

Examination: 11052 „Financial Accounting”

Summer Term 2010

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 (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)

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 depreciation 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 4 (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 (€)		