

Examination: 5071 „Management I“ (Financial Accounting) Winter Term 2007/8

Examiner: Prof. Dr. Barbara Schöndube-Pirchegger

Examination questions: 6

The following aid can be used: non-programmable calculator without communication- or text processing function.

Hint: A maximum of 120 points can be reached from solving the 6 assignments below.

Assignment 1 (20 points)

The following items and amounts have been taken from Mitica Company's consolidated accounts for the year ending 31 December 2006. All amounts are in millions of US dollars. (Note that not all items are drawn from the income statement.)

Income tax expense	1.8
Long-term debt	6.8
Interest expense	1.0
Cost of goods sold	140.7
Accounts receivable	41.6
Interest income	0.9
Distribution expense	6.9
Revenues from sales	162.5
Retained profits	36.9
Administration expense	9.3
Property, plant, and equipment	17.6

Required:

Prepare a multiple-step income statement for Mitica Company for calendar year 2006, showing separately gross profit, operating profit, profit before tax and net profit.

Assignment 2 (30 points)

Anna Denver runs a shop in Brussels, specialising in the sale of designer clothes. She presents to you early in 2008 the following balance sheets and extracts from her cash book. Denver wants to find out the annual income for year 2007 from the shop's activities and to determine the income tax which will have to be paid (at the rate of 40 %) on year 2007 profits.

*Balance sheets at start and end of year 2007
(amounts in 000)*

	1/1	31/12 (provisional)
<i>Assets</i>		
Cash	16	28
Accounts receivable	9	13
Merchandise inventory	58	49
Equipment, net of depreciation	<u>21</u>	<u>24</u>
Total	<u>104</u>	<u>114</u>
<i>Liabilities and Stockholder's Equities</i>		
Accounts payable for merchandise	16	19
Share capital	60	60
Retained profit	<u>28</u>	<u>35</u>
Total	<u>104</u>	<u>114</u>

(The 31 December balance sheet is provisional because the income tax liability for the year has not been established.)

Extracts from year 2007 cash book (amounts in 000)

Cash sales	+82
Collections from credit customers	+64
Payments to suppliers	-68
Cash purchases of equipment	-8
Salaries and other operating outlays	-58

There were no disposals of equipment in year 2007. No taxes have yet been paid.

Required:

Compute each of the following for year 2007:

- Revenue from credit sales;
- Cost of clothes purchased (all purchased on account);
- Cost of clothes sold ;
- Depreciation expense;
- Before-tax profit;
- Income tax expense for the year.

Assignment 3 (20 points)

Lintex Corp. is a small company. The following transactions occurred in January 2007:

- 1) The company paid suppliers 3100 of the amount owed to them.
- 2) Payments to an employee were 1600 including 200 of unpaid last year's wages.
- 3) The firm paid 12000,- in advance for a one-year lease of shop space.
- 4) Lintex received 8000 from customers, 40% of which were prepayments for deliveries in February, the remaining amount related to deliveries in 2006.
- 5) Interest payments of 250 for a loan outstanding were due and paid.
- 6) An adjustment was made in the accounts for the use of shop space in January (see transaction no. 3).
- 7) Another adjustment was made for the use of shop equipment in January. This equipment was bought in January last year for 9600 and has an expected useful life of 4 years and a zero residual value. Lintex opted for linear depreciation and charges depreciation monthly.

Required:

Prepare journal entries to record the above.

Assignment 4 (15 points)

Stylistic Furniture Company is a manufacturer of coffee tables. The company wants to prepare a cash flow statement for 2007 and asks you to calculate the key numbers in it. It gives you a summary of the company's cash account for the year. This is shown below:

Stylistic Furniture Company

Cash account: transactions in 2007

(amounts in 000)

Cash	
Balance, 1/1/2007	18
Sale of long-term investment	16
Collections from customers	155
Disposal of equipment	2
Long-term loan	30
Disbursements for payroll	62
Purchase of equipment	35
Dividends paid	2
Other operating outlays	34
Short-term debt repayment	12
Interest payments	3
Income taxes paid	4
Payments for materials purchases	45
Balance, 31/12/2007	24

Required:

Calculate the following totals for 2007:

- (a) after-tax operating cash flow;
- (b) investing cash flow;
- (c) financing cash flow.

Assignment 5 (20 points)

On 1 January year x6, the Birkley Company issues, at a price of 100.87, €10 million of 5 % bonds (face value of 100), due 31 December year x10. Birkley amortises any initial discount (or premium) by the straight-line method and reports the bonds on the balance sheet at amortised cost. The company's financial year ends on 31 December. Interest is payable annually.

Required

- Prepare the journal entries the company makes to record the issuance of the bonds.
- Make journal entries to record the recognition of interest expense in x7 and the payment of interest on 31 December year x7.
- Assume Birkley decides to retire the bonds on 1 January year x9 and to buy back all the bonds at their market value. The market interest rate is 5.4 % and the bonds trade at a price of 99.26. Make the journal entries to record the repurchase.

Assignment 6 (15 points)

Emmlich is a manufacturer of silver cutlery. The inventory in silver is stocked in the company's safe. The list below shows the firm's beginning balance on July 1, and its purchases of silver in July x6.

BEGINNING BALANCE		
	Quantity (kilograms)	Price per kilogram
	100	€ 8.44
PURCHASES		
Purchase date		
July 8	200	€ 8.20
July 15	500	€ 7.90

Emmlich used 650 kilograms of silver this month. Assume that the production of silver cutlery requires no other materials than silver and that the firm calculates the materials cost on a periodic basis at the end of the month.

Required:

- Compute the cost of materials used in July and the value of the ending materials inventory at end-July x6, under FIFO, WAC and LIFO cost-flow assumptions.
- Which of the three inventory valuation methods would yield the highest monthly gross profit if materials prices were rising?