

Summer 2000

Examination of Financial Accounting

Examiner: Jan Frie, M.S.

The following aids can be used: Calculator

Student Name: _____

Matrikelnummer: _____

Total points available: 60

Time: 1h

Problem 1 (12 points):

Please give short and to the point answers (not more than two sentences):

1. Accrual based accounting adheres to what principles?
2. What is an accrued expense? Give an example.
3. What effect has the FIFO method on the income statement?
4. What is a contra account?
5. What account is used in a perpetual inventory system but not in a periodic system?
6. A bond is issued at a quote of 94. Why is the market interest rate higher, lower or equal to the contracted rate?

Problem 2 (30 points):

Sylvester Stallone, Inc., a film company that produces classical theater movies, completed its financial year on December 31, 19x9. No adjusting entries have been made to the accounts at any time during the year.

| | | | |
|---------------------|-------|-------------------|--------|
| Cash | 900 | Accounts Payable | 1,500 |
| Accounts Receivable | 2,500 | Unearned Revenues | 1,250 |
| Prepaid Rent | 8,000 | Capital Stock | 10,000 |
| Equipment | 9,000 | Revenues Earned | 7,650 |

An analysis of the firm's records discloses the following items:

1. Recording services of \$700 have been rendered, but customers have not yet been billed.
2. All the equipment was purchased January 1. It has an estimated life of ten years.
3. The balance in Prepaid Rent represents the amount paid on January 1 for a two-year lease on the studio.
4. In November, customers paid \$1,250 in advance for recordings to be taken for the holiday season. When received, these fees were credited to Unearned Revenues. By December 31, all these fees are earned.
5. Dividends of \$ 500 were paid to owners on December 31.

Required:

1. Prove that debits equal credits for the unadjusted account balances shown above by preparing a trial balance.
2. Give the journal entries for the adjustments.
3. Develop an adjusted trial balance (You may use a work sheet).
4. Assume that the Retained Earnings Account starts with a zero balance. Prepare the Income Statement, the Statement of Retained Earnings and the Balance Sheet for Sylvester Stallone, Inc.

Problem 3 (12 points):

Hans Meiser, Ltd., had credit sales of \$1.5 million in 19x9. On December 31, 19x9, the company's Allowance for Doubtful Accounts had a credit balance of \$10,000. Hans likes accounting and he has prepared a schedule of the December 31, 19x9, accounts receivable by age and, on the basis of past experience, has estimated the percentage of the receivables in each age category that will become uncollectible. The data is summarized as follows:

| December 31, 19x9 | | |
|---------------------|-------------------------|-----------------------------------|
| Accounts Receivable | Age of Receivable | Expected Percentage Uncollectible |
| \$500,000 | Not due (under 30 days) | 1.25% |
| 300,000 | 1 to 30 days past due | 2.00 |
| 68,000 | 31 to 60 days past due | 6.50 |
| 45,000 | 61 to 90 days past due | 35.00 |
| 13,000 | over 90 days past due | 70.00 |

Required:

1. Calculate the amount that should appear in the December 31, 19x9, balance sheet as the allowance for doubtful accounts.
2. Record the journal entry to record bad debts expense for 19x9.
3. On January 18, 20x0, Hans Meiser concluded that a customer's \$4,000 receivable created in 19x9 was uncollectible and that the account should be written off. Give the journal entry. Explain what effect this action will have on the 20x0 net income.

Problem 4 (8 points):

Jürgen W. Möllemann, GmbH, produces parachutes. The quality of the used materials is of fundamental importance. Therefore, just recently a new machine has been bought to test the strength of the cloth for DM 8,000. The machine has an estimated useful life of 4 years and a salvage value of \$600.

Required:

1. Give a table for straight-line depreciation as well as for the double-declining-balance method.