Examination: 11052 "Financial Accounting"   **Wintersemester 2008/09**

Examiner: Prof. Dr. Barbara Schöndube-Pirchegger

Examination questions: 3

Name: _____   **Matriculation number:** _____

The following aids can be used: a calculator in accordance with the instructions given by the Board of Examiners and a dictionary.

Hint: A maximum of 80 points can be reached from solving the 3 assignments below. Use the space /tables provided to enter your answers.

Assignment 1 (*20 points*)

The inventory records of a company are given below:

	Date	Quantity	Price Per Unit Of Material (€)
Beginning balance	1/2/x9	50	20
Inflow	5/2/x9	150	24
Inflow	13/2/x9	100	32
Outflow	15/2/x9	200	
Outflow	18/2/x9	50	
Inflow	25/2/x9	100	29

Required:

1. Calculate the cost of materials used in February x9 and the value of the ending inventory at end-February x9 under FIFO, WAC and LIFO. Assume the company uses a perpetual system to keep track of inventory quantities and values.

2. Recalculate the cost of materials used in February x9 and the value of the ending inventory at end-February x9 under FIFO, WAC and LIFO cost-flow assumptions assuming the company calculates the cost on a periodic basis at the end of the month.

Use the table below to fill in your results.

1) perpetual system	FIFO	WAC	LIFO
Cost of materials used (€)			
Ending inventory (€)			
2) periodic system			
Cost of materials used (€)			
Ending inventory (€)			

3. Compare what happens to reported profits and book values for inventory under the three different cost-flow assumptions (FIFO, WAC, and LIFO) when materials prices are rising and inventory levels are constant or increasing?

_____

_____

_____

_____

_____

_____

Assignment 2 (*30 points*)

The Stevin Company uses the allowance method for recording its bad debt expense. It has credit terms of "net 30 days". The balance sheet of the Stevin company shows the following balances at the end of x7 (all amounts in euros):

	end x7
Accounts receivable, gross	680,000
Less: Allowance for bad debts	(33,000)
Accounts receivable, net	647,000

During x8, the company makes credit sales of €2.3 million and collects €2.352 million of accounts receivable. It writes off €28,000 of bad debts (these relate to both x6 and x7 sales). At the end of x8, Stevin carries out an ageing analysis of receivables. The results are as follows:

			Numbers of days past due		
	Total	Current	1-30	31-60	>60
Percentage of x8 receivables	100	52	28	15	5
Percentage expected to be uncollectible		0.7	1.8	12	50

Required:
   a) Show the journal entries for recording the write-off of the bad debts of € 28,000.
   b) Calculate the gross accounts receivable at end-x8.
   c) Compute the allowance for bad debts at end-x8.
   d) What bad debt expense is recognized in x8?
   e) Assume the company recovered, at the end of x8, € 2,000 of the bad debts written off earlier in the year.
      I. Show the journal entries for recording the collection of the € 2,000.
      II. How are your results in b), c), and d) affected by this assumption?

Use the space provided to enter your results.

2a)

Dr.

Cr.

b) gross accounts receivables:

c) allowance for bad debts:

d) bad debt expense:

e)
I) journal entries:

Dr.

Cr.

Dr.

Cr.

II) revised results:

    b) gross accounts receivables:

    c) allowance for bad debts:

    d) bad debt expense:

Assignment 3 (*30 points*)

PMC consulting company was established in x3 and launched an initial public offering of its shares in x6. In order to finance heavy investments, it raises additional capital by issuing 100,000 shares (with a par value of €1/share) for €37 per share on 1 February year x7. In year x8, the investments bear fruit. PMC reports a net profit of € 1.8 million. This is recorded in a "Profit for the year" account in the year x8 balance sheet at year-end. PMC's shareholders approve the following appropriation of profits in June x9:

- a cash dividend of €1.9 a share;
- a transfer of 10% of profits to a legal reserve, as required by law;
- the remainder of the year x8 profit to be retained.

The total number of issued and outstanding shares of the PMC consulting company amounts to 600,000 at this time.

Required:

a) Show the effect of the share issuance in x7 on the company's accounts by using journal entries. Assume that the shares are fully paid in year 7.

b) What journal entries does an investor who bought 120 PMC shares on 1 February year x7 make in her own accounts to record the acquisition of the shares?

c) Show the effect of the appropriation of the year x8 profit on the company's accounts by using journal entries.

d) What journal entries does the investor (see requirement b) who is still holding her shares in June x9 make in her own accounts at the time of the profit appropriation?

e) Assume that instead of paying a cash dividend, in year x9, the company decides to buy back 30,000 shares at a price of €39 a share and cancel them. The repurchased shares were issued at an average cost of €35.2. Show the effect of the share repurchase and cancellation on PMC's x9 accounts by using journal entries. Assume the company establishes a non-distributable reserve, "Reserve for own shares", in order to maintain its permanent capital.

Use the space below to enter your results.

a)

Dr.

Cr.

b)

Dr.

Cr.

c)

Dr.

Cr.

d)

Dr.

Cr.

e)

Dr.

Cr.

Dr.

Cr.