

Examiner: Prof. Dr. Barbara Schöndube-Pirchegger

Examination questions: 5

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 120 points can be reached from solving the 5 assignments below. Use the space /tables provided to enter your answers.

Assignment 1 (15 points)

The (unadjusted) trial balance of Mayer Corp., given below pertains to December 31, 20x8, which is the end of Mayer’s annual accounting period. You are required to make the adjusting journal entries at December 31, 20x8.

- a) Adjustment to record that \$200 of the unearned fee revenue has been earned.
- b) Recognition of depreciation of \$4,500 on equipment.
- c) Recognition of interest earned of \$180 on short-term securities. Interest payments on these securities will not be received until the investment matures in February 20x9.
- d) Adjustment to record consumption of supplies. As a result of an inventory count on 31 December, the company discovers that only \$680 of supplies remain in stock.
- e) Adjustment for the use of office space in the year. Twelve months’ rent of \$24,000 was paid in advance at the start of January 20x8.
- f) Adjustment to record accrued sales revenue of \$2,700.
- g) Adjustment to record salaries owed but not yet paid, \$1,800.

MAYER Corp.		
Trial Balance		
December 31, 20x8		
Account Title	Balance	
	Debit	Credit
Cash	\$ 6.000	
Accounts receivable	5.000	
Accrued interest receivable		
Supplies inventory	1.000	
Prepaid rent	24.000	
Equipment	10.000	
Accumulated depreciation-equipment		\$ 4.000
Accounts payable		2000
Accrued interest payable		
Salary payable		
Unearned fee revenue		8.000
Common stock		12000
Retained earnings		4.000
Dividends	25.000	
Sales revenue		60.000
Interest revenue		
Fee revenue		

Salary expense	16.000	
Supplies expense		
Rent expense		
Interest expense		
Depreciation expense-equipment		
Miscellaneous expense	3.000	
Total	90.000	90.000

Required:

Journalize Mayer's adjusting entries at December 31, 20x8!

a)

Dr.

Cr.

b)

Dr.

Cr.

c)

Dr.

Cr.

d)

Dr.

Cr.

e)

Dr.

Cr.

f)

Dr.

Cr.

g)

Dr.

Cr.

Assignment 2 (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.

	FIFO	WAC	LIFO
1) perpetual system			
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 3 (25 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	<u>(33,000)</u>
Accounts receivable, net	<u>647,000</u>

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:

	Total	Current	Numbers of days past due		
			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:

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

Use the space below to enter your final results.

3a)

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 4 (35 points)

On 1 January 2008, Fleurant Corporation issued € 6 million of 4 % bonds, due 31 December 2013. They were priced at 100.52592 % of their face value to yield 3.9 % to maturity. The company's financial year ends on 31 December. Interest is payable annually.

Required:

1. Assume that Fleurant amortises any bond discount (or premium) on issue by the straight-line method and reports the bonds on the balance sheet at amortised cost.
 - a) Prepare the journal entry the company made to record the issuance of the bonds.
 - b) Make the necessary journal entry to record interest expense and accrued amortization in 2009.
 - c) What is the carrying amount of the bonds in Fleurant's balance sheet at the end of 2010?

Use the space below to enter your results.

1 a)

Dr.

Cr.

1 b)

Dr.

Cr.

1c)

Carrying amount at end-2010: _____

2. Assume that Fleurant amortises any bond discount (or premium) on issue by the interest method and reports the bonds on the balance sheet at amortised cost.
- a) What is the interest expense Fleurant will report in its income statement for 2010 and 2011 with respect to the bonds? (Please round to whole numbers.)
 - b) What will be the carrying amount of the bonds in Fleurant's balance sheet at the end of 2010 and at the end of 2011?
 - c) Make the necessary journal entry to record interest expense and accrued amortization in 2010.

Use the space below to enter your results.

2 a) and b)

	Year 2010	Year 2011
a) Interest expense		
b) Carrying amount at year-end		

2 c)

Dr.

Cr.

Assignment 5 (25 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 final results.

a)

Dr.

Cr.

b)

Dr.

Cr.

c)

Dr.

Cr.

d)

Dr.

Cr.

e)

Dr.

Cr.

Dr.

Cr.