

**UNIVERSITY OF GRONINGEN**  
**Faculty of Economics and Business**  
**Department of Accounting**

**ANSWERS**  
**MID-TERM EXAM FINANCIAL ACCOUNTING**  
**FOR IB / E&BE**

**Semester 1.2 2016/2017**  
**Wednesday December 7, 2016**  
**Time: 18:30 to 20:00**  
**Location: Aletta Jacobs Hall**

## Exercise Happy Fishing (60 credits)

Happy Fishing is a company trading in fishing boats and trailers. To commence the company, Happy Fishing acquires a barn in the rural area of Friesland. In order to monitor the financial success of the company, Happy Fishing applies general accepted financial accounting principles. Happy Fishing keeps the following issues in mind:

- Happy Fishing prepared a monthly balance sheet and income statement.
- All accounts in the chart of accounts are provided in a separate sheet. Please use only these accounts in your answers.

The following financial events occur during 2016:

- A. On July 1, the founder of Happy Fishing, Harry Visser, deposits € 250,000 in cash in exchange for 25,000 shares of each € 10.
- B. In order to acquire the barn, Happy Fishing borrows € 480,000 by means of taking a mortgage on July 1. For interest and repayment of the mortgage, see below.
- C. The money raising activities in the events A and B are largely used for the acquisition of the barn for an amount of € 600,000 on July 1.
- D. On July 1, part of the barn is rented to a painting artist for an amount of € 3,000 euro per month. Because the painting artist does not have a lot of money available, the rent is paid in arrear for a period of 3 months on the last day of the third month.
- E. On July 10, Happy Fishing purchases 24 fishing boats for € 1,500 per boat and 18 trailers for € 400 per trailer on account. The boats and the trailers are delivered on the same day. Terms of trade are: 2/10, n/30, FOB shipping point. The date of the invoice is July 10. Happy Fishing applies the **perpetual inventory system** in combination with **LIFO** (last-in, first-out).
- F. On July 14, Happy Fishing receives the invoice of the shipping company for an amount of € 1,500 related to the delivery on July 10, 2016. Terms of trade are: 4/10, n/30. The date of the invoice is July 14.
- G. The Barn is depreciated over a period of 10 years in equal amounts per month to a residual value of € 0.
- H. On July 18, Happy Fishing pays the invoice of the transaction on July 10.
- I. After each 2 months precisely (calculated from July 1) Happy Fishing repays € 4,000 in total from the mortgage.
- J. The interest of the mortgage is 6% per year over the carrying amount of the mortgage.
- K. The interest is paid each quarter on the last day of the quarter.
- L. On July 31, Happy Fishing pays the invoice of the shipping company on July 14.

During the whole month of August, Harry Visser, the owner of Happy Fishing, is on holiday.

- M. From the inventory of a bankrupt firm, Happy Fishing purchases on September 2, 6 fishing boats for € 500 per boat and 5 trailers for € 200 per trailer. The boats and the trailers are delivered on the same day without any shipping expenses. The purchase is paid in cash.
- N. On September 7, Happy Fishing sells 25 fishing boats for € 2,490 per boat and 20 trailers for 690 per trailer to a camping site near the Sneker Lake. The owner of the camping site arrives at the same day to collect the purchase and pays in cash.
- O. On September 1, Happy Fishing discovers that the barn is uninsured. Happy Fishing decides to effect a fire insurance policy starting from September 1. The yearly insurance is paid in advance and the amount is 0.4% of the purchase price of the barn.
- P. The barn requires maintenance in September and the amount of € 1,550 is paid in cash on September 20.
- Q. Income taxes estimated for September, € 12,000.

### Question A (46 credits)

Prepare all journal entries for the events above (**“normal” entries as well as adjusting entries**), for the month of July 2016 and September 2016. Please skip a line after each entry. Please note that some events may lead to a “normal” entry and an adjusting entry.

### Approach:

Per event, you have to prepare the journal entry. Both for the month of July and September a debit and credit column is included in the answer box. By writing the amounts in the debit and credit columns for July, you clarify that the journal entry refers to the month of July. Also for September. By writing the amounts in the columns for both July and September, you clarify that the journal entry refers to both months (whereas the amounts per month may differ).

Event	Account	July 2016			September 2016	
		Debit	Credit		Debit	Credit
A	Cash	250,000				
	@ Common stock		250,000			
B	Cash	480,000				
	@ Mortgage		480,000			
C	Barn	600,000				
	@ Cash		600,000			
D	Rent receivable	3,000			3,000	
	@ Rental revenues		3,000			3,000

Event	Account	July 2016			September 2016	
		Debit	Credit		Debit	Credit
	Cash				9,000	
	@ Rent receivable					9,000
E	Merchandise inventory	43,200				
	@ Accounts payable		43,200			
	(24*1,500+18*400)					
F	Freight in	1,500				
	@ Accounts payable		1,500			
G	Depreciation expense barn	5,000			5,000	
	@ Accumulated depreciation barn		5,000			5,000
	(600,000/10/12)					
H	Accounts payable	43,200				
	@ Purchase discounts (2%*43,200)		864			
	@ Cash		42,336			
I	Mortgage				4,000	
	@ Cash					4,000
J	Interest expense	2,400			2,380	
	@ Interest payable		2,400			2,380
	((480,000-4000)*6%/12)					
K	Interest payable				7,180	
	@ Cash					7,180
	(2,400+2,400+2,380)					
L	Accounts payable	1,500				
	@ Cash		1,500			
M	Merchandise inventory				4,000	
	@ Cash					4,000
	(6*500+5*200)					



**Question B (10 credits)**

Prepare a multistep income statement for Happy Fishing for the month of September. Please be as detailed as possible.

**Multi-step income statement Happy Fishing September 2016**

Sales			76,050
Cost of goods sold	38,500		
Freight in	0		
Purchase discounts		<u>0</u>	
Net cost of goods sold			<u>38,500</u>
Gross margin			37,550
Depreciation expense barn	5,000		
Insurance expense	200		
Maintenance expense	<u>1,550</u>		
Total operating expenses			<u>6,750</u>
Income from operations			30,800
Rental revenues		3,000	
Interest expense	<u>2,380</u>		
Other revenues and expenses			<u>620</u>
Income before taxes			31,420
Income taxes expense	<u>12,000</u>		
Net income			19,420

**Question C (4 credits)**

Prepare the closing entry regarding the sales and rental revenues as of September 30, 2016

Account	Debit	Credit
Sales	76,050	
@ Income summary		76,050
Rental revenues	3,000	
@ Income summary		3,000