

Examination: 11052 „Financial Accounting“

Summer Term 2013

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 (35 points)**

Lizant's Office Designs began operations on January 1, 2012. Lizant's experienced the following events during 2012:

- 1) The company issued 2,000 shares of common stock for cash at their par value of \$50 per share.
- 2) On April 1, 2012, the company purchased eight sets of office furniture that it will sell to customers. Each set cost \$20,000. Lizant paid \$10,000 in cash and signed a two-year note with an annual interest rate of 8% for the remainder of the purchase price. Interest on the note is due on January 1 of each year the note remains unpaid.
- 3) The company performed consulting services for a total fee of \$180,000 receiving \$50,000 in cash up front.
- 4) The company paid \$110,000 cash for wages.
- 5) The company paid \$20,000 cash for rent on July 1, 2012. The company is charged rent at the rate of \$1,083.33 per month. Prior to July 1, 2012, rent for January through June had not been paid. The remainder of the \$20,000 payment was applied to future months' rent as it became due.
- 6) On December 31, 2012, the company paid the holder of the note \$15,000. This payment was applied to unpaid interest and the balance to unpaid principal (see 2 above).
- 7) The company received \$30,000 in cash as payments for outstanding receivables.
- 8) The company sold three sets of furniture for \$28,000 cash each. These sets were acquired in April (see 2 above).
- 9) \$1,000 of wages had been earned but not paid at the end of the year.

**Required:**

- a) Prepare the journal entries to record the transactions 1) -9) above including adjusting entries to be made at the end of the year. Use the abbreviations: A+, A-, L+, L-, OE+, OE- in brackets to identify increases and decreases in the respective asset, liability, owners' equity or income statement accounts, if applicable. Use the space provided below.
- b) Set up the balance sheet and income statement for Lizant's business at the end of 2012. Ignore taxes. 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. You should use the T-account given below to derive the balance in the Cash account.)

**Answers to assignment 1 a) (journal entries)**

1)

2)

3)

4)

5)

6)

7)

8)

9)



**Assignment 2 (10 points)**

LTM enterprises began operations on March 1, 2012. On that date, it purchased 400 items for inventory at a cost of \$10 per unit. On March 14, LTM sold 200 units at \$20 per unit. On March 16, 400 more units were purchased for inventory at a cost of \$12 per unit. On March 21, LTM sold another 200 units at \$20 per unit.

**Required:**

- a) Assume that LTM uses a perpetual inventory system. Compute gross profit for the month of March under LIFO and under FIFO.
- b) Repeat part (a) under the assumption that LTM uses a periodic inventory system.
- c) Why do your answers to parts (a) and (b) differ?

Use the space provided below to fill in your results.

	FIFO	LIFO
a) Gross profit under <b>perpetual</b> inventory system		
b) Gross profit under <b>periodic</b> inventory system		

c) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Assignment 3 (15 points)**

Use the space provided below to derive your answers to the following questions.

- a) A manufacturer owns three machines — the first acquired on 1.1.20X1 for £110,000, the second on 1.7.20X3 for £90,000 and the third on 1.10.20X5 for £130,000. He expects to use each machine for ten years and realize the scrap for £10,000. Using the straight-line method, with time apportioned depreciation in the year of acquisition, calculate the depreciation for the year ended 31.12.20X5.
- b) A firm owns a fleet of vehicles acquired at a total cost of £480,000. Accumulated depreciation up to the beginning of the current year is £212,400. Vehicles are depreciated at 25% per annum using the declining balance method. What is the written down value (carrying amount) of the vehicles by the end of the current year?
- c) A machine acquired for £180,000 on 1st January 20X3 is expected to have an economic life of five years and a residual value of £30,000. The machine is depreciated using the sum of the years' digits method. What is the depreciation for the year ended 31 Dec. 20X6?

Answers to assignment 3

a)	
b)	
c)	