Original

Examination: Basics of Financial Accounting **Semester: Winter 1998/99**

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The following aids can be used: Pocket Calculator

Examination questions:

1. On December 31, 1998, the adjusted trial balance of M. Welby Health Service contained the following data:

	Debit	Credit
M. Welby, capital		50,000
M. Welby, drawing	8,000	
Service fees earned		52,000
Rent expense	4,000	
Utilities expense	1,200	
Wages expense	19,800	
Supplies and parts expense	2,500	
Depreciation expense - equipment	6,000	

Given this information, journalize the closing entries for M. Welby Heath Service!

2. For the year ended on December 31, 1998, Bircher Food Company reported cost of goods sold of $480,000. The Company's balance sheet on December 31, 1997 and 1998 reported merchandise inventory of $280,000 and $255,000, respectively.

    a. What were Bircher Food's net purchases during 1998? Explain!
    b. Journalize the closing entries related to merchandise inventory, using the closing entry method!

3. Gutenberg Printing Company purchased a new printing press on Jan 1, 1995 for $142,000. Additional costs of the press included freight in of $4,500, and installation costs of $3,500. The estimated useful life of the press is four years, with a salvage value of $10,000. Gutenberg prepares financial statements at the end of December.

    a. Compute the amount at which the printing press should be recorded as an asset!
    b. Compute the depreciation expense for 1995 and 1996 for each of the following methods: (i) straight-line, (ii) double-declining balance, and (iii) sum-of-the years'-digits.

    At the end of its useful life on Dec 31, 1998, the printing press is traded in on a similar machine. The gross price of the new press is $160,000, the trade-in allowance for the old machine is $12,000. Depreciation for 1998 has already been recorded.

    c. Prepare journal entries to record the exchange!

4. Pascal Computer Company issues 20-year, 8 percent bonds payable with a face value of $400,000 on April 1, 1998. The bonds sell at a quote of 102 $^1/_2$ and pay interest on March 31 and September 30. Assume Pascal Computers amortizes bond premiums and discounts using the straight-line method.

   a. Journalize the issuance of the bond on April 1, 1998!
   b. Journalize the interest payment on Sept. 1998!
   c. Journalize the accrual of interest on December 31!
   d. Given the quote at which the bonds are sold, do you suppose the market rate of interest to be higher, lower, or equal to the contracted rate of 8 percent? Explain!

5. On December 31, 1998, Seamless Clothing Company has an accounts receivable account balance of $42,000. The Allowance for uncollectible accounts has a debit balance (before adjustment) of $400. Accountants for Seamless Clothing prepare the following aging schedule for its accounts receivable:

	Not yet due	1-30 days due	31-60 days due	Over 60 days due	Total
Account	$20,000	$10,000	$10,000	$2,000	$42,000
Estimated percentage uncollectible	1%	3%	10%	25%	
Estimated amount uncollectible	$200	$300	$1,000	$500	$2,000

   a. Prepare the adjusting entries to record uncollectible accounts expense, using the aging method!

   b. On Feb 1, 1999, a customer of Seamless declares bankruptcy. $500 proof to be uncollectible. Journalize the write-off!

6. Edison Acoustic Components' inventory records for high-performance plugs indicate the following for the year ended on Dec 31, 1998:

Jan 1	Beginning inventory	10 units	@ $26
April 1	Purchase	2 units	@ $28
July 1	Purchase	8 units	@ $29
Oct 1	Purchase	4 units	@ $31

   The physical count of inventory on Dec 31 shows that twelve units are still on hand. Compute cost of goods sold for each of the following methods:

   a. Weighted average
   b. First-in, first-out
   c. Last-in, first out