

Examination: 11052 „Financial Accounting”

Winter Term 2009/10

Examiner: Prof. Dr. Barbara Schöndube-Pirchegger

Examination questions: 4

Duration : 60 minutes

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 60 points can be reached from solving the 4 assignments below. Use the space /tables provided to enter your answers.

Assignment 1 (20 points)

BikeBo is a shop selling bicycles, skateboards, and rollerblades. It has asked for your help. It's January x8, and there's been a serious fire in its administrative office. Many records have been destroyed. The company wants you to reconstruct the balance sheet at 31 December x7. The balance sheet at the start of x7 is available, and cash records as well as the income statement for the year have escaped the fire. Information from these three items is set out below. Furthermore it is known that all purchases of merchandise during x7 were made on account and amounted to 120,000 €.

BikeBo Company			
Balance sheet at 1 January x7			
(amounts in 000)			
<i>Current assets</i>		<i>Current liabilities</i>	
Cash	11	Accounts payable, merchandise suppliers	83
Accounts receivable	63	Salaries payable	14
Merchandise inventory	168		97
	<u>242</u>		
<i>Fixed assets</i>		<i>Shareholders' equity</i>	
Shop and equipment, net of depreciation	240	Share capital	270
		Retained profits	115
			<u>385</u>
Total assets	<u>482</u>	Total liabilities and shareholders' equity	<u>482</u>
Extracts from year x7 cash account (amounts in 000)			
<i>Cash receipts</i>		<i>Cash payments</i>	
Cash sales	94	Suppliers of merchandise	90
Cash collected from credit sales	80	Salaries paid	52
		income tax paid	9
		Suppliers of equipment	24

Income statement for year x7

(amounts in 000)

Sales revenue		167
Less: Cost of sales		-95
Gross Profit		72
Less: Operating expenses		
Depreciation expense	-11	
Salary expense	-44	
		-55
Operating profit		17
Income taxes		-12
Net profit		5

Required:

Reconstruct BikeBo's balance sheet at 31 December x7.

Assignment 2 (20 points)

Peerless Company is formed on 1 September x1. As a distributor of TV and video equipment, it specialises in the sale of widescreen, high-definition televisions. It enters into the following transactions in September.

1. On 1 September, the firm issues 3,000 shares for 45,000 cash.
2. It leases shop premises for one year from 1 October. The rental payments are structured as follows:
 - a. a fixed monthly charge of 2,000; and
 - b. a variable charge of 1.5% of monthly sales.It pays three months of the fixed charge in advance on 5 September. (It will not make any variable rental payments until October when sales begin.)
3. It acquires shop fittings on 5 September. The bill for the fittings is 14,000 but the supplier gives a discount of 1,000 since the firm makes a full payment on 10 September.
4. It purchases merchandise (televisions for resale) on account at a cost of 38,000 on 15 September.
5. It receives a prepayment of 800 from a customer on 20 September for an order of a top-of-the-line television set. The contract price is 4,000.
6. The labour costs of installing the fittings in 3 are 6,000 and are paid in cash on 25 September.
7. The company hires two employees who will begin work in the shop on 1 October. It makes a cash advance of 300 to one of the employees on 27 September.
8. It purchases office equipment costing 7,400 on 30 September. It pays a deposit of 2,000 in cash on that date and agrees to pay the balance within 30 days.
9. Peerless's lawyer submits a bill amounting to 9,000 for legal services in connection with the formation of the firm. The company gives her 600 shares in payment.

Required:

Prepare the journal entries to record the transactions in September.

Assignment 3 (10 points)

At the beginning of year x3, Garter Company acquires a new molding machine with an expected useful life of five years. The purchase price amounts to 20.000 €. Garter incurs cost of 3,000 for transporting the machine to its premises and 2,000 € for the installation. The expected residual value is zero.

Required

- a. What is the cost at which Garter Company should capitalise the molding machine in its balance sheet?

Cost to be capitalised: _____

- b. Calculate the depreciation charge on the machine and its end-year carrying value for the years specified in the table below under the following methods of depreciation:
- the straight-line (SL) method.
 - the declining-balance (DB) method. (The DB rate is assumed to be 150 % of the SL rate.)
 - the units-of-production (UoP) method. (Forecast usage in each of years 1 to 5 is: 3,600; 2,100; 4,700; 4,800; 4,800 machine hours.)
 - the sum-of-years' digits (SoYD) method. (Please round to whole numbers.)

	Depreciation	End-year carrying value
i) Year 1 (x3)		
ii) Year 2 (x4)		
iii) Year 2 (x4)		
iv) Year 1 (x3)		

Assignment 4 (10 points)

The Lumber Company manufactures two types of cupboards made from oak wood. The list below shows the company's purchases (inflows) and uses (outflows) of oak wood in September x2.

	Date	Oak wood (m²)	Price (€/m²)
Beginning balance	1/9/x2	600	25,00
Inflow	3/9/x2	300	28,50
Outflow	5/9/x2	400	
Outflow	12/9/x2	350	
Inflow	25/9/x2	350	29,00
Ending balance	30/9/x2	500	

Required:

Calculate the cost of oak wood used in September x2 and the value of the ending inventory in oak wood at end-September x2 under FIFO, WAC and LIFO cost-flow assumptions. Assume the company calculates the cost on a periodic basis at the end of the month.

Use the table below to fill in your results.

periodic system	FIFO	WAC	LIFO
Cost of oak wood used (€)			
Ending inventory (€)			