year July 30, 2011? Ignore the effects of “Other.” (6 points)
5. Assume that no Finished goods are involved in Cisco’s provision of services to customers. What journal entry did Cisco make to record the transfer of items from Work in Process to Finished goods during fiscal 2011? (5 points)

**IV.** **Available for Sale (AFS) Investments (26 points)**

For purposes of this question, assume that all of Cisco’s purchases and sales of AFS securities are for cash.

1. Suppose that Cisco were to sell for cash all of its AFS fixed income securities on July 31, 2011. What journal entry would Cisco make? (10 points)
2. Refer now to Cisco’s AFS investment in U.S. government securities(not including any government agency securities or other securities). Suppose that Cisco acquired all of these securities during the year ended July 31, 2010 and did not sell any of these securities during fiscal 2011.

2a. What summary journal entry or entries would Cisco make pursuant to its AFS investment in U. S. government securities during fiscal 2011? (6 points)

 2b. How would the journal entry in question 2a be reflected in Cisco’s income statement and SCF? Give the amount or amounts, the line item or items affected and whether the effect is an increase or a decrease (4 points)

1. What summary journal entry or entries did Cisco make during the fiscal year ended July 25, 2009 to recognize impairment charges on AFS investments classified as fixed income securities? Assume that the full amount of any decline in fair value pursuant to this impairment charge had already been recognized by Cisco. (3 points)
2. What summary journal entry did Cisco make to recognize Interest income in fiscal 2011? (3 points)

**V Equity Method Investments (26 points)**

Information about Cisco’s Investments in privately held companies appears in several places in Cisco’s financial report, including, for example, Note 6 and pages 85, 107 and 114. For purposes of the following questions, assume that all of Cisco’s Investments in privately held companies are accounted for using the equity method and that Cisco has no equity method investments that are not investments in private companies. Also use the following assumptions: (1) an investment in a privately held company would be measured at fair value only if that investment has been impaired; (2) Cisco invested 70 in VCE (Virtual Computing Environment Company) during fiscal 2010 and made the remainder of its investment in VCE at the beginning of fiscal 2011; (3) Cisco paid cash for its VCE investments; (4) Cisco received 4 in cash dividends from some of its equity method investees (not VCE); (5) Cisco did not sell any equity method investments during fiscal 2011.

1. What journal entry or entries did Cisco make in fiscal 2011 to recognize impairment losses on its equity method investments? (3 points)
2. What journal entry or entries did Cisco make in fiscal 2011 to recognize (1) its investment in VCE and (2) its share of VCE’s net income (loss)? (6 points)
3. How do the journal entries in question 2 above affect Cisco’s income statement, balance sheet and SCF? Be specific as to the line item or items affected, the amount and whether there is an increase or decrease. (10 points)
4. Set up a tabular reconciliation that shows the beginning (of fiscal 2011) balance in Investments in privately held companies, the end (of fiscal 2011) balance and all the transactions and other items (including residual amounts or plug figures) that explain this change from beginning balance to ending balance. (7 points)

**VI Property, Plant and Equipment (21 points)**

For this question, assume that the entire increase in the gross cost of Land, buildings and building & leasehold improvements during fiscal 2011 was due to the acquisition of a single building for cash, and that Cisco did not sell any of these assets. This building has estimated salvage value equal to 10% of its cost. It was acquired and placed in service on the first day of fiscal 2011. Round all amounts to whole numbers (for example, 683 not 683.4)

1. For this question only, assume that Cisco closes its books annually. What summary journal entry or entries did Cisco make pursuant to this building in fiscal 2011? (7 points)
2. Suppose that Cisco disposed of all of its Property and equipment on July 31, 2011 and received cash proceeds of 3200. What journal entry would Cisco make? (8 points)
3. How would the disposition of Property and equipment in question 2 affect Cisco’s income statement and SCF? Give the amount, the line item(s) affected and whether the effect is an increase or a decrease. (6 points)

**VII Debt (16 points)**

For purposes of these questions, assume that the “Hedge accounting adjustment” associated with Cisco’s long term debt is a component of the balance sheet carrying value of the debt. “Unaccreted discount” is another name for “unamortized discount.” For this question, assume that Cisco closes its books quarterly.

1. As of the end of fiscal 2010 (that is, July 31, 2010) and as at the end of fiscal 2011 (that is, July 30, 2011) how much long term debt is Cisco obligated to repay in the next fiscal year? (2 points)
2. Refer to Cisco’s 2.90% fixed rate notes due 2014, par value 500. Assume these notes pay semi-annual coupons on April 1 and October 1. The remaining unamortized (unaccreted) discount associated with these bonds is 5. There is no hedging adjustment. What summary journal entry or entries would Cisco make pursuant to these notes as part of the July 30, 2011 closing process? Show the amounts to two decimal places (for example, round 6.728 to 6.73). (6 points)
3. Have Cisco’s borrowing costs, in general, increased or decreased on average since it issued the Senior Notes that are now outstanding? How do you know? (2 points)
4. Suppose that Cisco repurchased all of its long term debt for cash right after the books were closed on July 30, 2011. What effect, if any, would this repurchase have on Cisco’s fiscal 2011 income statement and statement of cash flows? Be specific as to amounts, the direction of the effect and the line item(s) affected. Round all amounts to one decimal place (for example, round 18.56 to 18.6) (6 points)

**VIII Leases (11 points)**

These questions pertain to Cisco in its role as lessee. None of these questions involves Cisco’s role as lessor.

1. If Cisco makes the contractually specified minimum lease payment on its operating leases in cash in fiscal 2012, what journal entry will it make? (3 points)
2. For questions 2a and 2b, assume capital lease treatment of Cisco’s operating leases, starting as of the first day of fiscal 2012. Round all amounts to whole numbers (for example, 13 not 12.7)

2a. What would be the amounts of Cisco’s capital lease assets and capital lease obligations as of the first day of fiscal 2012? (2 points)

 2b. What journal entry would Cisco make to record its fiscal 2012 lease payment? (6 points)

**IX Pensions (5 points)**

1. Does Cisco have defined benefit pension plans, defined contribution pension plans, or both or neither? How do you know? (2 points)
2. What journal entry did Cisco make to recognize its retirement plan (pension plan) expense for fiscal 2011? (3 points)

**X. Income Taxes (18 points)**

1. What journal entry did Cisco make to recognize the provision for income taxes in fiscal 2011? (6 points)
2. Show the calculation of Cisco’s effective tax rate for fiscal 2011. Present the amount to three decimal places, for example, .344 not .34 or .3442. (2 points)
3. Is Cisco’s foreign income taxed at rates that are higher than, lower than or the same as the US federal statutory income tax rate? How do you know? (2 points)
4. Suppose that Cisco were to provide for deferred taxes on its undistributed earnings of foreign subsidiaries, at the statutory US federal income tax rate, as at the end of fiscal 2011. How would this be displayed on Cisco’s income statement and SCF? Be specific as to the amount, the line item(s) affected and whether a decrease or an increase. Give the amount to one decimal place, for example, 35.5. (5 points)
5. Why does Share-based compensation expense in the form of stock options give rise to a deferred tax asset? (3 points)

**XI Business Combinations and Intangible Assets including Goodwill (32 points)**

1. Refer to the description of the fiscal 2009 (the fiscal year ending July 25, 2009) acquisition of Pure Digital Technologies Inc. All amounts are in millions (per page 93). Assume that Cisco acquired 100% of the shares of Pure Digital Technologies by exchanging its own shares + a certain amount of cash. The direct transaction costs of the acquisition were 10.
	1. What journal entry did Cisco make on its parent-only balance sheet? (6 points)
	2. What is the journal entry to consolidate Pure Digital Technologies with Cisco as of the effective date of the acquisition? Label each line item in the journal entry as Asset, Liability, Shareholders equity, Revenue, or Expense. (10 points)
	3. How if at all would the journal entries in questions 1a and 1b change if the acquisition of Pure Digital Technology had occurred in the second half of fiscal 2011? Your answer should address every change, including the nature of the change and the amount. (12 points)
2. Cisco shows certain restructuring charges related to Goodwill and Intangible Assets in Note 5. What is the summary journal entry or entries that Cisco made to record these components of the fiscal 2011 restructuring charges? (4 points)

**XII Shareholders Equity including Share Based Payments (20 points)**

Unless a question explicitly states otherwise, ignore taxes in your answers to the following questions.

1. What summary journal entry or entries did Cisco make to recognize Total share based compensation expense in fiscal 2011? (3 points)
2. Refer to stock option grants in fiscal 2010 (the year ending July 31, 2010). Assume that options granted and options assumed are the same thing and are accounted for exactly the same way. The vesting period for options granted in fiscal 2010 is 3 years and all options were granted on the first day of the fiscal year. Cisco assumes a forfeiture rate = .02 per year. What was Cisco’s summary journal entry to record compensation expense related to grants and assumptions of stock options in fiscal 2010? Show amounts to two decimal places, for example, 83.45. (6 points)
3. To answer this question, use Note 13 and the Consolidated Statement of Equity only (do not use the SCF). What journal entry did Cisco make to record its share repurchases in fiscal 2011? (4 points)
4. What summary journal entry would Cisco make to record the exercise of employee stock options during fiscal 2011? (3 points)
5. Based on the information provided in Cisco’s financial report, what was Cisco’s stock price, on average, during the time that employees exercised options during fiscal 2011? (4 points)

**XIII. Statement of Cash Flows (10 points)**

To answer the following four questions, refer to Cisco’s SCF *only*. Do not use other information unless the question asks you to do so.

1. Cisco has some arrangements in which customers pay in advance, giving rise to Deferred revenues. Cisco recognizes Deferred revenues as Revenues when it earns those revenues, that is, when it performs by delivering goods and/or services to its customers. During the fiscal year ended July 31, 2010*,* and pursuant to these arrangements, did Cisco collect more cash from customers than it recognized as revenues, or less cash, or the same amount of cash? If there is a difference give the amount and the direction of difference (that is, more cash or less cash and the amount). Explain how you know. (2 points)
2. Assume for purposes of this question only that Cisco records all of its Investments at cost, subject to impairment. What was the balance sheet carrying value of investments sold for cash during the fiscal year ended July 31, 2010? (2 points)
3. What journal entry or entries did Cisco make to record cash dividends during the fiscal year ended July 30, 2011? (3 points)
4. What journal entry did Cisco make to record its Provision for doubtful accounts in the fiscal year ended July 31, 2010? (3 points)