

Examination: 11052 „Financial Accounting“

Summer Term 2012

Examiner: Prof. Dr. Barbara Schöndube-Pirchegger

Examination questions: 3

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 3 assignments below. Use the space /tables provided to enter your answers.

Assignment 1 (36 points)

Rupert started a business on October 1, 2011, and had the following transactions on October 1:

- 1) Issued 10,000 shares of €5 par value common stock for €110,000 cash.
- 2) Bought equipment to be used for making products for €60,000 cash. The equipment has a five-year life and is to be depreciated on a straight—line basis, with no residual value.
- 3) Paid €3,000 for one year's rent on a building.
- 4) Bought €35,000 of inventory on credit.
- 5) Took out a €20,000 bank loan at an interest rate of 12%. Interest is to be paid annually.

Between October 1 and December 31, 2011, the following transactions occurred:

- 6) Sold inventory costing €25,000 for €48,000. All sales were on credit.
- 7) Paid €31,000 to suppliers of inventory for the credit purchase in transaction (4).
- 8) Collected €36,000 from customers.
- 9) Salaries and wages of €16,000 were paid.

On December 31:

- 10) Salaries and wages of €2,000 had been earned but not paid.

Required:

- a) Prepare the journal entries to record the transactions 1) -10) above **including adjusting entries (AE)** to be made at the end of the year. Use the space provided below.
- b) Set up the balance sheet and income statement for Rupert's business at the end of 2011. Fill in the tables provided below. (*Hint: It is advisable to post the journal entries in (a) to appropriate ledger accounts before preparing the annual accounts.*)

Answers to assignment 1a)

1)

2)

3)

4)

5)

6)

7)

8)

9)

10)

1b)

Balance sheet December 31, 2011

Assets

Shareholders' equity and liabilities

Σ

Income Statement 2011

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Assignment 2 (12 points)

The inventory records of Sierra Corporation indicated the following at December 31, 2011:

	Units	Cost per Unit	Total Cost
Beginning inventory: 1/1/11	1,000	\$ 4.50	\$ 4,500
Purchases:			
2/2/11	500	5.00	2,500
4/1/11	1,650	5.00	8,250
6/30/11	1,400	6.00	8,400
10/31/11	1,000	6.50	6,500
12/31/11	<u>600</u>	7.00	<u>4,200</u>
Available for sale	<u>6,150</u>		<u>\$34,350</u>

An ending inventory revealed 1,200 units at December 31, 2011. All units sold during the year were sold for \$10 per unit.

Required:

- a) Compute the ending inventory value and cost of goods sold for 2011 under FIFO, LIFO, and average cost flow assumptions. Assume a periodic inventory system.
- b) What would be the gross profit under each cost flow assumption?

Use the table provided below to fill in your results.

Answers to assignment 2a) and b):

	FIFO	LIFO	WAC
Ending inventory value			
COGS			
Gross profit (\$)			

Assignment 3 (12 points)

Gerry Corporation issued € 100,000, face value, 4.5% coupon, 6-year bonds on January 1, 2008. The bonds pay interest annually and were sold to yield 5%. The final selling price was \$98,227. Gerry amortizes bond discounts/premiums using the straight-line method.

Required:

- Show the journal entry to be made at the beginning of 2008 when the bond is issued.
- What are the interest expense, coupon payment, amount amortized, and carrying amount (net liability) of the bond at the end of 2008, and 2009? Fill in the table below.
- Show the journal entry made at the end of 2009 (end of financial year) to account for the recognition of interest expense.
- By December 31, 2009, the market value of the bonds had fallen to \$98,900. Assume that Gerry retires the bonds on December 31, 2009, (after the coupon payment has been made) by buying the bonds on the open market paying fair market value. What journal entry would be made to record the retirement of the bonds?

Use the space/ table below to enter your results.

Answer to assignment 3a)

3b)

Year	Interest Expense	Coupon Payment (Interest Payable)	Discount (Premium) Amortization	Carrying Amount (Net Liability) on December, 31
2008				
2009				

3c)

3d)