Examination: **5071** „Management I" (Financial Accounting) **Summer Term 2009**

Examiner: Prof. Dr. Barbara Schöndube-Pirchegger

Examination questions: **6**

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

Assignment 1 *(20 points)*
Set out below in exhibit 1) is an extract from the general ledger of Hover Company on 20 March 2009. The ledger accounts provide information on transactions (1) to (11) which have already been recorded and posted to the general ledger. All amounts are given in '000s.

Required:
Use the information given in *exhibit 1)* to identify all transactions recorded. For example, from inspecting the ledger accounts given we see that transaction 1) was recorded by debiting the cash ledger account by 2 and crediting shareholders' equity by the same amount. From this we conclude, that:

(1) Shareholders invested 2 in cash in the company.

Use the space provided below to fill in your answers.

Answers:

(1) Shareholders invested 2 in cash in the company.

(2)

(3)

(4)

(5)

(6)

(7)

(8)

(9)

(10)

(11)

Exhibit 1): Extract from general ledger of Hover Company on 20 March 2009 (amounts in '000s)

Assets

Cash

	Dr.		Cr.
BB	3	(3)	2
(1)	2	(4)	3
(2)	6	(8)	1
(7)	4	(9)	4
(10)	5		

Accounts receivable

	Dr.		Cr.
BB	5	(7)	4
(10)	9		

Inventories

	Dr.		Cr.
BB	1	(6)	2
(3)	9	(11)	8

Prepaid rent

	Dr.	Cr.
(4)	3	

Property and Equipment

	Dr.	Cr.
BB	3	
(5)	6	

Investment in Deutsche Bank

	Dr.	Cr.
(8)	1	

Equities

Accounts payable

	Dr.		Cr.
(6)	2	(3)	7
(9)	4		

Bank loan

	Dr.		Cr.
		(2)	6

Shareholders' equity

	Dr.		Cr.
		BB	8
		(1)	2
		(5)	6

Income statement accounts

Sales revenue

	Dr.		Cr.
		(10)	14

Cost of goods sold

	Dr.		Cr.
(11)	8		

BB - beginning balance

Assignment 2 (*20 points)*

MetroModa manufactures and sells 'smart casual' clothes. Its balance sheets at the end of year x0 and year x1, the income statement for year x1 and a summary of the company's ledger account, Cash, is presented below.

MetroModa SA
Balance sheets at 31 December
(amounts in 000)

	x1	x0		x1	x0
Current assets			*Current liabilities*		
Cash	122	110	Accounts payable	211	170
Accounts receivable	243	140	Salaries payable	51	55
Inventories	348	200	Income taxes payable	33	25
Prepaid rent	57	50	Bank loans	153	100
	770	500		448	350
Fixed assets			Long-term loans	430	300
Property, plant and equipment	1819	1600			
Less: Accumulated depreciation	-786	-650	*Shareholders' equity*		
	1033	950	Contributed capital	200	200
			Retained profits	725	600
				925	800
Total assets	1803	1450	Total liabilities and shareholders' equity	1803	1450

Income statement for year x1
(amounts in 000)

Sales revenue		982
Less: Cost of sales		-380
Gross profit		602
Less: Operating expenses		
Depreciation expense	-150	
Salary expense	-112	
Rent expense	-52	
		-314
Operating profit		288
Interest expense		-59
Profit before tax		229
Income taxes		-54
Net profit		175

Cash (amounts in 000)

	Dr.		Cr.
Balance, 1/1/ x1	110	Payments to suppliers	487
Increase in bank loans	53	Dividends paid	50
Sale of property	7	Salaries paid	116
Cash collected from credit sales	879	Purchase of plant and equipment	240
Increase in long-term loans	130	Payments for rent	59
		Interest paid	59
		Income tax paid	46
Balance, 31/12/ x1	122		

Required:

(a) Prepare a cash flow statement for MetroModa for the year x1, showing separately cash flows from operating, investing and financing activities. Calculate its cash flow from operations by the direct approach. Classify interest payments and tax payments as operating outflows.

MetroModa SA

Cash flow statement for year x1

Operating activities

Investing activities

Financing activities

Net increase/ decrease in cash

(b) Calculate MetroModa's year x1 cash flow from operations using the indirect approach.

MetroModa SA
Operating cash flow statement for year x1

Operating activities	
Net profit	175
Operating net cash flow	

Assignment 3 *(20 points)*
At the beginning of year x4, Urban Furniture Company acquires a new laminating machine with an expected useful life of eight years. Urban Furniture receives a 5 % discount on the machine's list price of 30,000 €. The cost for transporting the machine to its destination amounts to 1000 €. The cost incurred on its installation and initial tests is 2,500 €. The expected residual value is minimal and can be ignored.

Required

a. What is the cost at which Urban Furniture should capitalise the laminating machine in its balance sheet?

Cost to be capitalised: _____

b. Calculate the depreciation charge on the machine and its end-year carrying value for the years specified in the table below under the following methods of depreciation:

i. the straight-line (SL) method.
ii. the declining-balance (DB) method. (The DB rate is assumed to be 200 % of the SL rate.)
iii. the units-of-production (UoP) method. (Forecast usage in each of years 1 to 4 is: 3,600; 2,100; 5,700; 4,200 machine hours. After that the usage is estimated to remain constant at 3,600 machine hours.)
iv. the sum-of-years' digits (SoYD) method. (Please round to whole numbers.)

Use the space provided below to fill in your results.

	Depreciation	End-year carrying value
i) Year 1 (x4)		
ii) Year 1 (x4)		
Year 2 (x5)		
iii) Year 1 (x4)		
Year 2 (x5)		
Year 4 (x7)		
iv) Year 1 (x4)		
Year 2 (x5)		
Year 4 (x7)		

Assignment 4 (*20 points)*
The table below shows Mayer company's purchases of a certain type of raw material in year x7.

	Quantity (kilograms)	**Price per kilogram**
Balance at 31/12/x6:	100	€ 5.50
Purchases during x7:		
February	200	€ 6.80
April	500	€ 6.90
August	400	€ 7.30
November	200	€ 6.40

Mayer used 150 kilograms of this material in March, 300 in May, and 600 kilograms were used in October.

Required:

a. Compute the cost of raw materials used and the value of the ending materials inventory at year-end, under FIFO and LIFO cost-flow assumptions. Assume the company uses a perpetual system to keep track of inventory quantities and values.
b. Assume both methods are permitted for tax purposes. Would Mayer's income tax liability for x7 be greater or less if it used LIFO rather than FIFO?
c. Recalculate the cost of materials used during year x7 and the value of the ending inventory at end-December x7 under FIFO, WAC and LIFO cost-flow assumptions assuming the company calculates the cost on a periodic basis at the end of the year.

Use the space provided below to fill in your results.

a) perpetual system	**FIFO**	**LIFO**
Cost of materials used (€)		
Ending inventory (€)		

b) Higher or lower tax liability under LIFO? _____

c) periodic system	FIFO	WAC	LIFO
Cost of materials used (€)			
Ending inventory (€)			

Assignment 5 (*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:

			Numbers of days past due	
	Total	Current	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 6 *(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 Nassle 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 Nassle'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.