

Examination: 5071 „Management I“ (Financial Accounting) Summer Term 2010

Examiner: Prof. Dr. Barbara Schöndube-Pirchegger

Examination questions: 7

Duration : 120 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 120 points can be reached from solving the 7 assignments below. Use the space /tables provided to enter your answers.

Assignment 1 (10 points)

Given below are some of the transactions the Heller Company entered into in May x1. All numbers are given in '000.

- 1) The company borrowed 5 in cash from its bank.
- 2) Paid cash of 4 to suppliers in part payment of amounts owed *by* Heller to them.
- 3) Purchased inventory of 8, of which 7 were acquired on account and 1 for cash.
- 4) Paid rent of 3 for two month in advance.
- 5) Received gift of equipment valued at 2.
- 6) Returned inventory of 2 to suppliers for full credit. (Inventory, purchased on account, had not yet been paid for.)
- 7) Sold goods for 13, 8 on account and 5 for cash. Goods sold cost 8.
- 8) Paid wages of 5, including unpaid March wages of 1.
- 9) Received cash of 4 from customers in part payment of amounts owed *to* Heller by them.

Required:

Prepare the necessary journal entries to record the transactions in 1)-9). Use the abbreviations: A+, A-, CA+, CA-, L+, L-, OE+, OE- in brackets to identify increases and decreases in the respective asset, contra-asset, liability, owners' equity or income statement accounts, if applicable.

Use the space provided on the next page to fill in your answers.

Answers to assignment 1:

1)

2)

3)

4)

5)

6)

7)

8)

9)

Assignment 3 (20 points)

The financial year of Subtex Corp. ends June 30. On July 20 John Cover examines the pro forma financial statements of Subtex and discovers the following errors:

- 1) Subtex received 2000 from customers in June, 10% of which were prepayments for deliveries in July. Subtex recorded sales revenues of 2000 in June.
- 2) The firm bought equipment worth 1200 in June and paid cash but failed to record the purchase until July.
- 3) Interest payments of 120 for a loan outstanding are due and paid end of January each year and interest expense is recorded. Subtex failed, however, to accrue interest expense for that loan at the end of June.
- 4) The firm earned service revenue of 600 on account in April but misclassified it as revenue from sales.
- 5) At the beginning of May, Subtex rented additional office space for 1 year and paid 2100 for 3 months in advance. However, it neglected to record the necessary expiry adjustment at the end of June.

Required:

Determine for each error the effect on profit of the actual and the forthcoming financial year as well as the effect on retained earnings. Use the following notation:

U: understated

O: overstated

NE: no effect

Use the table below to fill in your answers.

year	Profit		Retained earnings	
	actual	forthcoming	actual	forthcoming
1				
2				
3				
4				
5				

Assignment 4 (20 points)

At the beginning of year x3 a Steel Rolling Mill paid 172,000 € for a machine, 2,000 € for delivery to the factory and 6,000 € for having it installed. The machine is depreciated using the straight-line method and assuming a useful life of six years and no residual value. The following events occur during the machine's use:

- a. A change in economic conditions late in year x4 takes place. Management carry out an impairment review at the end of x4 (after recording depreciation for the year). They estimate the machine's value in use to be 80,000 € and the net selling price is assumed to amount to 40,000 €.
- b. In x6 the economy recovers. After having recorded the deprecation for the year, management estimate the recoverable amount at 70,000 € then.
- c. At the end of x7 (one year earlier than expected) the machine is suddenly not needed any longer and disposed of for 25,000 € in cash.

The company prepares its accounts according to IAS/IFRS. It measures its tangible fixed assets at depreciated cost and shows accumulated depreciation separately.

Required

- 1) What is the cost at which the machine must be capitalised in the balance sheet?
- 2) Prepare the journal entries the company makes to record
 - a. the acquisition of the machine
 - b. the subsequent changes in its carrying amount (net book value) over the five years to end-x7
 - c. the sale of the machine at end-x7.

Use the abbreviations: A+, A-, CA+, CA-, L+, L-, OE+, OE- in brackets to identify increases and decreases in the respective asset, contra-asset, liability, owners' equity or income statement accounts, if applicable. Identical journal entries in different years just need to be recorded once.

- 3) What are the carrying amounts of the machine at the start of years x5 and x7?

Use the space below for providing your answers.

1) Cost to be capitalised: _____

2a) Acquisition/capitalisation of machine:

Dr.

Cr.

2b) Changes in carrying amount of machine:

In x3, x4:

Dr.

Cr.

End-x4:

Dr.

Cr.

In x5, x6:

Dr.

Cr.

End-x6:

Dr.

Cr.

In x7:

Dr.

Cr.

2c) sale of the machine at end-x7:

Dr.

Cr.

3) Carrying amount at start x5: _____

Carrying amount at start x7: _____

Assignment 5 (15 points)

The Balloon company is a retailer of helium. The list below shows the company's purchases and sales of its inventory in June 2009.

BEGINNING BALANCE		
	Quantity (litre)	Price per litre
	400	€ 5.00
PURCHASES		
Purchase date	Quantity (litre)	Purchase price per litre
June 5	300	€ 4.80
June 9	400	€ 4.50
June 15	200	€ 5.00
June 20	300	€ 5.40
SALES		
Selling period	Quantity (litre)	
June 6 – June 8	200	
June 10- June 14	300	
June 16 – June 19	200	
June 21 – June 30	400	

Required:

Calculate the cost of helium used in June 2009 and the value of the ending inventory at month-end, under FIFO and LIFO cost-flow assumptions. Assume the company uses a perpetual system to keep track of inventory quantities and values.

Use the table below to fill in your results.

	FIFO	LIFO
Cost of goods sold		
Ending inventory (€)		

Assignment 6 (20 points)

Helius Software uses the allowance method for recording its bad debt expense. It has credit terms of 'net 30 days'. The ledger account 'Accounts receivable' and its contra account 'Allowance for bad debts' given below contain the respective beginning balances at the start of year x8 (all amounts in € 000). From this we learn that the accounts receivable net amount (i.e. net of the allowance for bad debts) at the start of year x8 is 285 (=310-25).

Accounts receivable	
	Dr. Cr.
Beginning bal.	310

Allowance for bad debts (CA)	
	Dr. Cr.
	Beginning bal. 25

During x8, the company makes credit sales of € 4,520 and collects €3,980 of accounts receivable. It writes off € 17 of bad debts (all amounts in € 000). At the end of x8, Helius carries out an ageing analysis of receivables. The results are as follows:

	Total	Current	Numbers of days past due	
			1-60	>60
Percentage of x8 receivables	100	70	20	10
Percentage expected to be uncollectible		0.2	5	30

Required:

- a) Calculate the gross accounts receivable at end-x8 by determining the ending balance in the 'accounts receivable' account given above. Enter the amounts debited and credited to this account as specified in the text.
- b) Compute the allowance for bad debts at end-x8. Use the table below to fill in your results.

	Current	1-60 days past due	>60 days past due	Total
x7 accounts receivable according to age				
Allowance required				

- c) Calculate the bad debt expense which Helius recognizes in x8. Derive this number by using the contra-asset account 'allowance for bad debt' given above. (Hint: Your result in b) will be the ending balance in the account 'allowance for bad debts'.)
- d) Assume the company recovered, at the end of x8, € 3 of the bad debts written off earlier in the year. Give the gross accounts receivable, the allowance for bad debts and the bad debt expense under this assumption.

Use the space below to enter your results.

gross accounts receivable: _____

allowance for bad debts: _____

bad debt expense: _____

Assignment 7 (20 points)

On 1 January x2, the Newtel Company issues € 8 million of 1.5 % bonds, due 31 December year x6. They are priced at 100.1436 % of their face value to yield 1.47 % to maturity. The company's financial year ends on 31 December. Interest is payable annually. Assume that Newtel amortises any bond discount (or premium) on issue by the interest method and reports the bonds on the balance sheet at amortised cost.

Required:

- a. Prepare the journal entry the company makes to record the issuance of the bonds.
- b. What is the interest expense Nassele reports in its income statement for x2 and x4 with respect to the bonds? (Please round to whole numbers.)
- c. What is the carrying amount of the bonds in Nassele's balance sheet at the end of x2 and at the end of x4?
- d. Make the necessary journal entry to record interest expense and accrued amortization in x4.

Use the space below to enter your results.

a)

Dr.

Cr.

b) and c)

	Year x2	Year x4
a) Interest expense		
b) Carrying amount at year-end		

d)

Dr.

Cr.