

Chapman

Semester: ~~Winter~~ 1999/2000

Examination: Basics of Financial Accounting (Final Exam)

Examiner: Jan Fric, MS

The following aids can be used: Calculator

Student Name: _____

Matrikelnummer: _____

Grading:

	Points collected:
Project:	
Midterm:	
Final:	
Overall Grade:	

Please hand in the question paper together with your answer sheet!

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 effect has the LIFO method on the income statement?
3. What term describes the balance sheet valuation of cash plus accounts receivables less the allowance for doubtful accounts?
4. What is generally regarded as the market price?
5. In meeting the matching principle, why must bad debt expense be estimated?
6. A bond is issued at a quote of 104. Why is the market interest rate higher, lower or equal to the contracted rate?

Problem 2 (8 points):

Schmidt Chemicals, Inc., invested in common stocks that it holds available for sale. On January 20th it purchased 5000 shares of Sony Corp. at 15¹/₂ plus a \$3800 commission. Three month later Schmidt Chemicals, Inc., received a cash dividend of \$1 per share. It is known that the per share market value of Sony Corp. was 20¹/₄ on December 31st.

1. Prepare the journal entries according to US-GAAP to record the events and a year-end adjustment, if necessary.
2. What is different if Schmidt Chemicals, Inc., follows German Law?

Problem 3 (20 points):

Rocket Scientist Corporation began 19x9 with 100 calculators in its inventory that cost DM 20 each and 50 textbooks that cost DM 56 each. The following purchases have been made throughout the year:

Calculators:

Mar. 9..... 300 units @ DM 22 each
Aug. 13..... 150 units @ DM 18 each
Nov. 20..... 50 units @ DM 25 each

Textbooks:

May 10..... 150 units @ DM 60 each
Sep. 25..... 100 units @ DM 55 each

On December 31, 19x9, a physical count disclosed that 100 calculators and 100 textbooks remained in inventory. The market price for calculators on Dec. 31 was DM 20 and for textbooks DM 52.

Required:

Prepare a calculation showing the amounts that should be assigned to the 19x9 ending inventory and to cost of goods sold, assuming a FIFO basis.

Problem 4 (20 points):

Super Brain, Inc., develops computer software and just recently bought a state-of-the-art computer for their operations. The accountant is indecisive how to depreciate the cost of \$8,000 for the computer over the estimated useful life of 4 years. She is considering the straight-line as well as the double-declining-balance method.

Required:

1. Prepare calculations using both methods and show all relevant figures over the four year period (You may use a chart). Assume that the computer has a salvage value of \$600 at the end of its useful life.
2. From an economic point of view, what advice would you give the accountant in this case? Why?