

Examination: 11052 „Financial Accounting“

Examiner: Prof. Dr. Barbara Schöndube-Pirchegger

Examination questions: 4

Duration: 60 minutes

Name: _____ Student 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 (12 points):

At December 31, 2010, before the adjusting entry for bad debt expense, Rogan Co. had a balance of € 384,000 in its accounts receivable account and had a credit balance of € 3,800 in the allowance for bad debts account. Sales for 2010 were € 1,200,000, all of which were on credit. The company has aged its accounts as follows:

Age (in days)	Amount	Percent estimated uncollectible
0-10	€ 296,000	1
11-60	42,000	5
61-180	34,000	15
Over 180	<u>12,000</u>	30
Total	€ 384,000	

Required:

- 1) Compute the balance of the allowance for bad debt account after the adjusting entry has been made.
- 2) Determine Rogan's bad debt expense for 2010.
- 3) Prepare the journal entry to record bad debt expense.
- 4) Assume on January 1, 2011, € 10,000 of specific receivables are identified as uncollectible and are written off. Prepare the journal entry for this write-off.
- 5) How does the write-off affect income in 2011?
- 6) Compute the balance of net accounts receivable on January 1, 2011 (after the write-off) assuming that no collections and no sales on account were made on that day.

Answers to assignment 1:

1)

2)

3)

4)

5)

6)

Assignment 2 (10 points):

On January 1, 2003, Clorette Corporation purchased equipment for € 800,000 cash that was to be depreciated over five years using the straight line method with a salvage value of € 10,000. At the beginning of year 2005 Clorette extends the estimated useful life by two years, correcting the salvage value to € 5,000. Two years later, end of 2006, the company feels that certain circumstances indicate that it should perform an impairment test on the equipment. The company estimates the present value of expected future cash flows from the equipment to be 200,000. In addition it receives an offer from a competitor who is willing to purchase the equipment at a net price of 240,000.

Required:

Compute the annual expense from depreciation and/or impairment and the net book value of the equipment at the end of each year and fill in the table below.

Answer to assignment 2:

Year	Depreciation/impairment expense	End of the year net book value
2003		
2004		
2005		
2006		
2007		
2008		
2009		

Assignment 3 (26 points):

Jimmy's Landscaping company, Inc. was started on January 1, 2010, by Jimmy Podolski. The following transactions or events took place during 2010:

- 1) The company sold stock for € 100,000 cash on January 2, 2010.
- 2) Borrowed € 40,000 from a local bank on January 1, 2010. The loan is due on June 30, 2011, and carries a 6% annual interest rate, with interest due at the end of each year.
- 3) Purchased a commercial tractor for cash to be used for the business on January 1, 2010. The tractor has an estimated life of five years and a cost of 50,000, with no salvage value expected.
- 4) During 2010, the company performed € 120,000 of landscaping services. Of that, € 20,000 remained uncollected at year-end.
- 5) On December 30, 2010, the company accepted a deposit of € 10,000 for a landscaping job to begin in April 2011.
- 6) Several potential customers indicated their intent to hire Jimmy's for landscaping work in 2011. The estimated total business is € 40,000.
- 7) Other operating expenses of € 40,000 were incurred in 2010. A balance of € 5,000 remained unpaid at year-end.
- 8) On January 1, 2010, the company paid € 7,200 cash for a 24-month insurance policy.
- 9) Cost of materials and plants purchased for landscaping jobs was € 45,000, of which € 10,000 remained unused at year end. All purchases were paid in cash.

Required:

a) Prepare the journal entries to record the transactions 1) -9) above including adjustment entries to be made at the end of the year.

b) Set up the balance sheet and income statement for Jimmy's Landscaping company, Inc. at the end of 2010. Fill in the tables provided below.

Answer to assignment 3:

a)

1)

2)

3)

4)

5)

6)

7)

8)

9)

b)

Balance Sheet December 31, 2010

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Income Statement 2010	Amount in €
Profit/loss	

Assignment 4 (12 points):

O'Hara Corporation issued € 100,000, face value, 8% coupon, 5-year bonds on January 1, 2008. The bonds pay interest annually and were sold to yield 10%. O'Hara amortizes bond discounts/premiums using the effective interest method.

Required:

- 1) Compute the beginning balance, interest expense, coupon payment, and amount amortized at the end of each year. Fill in the table below.
- 2) Show the journal entry to be made at the beginning of 2008 when the bond is issued.
- 3) Show the journal entry made at the end of 2009 (end of financial year) to account for the bond issued.
- 4) Assume that O'Hara retires the bonds on December 31, 2010, (after the coupon payment has been made) by buying the bonds on the open market paying fair market value. What journal entries are necessary at the end of 2010?

Answer to assignment 4:

1)

Year	Beginning Balance	Interest Expense	Coupon Payment	Amortization
2008				
2009				
2010				
2011				
2012				

2)

3)

4)