

Examination: Basics of Financial Accounting

Summersemester: 2001

Examiner: Melanie Mietusch

The following aids can be used: calculator, dictionary (without hand-written notes)

Student Name: _____

Matrikelnummer: _____

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

Problem 1 (16 points):

Below are terms related to the balance sheet. Match each definition with its related term by entering the appropriate letter in the space provided.

Terms	Definitions
___ Retained earnings	A. A miscellaneous category of assets.
___ Current liabilities	B. Current assets minus current liabilities.
___ Contra asset account	C. Total assets minus total liabilities.
___ Accumulated depreciation	D. Assets expected to be collected in cash within one year or operating cycle, if longer.
___ Intangible assets	E. Same as carrying value; cost less accumulated depreciation to date.
___ Other assets	F. Accumulated earnings minus accumulated dividends.
___ Issue price of shares	G. Asset offset account (subtracted from asset).
___ Normal operating cycle	H. Balance of the Capital Stock account divided by the number of shares.
___ Book value	I. Assets that do not have physical substance.
___ Working capital	J. Items, owned by the business, that have future economic values.
___ Liabilities	K. Liabilities expected to be paid out of current assets within the next year or operating cycle, if longer.
___ Capital assets	L. The average cash-to-cash time involved in the operations of the business.
___ Owners' equity	M. Sum of the annual depreciation expense on an asset from its acquisition to the current date.
___ Current assets	N. All liabilities not classified as current liabilities.
___ Assets	O. Property, plant, and equipment.
___ Long-term liabilities	P. Obligations to give up (pay) economic benefits in the future.

- see overleaf -

Problem 2 (27 points):

Downtown Company uses a periodic inventory system. At the end of the annual accounting period, December 31, 19X1, the accounting records provided the following information for product "Wild Rose":

Inventory, December 31, 19X0	4,000 units, unit cost \$100
Transactions for the year 19X1:	
(a) Purchase, March 14	8,000 units, unit cost \$120
(b) Sale, April 2	4,000 units (@ \$280 each)
(c) Purchase, May 5	6,000 units, unit cost \$130
(d) Sale, June 26	5,000 units (@ \$280 each)
(e) Operating expenses	\$1,000,000

Required:

Prepare a separate income statement that details cost of good sold for:

- 1.) Case A – annual weighted average.
- 2.) Case B – FIFO.
- 3.) Case C – LIFO.
- 4.) Case D – specific identification assuming one fourth of the first sale was selected from the beginning inventory and three fourths was selected from the items purchased on March 14, 19X1. The second sale was selected from the purchase of May 5, 19X1.

For each case, show the computing of the ending inventory and compare the net income as well as the ending inventory amounts. Please explain the similarities and differences in **short**.

Problem 3 (17 points):

During 19X4, Wood Corporation's records reflect the following for one product stocked:

Beginning inventory	1,500 units, unit cost \$10
Transactions:	
(a) Purchases	2,000 units, unit cost \$10
(b) Sales	1,800 units, unit sales price \$15
(c) Purchases returns	25 units, for \$10 per unit refund from the supplier
(d) Sales returns	10 units, for \$15 per unit refund to the customer

Required:

- 1.) All transactions were in cash; give the journal entries for the above transactions assuming Case A – perpetual inventory system, and Case B – periodic inventory system.
- 2.) How would the amount of cost of goods sold be determined in each case?
- 3.) Would you expect the cost of goods sold amount to be the same for Case A as for Case B? Why?