

UNIVERSITY OF GRONINGEN
Faculty of Economics and Business
Department of Accounting

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

Semester 1.2 2014/2015
Tuesday December 2, 2014
Time: 18:30 to 20:00
Location: Exam Hall

Exercise Yellow Fruit (30 credits)

In view of the coming World Cup Soccer in Brazil, Giovanni van Bronkhorst, a former player of Feyenoord, decides to start up a new company on 1 January 2014 called “Yellow Fruit”. Trading in the Worldcup Soccer gadgets is Yellow Fruit’s core business. One potential cash cow is the socalled singing banana (a noise-making banana made of plastic). Giovanni expects a lot from this gadget and decides to think big: he will buy thousands of singing bananas. In order to be able to account for the transactions, Giovanni uses the **perpetual inventory system** in combination with the **average cost** principle. Stated below are a number of transactions that have taken place in the period 1 January to 31 March 2014.

Date	Transaction
1/1	Giovanni puts €125,000 in cash of the company. In return, he receives 125,000 shares of “Yellow Fruit” for €1 per share. An additional €125,000 was borrowed from the bank for a period of 5 years with an interest rate of 4% per year.
2/1	Giovanni acquired a van for €12,000. Payment conditions are €6,000 to be paid in January 2015 and €6,000 in January 2016. Depreciation is €100 per month.
3/1	Giovanni rents a warehouse for 2 years. On 3 January 2014 Giovanni pays €36,000 for one year of rent in advance.
17/1	Giovanni purchases 500,000 singing bananas from Rotterdam Plastic Industries. One singing banana costs €0.10. Payment conditions are: F.O.B. destination, 3/10, n/30. Delivery takes place immediately.
16/2	Giovanni pays for the singing bananas that were delivered on 17 January.
2/3	Giovanni purchases 1,000,000 singing bananas from Rotterdam Plastic Industries. One singing banana costs €0.13. Payment conditions are: F.O.B. destination, 3/10, n/30. Delivery takes place immediately.
5/3	Albert Heijn plans to use the singing bananas during its Spring 2014 promotional campaign. Therefore it ordered 1,200,000 singing bananas at “Yellow Fruit” for €0.30 per piece. Delivery takes place immediately. Sales conditions are F.O.B. shipping point, 2/10, n/30.
14/3	Albert Heijn pays half of its bill relating to the delivery of 5 March.
30/3	Giovanni receives a cash payment of €3,000 from Heineken Holland House for an order of 10,000 singing bananas to be delivered on 10 April.

Question A (17 credits)

Please provide the journal entries of the transactions. Assume that all transactions are on account (unless stated otherwise). Please skip a line after each entry. Use only the accounts provided in the chart of accounts at the end of this exam.

Date	Account	Debit	Credit
1/1	Cash	250,000	
	@ Common stock		125,000
	@ Bank loan		125,000
2/1	Van	12,000	
	@ Accounts payable		12,000
3/1	Prepaid rent	36,000	
	@ Cash		36,000
17/1	Inventory	50,000	
	@ Accounts payable		50,000
15/2	Accounts payable	50,000	
	@ Cash		50,000
2/3	Inventory	130,000	
	@ Accounts payable		130,000
5/3	Accounts receivable	360,000	
	@ Sales		360,000
	Cost of goods sold ($1,200,000 \times 0.12$)	144,000	
	@ Inventory		144,000
14/3	Cash	176,400	
	Sales discount*	3,600	
	@ Accounts receivable		180,000
30/3	Cash	3,000	
	@ Unearned sales		3,000

* Whether to apply the sales discount for a partial payment is a discussion point. Therefore we accept answers with and without the discount.

Giovanni draws up a balance sheet as of 31 March 2014 as well as an income statement covering the period January - March 2014. All profits are retained within the company.

You can assume that Giovanni has to pay taxes amounting to 40% of the income before taxes. Furthermore, taxes are paid every year on 31 December. All profits are retained within the company.

Question B (4 credits)

Please prepare the four adjusting entries in order to prepare the balance sheet as of 31 March and the income statement for the first quarter of 2014. Skip a line after each entry. Use only the accounts provided in the chart of accounts at the end of this exam.

Date	Account	Debit	Credit
31/3	Interest expense	1,250	
	@ Interest payable		1,250
31/3	Depreciation expense, van	300	
	@ Accumulated depreciation, van		300
31/3	Rent expense	9,000	
	@ Prepaid rent		9,000
31/3	Income tax expense	80,740	
	@ Income taxes payable		80,740

Question C (4 credits)

Prepare the **multistep** income statement for the period of 1 January to 31 March 2014. Please be as detailed as possible.

Gross sales	360,000	
-/- Sales discount	-3,600	
Net sales		356,400
-/- Cost of goods sold		-144,000
Gross margin		212,400
Depreciation expense	-300	
Rent expense	-9,000	
Operating expenses		-9,300
Income from operations		203,100
Interest expense	-1,250	
Other revenues and expenses		-1,250
Income before income taxes		201,850
Income taxes (40%)		-80,740
Net income		121,110

Question D (5 credits)

Prepare the classified balance sheet as of 31 March 2014.

Assets		Liabilities	
Cash	343,400	Accounts payable	142,000
Prepaid rent	27,000	Interest payable	1,250
Accounts receivable	180,000	Income taxes payable	80,740
Inventory	36,000	Unearned sales	3,000
Van	12,000	Bank loan	125,000
Accumulated depreciation, van	-300		
		Stockholders' equity	
		Common stock	125,000
		Retained earnings	121,110
Total assets	598,100	Total liabilities and equity	598,100

Chart of accounts Yellow Fruits. You may remove this page from the exam.

Yellow Fruits Chart of accounts	
Account number	Account name
100	Assets
	Accounts Receivable
	Accumulated Depreciation, Van
	Cash
	Inventory
	Prepaid Interest
	Prepaid Rent
	Purchases
	Purchases Discount
	Purchases Returns and Allowances
	Van
200	Liabilities
	Accounts Payable
	Bank Loan
	Freight In Payable
	Income Taxes Payable
	Interest Payable
	Rent Payable
	Selling Expense Payable
	Unearned Sales
300	Stockholders' Equity
	Common Stock
	Dividends
	Retained Earnings
400	Revenues
	Sales
	Sales Discounts
	Sales Returns and Allowances
500	Expenses
	Cost of Goods Sold
	Depreciation Expense, Van
	Freight In
	Freight Out Expense
	Income Tax Expense
	Interest Expense
	Rent Expense
	Selling Expense