

Examination: 11052 „Financial Accounting“

Winter Term 2012/2013

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.

Assignment 1 (36 points)

Sandy began a magazine delivery service, which she named Sandy's Magazines, on January 1, 2011. The following transactions occurred during 2011:

- 1) Issued 1,000 shares for € 2,000 cash on January 1.
- 2) Borrowed € 20,000 cash on January 1. The interest rate on the loan is 10 % annually, and the interest is due each December 31, until the note is repaid.
- 3) Bought a bicycle for € 1,000 cash on January 1. The bicycle has an estimated life of four years and no residual value.
- 4) Paid € 2,600 cash for 13 months' rent on an office. (This amount includes an advance payment for January 2012.)
- 5) Bought 9,000 magazines for € 2 cash each on April 5.
- 6) Sold magazines at various times for a total of € 23,500. All sales were on account.
- 7) Collected € 21,200 from customers.
- 8) Paid herself a salary of € 4,000 cash.
- 9) Paid the interest on the loan in (2).
- 10) On December 31, Sandy determined by a physical count that 1,000 magazines were left in the storage bin at the warehouse.

Required:

- a) Prepare the journal entries to record the transactions 1) -10) above including adjustment entries to be made at the end of the year (if applicable).
- b) Set up the balance sheet and income statement for Sandy's Magazines 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.)

b)

Balance sheet December 31, 2011

Assets	Shareholders' equity and liabilities
Σ	

Income Statement 2011

Assignment 2 (14 points)

Ace containers uses the allowance method for recording its bad debt expense. Sales for 2011 were € 1,200,000, all of which were on credit. The ending balance (EB) in its 'Accounts receivable' account is € 372,000. The provisional balance (PB) in the contra account 'Allowance for bad debts' for 2011 amounts to € 4,100 (before the adjusting entry for bad debts is made). Both ledger accounts and their respective balances are presented below.

Accounts receivable	
Dr.	Cr.
EB (2011)	372,000

Allowance for bad debts (CA)		Age containers carries out an ageing analysis of receivables. The results are as follows:			
Dr.		Cr.	Age (in days)	Amount	Percent estimated uncollectible
	PB (2011)	4,100	0-10	€ 286,000	1
			11-60	41,000	5
			61-180	33,000	15
			Over 180	<u>12,000</u>	30
			Total	€ 372,000	

Required:

- Compute the allowance for bad debts which is required (and might be necessary to be [partially] established by an appropriate adjusting entry) at the end of 2011.
- Calculate the bad debt expense which the company recognizes in 2011. Derive this number by using the contra-asset account 'allowance for bad debt' given above. (*Hint: Your result in a) will be the ending balance (EB) of 2011 in the account 'allowance for bad debts'.*)
- Prepare the journal entry to record the bad debt expense derived in part b).
- Assume on January 1, 2012, € 9,000 of specific receivables are identified as uncollectible and are written off. Prepare the journal entry for this write-off and post it to the respective ledger accounts given above.

Assignment 3 (10 points)

The following is the balance sheet for McCormick Corporation at December 31, 2011.

**McCormick Corporation
Balance Sheet
As of December 31, 2011**

Assets		Liabilities and Equity	
Cash	\$ 500	Accounts payable	\$ 630
Accounts receivable	875	Notes payable	1,000
Inventory	<u>769</u>	Accrued liabilities	<u>245</u>
Total current assets	<u>\$2,144</u>	Total current liabilities	<u>\$1,875</u>
Property, plant, and equipment	\$3,840	Long-term debt	<u>700</u>
Less: accumul. depreciation	<u>(920)</u>	Total liabilities	<u>\$2,575</u>
Property, plant, and equipment, net	<u>\$2,920</u>	Equity:	
Total assets	<u>\$5,064</u>	Common stock	\$ 300
		Retained earnings	<u>2,189</u>
		Total equity	<u>\$2,489</u>
		Total liabilities and equity	<u>\$5,064</u>

McCormick Corporation experienced the following events in 2011:

- Old equipment that had cost McCormick \$240 was sold for \$60 in cash. At its disposal, the equipment was fully depreciated (with zero residual value).
- Depreciation expense for the year was \$250.
- Cash payments for new equipment were \$ 400.

Required:

- Prepare the journal entries for 2011 for all events just described.
- Based on the preceding information, what was McCormick Corporation's net amount of property, plant, and equipment at the end of 2011? Show your calculation.

