**UNIVERSITY OF GRONINGEN**

**Faculty of Economics and Business**

**Department of Accounting**

**ANSWERS**

**FINAL EXAM FINANCIAL ACCOUNTING**

**FOR IB / E&BE**

**Semester 1.2 2013/2014**

**Tuesday January 28, 2014**

**Time: 9:00 to 11:30**

**Location: Exam Hall**

**Exercise 1 (30 credits)**







**Question A (3 credits)**

Complete the Balance sheet as of January 1, 2013

|  |
| --- |
| Trucks in lease: 6/8 \* 371.109 = 278.332  Lease obligation: 3,8887 \* 80.000 = 311.096  Retained earnings: 2.085.332 – 1.657.596 = 427.736 |

**Question B (3 credits)**

Calculate the allowance for uncollectible accounts in the balance sheet at December 31, 2013 in and calculate the uncollectible accounts expense in the income statement in 2013.

|  |
| --- |
| Allowance: 170.000 \* 0,02 + 50.000 \* 0,10 + 20.000 \* 0,5 = 18.400  Expense: 18.400 – 18.000 + 0.9 \* 44.000 = 40.000 |

**Question C (2 credits)**

Calculate the sales in 2013.

|  |
| --- |
| 240.000 – 130.000 + 2.100.000 + 44.000 = 2.254.000 |

**Question D (3 credits)**

Calculate the Accounts Payable trade in the Balance sheet on December 31, 2013.

|  |
| --- |
| Purchases: 720.000 – 475.000 + 0,4 \* 2.254.000 = 1.146.600  Accounts payable: 175.000 + 1.146.600 – 1.300.000 = 21.600 |

**Question E (15 credits)**

Complete the Balance sheet on December 31, 2013 and the Income statement for 2013. Use the blank sheet on page 7 for your calculations.





**Question F (4 credits)**

Prepare the cash flow from financing activities.

|  |
| --- |
| Re-issue of treasury shares 19.000  Repayment of lease obligation - 36.447  Repayment long term debt - 100.000  Dividends paid - 170.000  Total - 287447 |

**Calculations question E:**

|  |
| --- |
| Truck in lease: 5/8 \* 371.109 = 231.943  Accounts receivable trade (net) = 240.000 – 18.400 = 221.600  Long term debt: 800.000 – 100.000 = 700.000  Interest payable: 700.000 \* 0.06 \* ½ = 21.000  Lease obligation: 3,4331 \* 80.000 = 274.648  Income taxes payable: 172.115 – 70.000 = 102.115  Additional paid in capital treasury stock: 19.000 - 18.500 = 500  Retained earnings: 427.736 + 516.344 – 170.000 = 774.080  Cost of goods sold: 2.254.000 \* 0,4 = 901.600  Depreciation expense building: 920.000 – 900.000 = 20.000  Depreciation expense truck: 1/8 \* 371.109 = 46.389  Salaries expense: 25.000 -16.000 + 460.000 = 469.000  Interest expense long term debt: 24.000 + 21.000 = 45.000  Interest expense lease obligation: 311.096 \* 0,14 = 43.553  Income before taxes: 2.254.000 – 1.565.542 = 688.458  Taxes expense: 688.458 \* 0,25 = 172.115  Net income: 688.458 – 172.115 = 516.344 |

**Exercise 2 (30 credits)**

**Question A (10 credits)**

On January 1, 2012 Wayne Enterprises issued a five-year convertible bond with a face value of € 2,500,000. In total 2,500 bonds of € 1,000 are issued. The face interest rate is 9 per cent per year. Interest is payable semi-annually on June 30 and December 31. The bonds were issued for € 2,403,725 implying a market interest rate of 10 per cent per year.

The effective interest method is used to amortize the bond discount. Wayne’s accounting year ends on October 31.

**Show your calculation of:**

1. The first interest payment at June 30, 2012 (2 credits).
2. The interest expense at June 30, 2012 (2 credits).
3. The amortization of the bond discount at June 30, 2012 (2 credits).
4. The accrued interest expense at October 31, 2012 (2 credits).
5. The interest expense at December 31, 2012 (2 credits).

Please round off your answers to whole Euros.

|  |
| --- |
| 1. Interest payment at June 30, 2012: € 2,500,000 \* 0.09 \* ½ = € 112,500 |
| 1. Interest expense at June 30, 2012: € 2,403,725 \* 0.10 \* ½ = € 120,186 |
| 1. Amortization of bond discount at June 30: € 120,186 – € 112,500 = € 7,686 |
| 1. The accrued interest expense at October 31, 2012:   Amortization of bond discount at June 30: 120,186 – 112,500 = € 7,686  Carrying value of bond at June 30: € 2,500,000 – (96,275 – 7,686) = € 2,411,411  Accrued interest expense at October 31: € 2,411,411 \* 0.10 \* 4/12 = € 80,380 |
| 1. The interest expense at December 31, 2012:   Amortization of bond discount at June 30: 120,186 – 112,500 = € 7,686  Carrying value of bond at June 30: € 2,500,000 – (96,275 – 7,686) = € 2,411,411  Interest expense at December 31: € 2,411,411\* 0.10 \* 2/12 = € 40,190 |

**Question B (20 credits)**

The stockholders’ equity section on January 1, 2012 of LexCorp is shown below:

Contributed capital

Common stock, €2 par value, 500,000 shares authorized,

400,000 shares issued and outstanding 800,000

Additional paid-in capital 3,480,000

Total contributed capital 4,280,000

Retained earnings 2,740,000

Total Stockholders’ equity 7,020,000

Stockholders’ equity events for 2012 are as follows:

1. The board of directors obtained authorization to issue 100,000 preferred stock, €100 nominal value, 4 per cent per year noncumulative.
2. Purchased 5,000 shares of common stock for the treasury for €45,000.
3. Issued 25,000 shares of preferred stock, €100 nominal value, for €100 per share.
4. Issued 5,000 shares of common stock for land with an asking price of € 100,000. The market value at the date of the transaction was €18 per share.
5. Sold 2,000 shares of treasury stock for €25,000.
6. Declared a cash dividend on the preferred stock for a full year and €0.80 per share on common stock.
7. Date of record of cash dividend.
8. Sold 3,000 shares of treasury stock for €18,000.
9. The board of directors declared a 2 for 1 split on the common stock.
10. Declared a 5 per cent stock dividend on common stock. The market value on the date of declaration was €7 per share.
11. Paid the cash dividend on preferred stock and common stock.
12. Closed the income summary account. Net income for 2012 was €970,000.
13. Closed the cash dividends declared account and the stock dividends declared account.

Prepare the appropriate journal entries to record the events. Please skip a line between the different journal entries. **State explicitly if no journal entry is needed.** The chart of accounts is added at the end of this exercise. Use only these accounts in your answers.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| *LexCorp, Journal 2012* | | | | | | |
| no | Account | | debet | credit | | |
| a. | No entry | |  |  | | |
|  |  | |  |  | | |
| b. | Treasury stock, common | | 45,000 |  | | |
|  | @ Cash | |  | 45,000 | | |
|  |  | |  |  | | |
| c. | Cash | | 2,500,000 |  | | |
|  | @ Preferred stock | |  | 2,500,000 | | |
|  |  | |  |  | | |
| d. | Land | | 90,000 |  | | |
|  | @ Common stock | |  | 10,000 | | |
|  | @ Additional paid-in capital | |  | 80,000 | | |
|  |  | |  |  | | |
| e. | Cash | | 25,000 |  | | |
|  | @ Treasury stock, common | |  | 18,000 | | |
|  | @ Paid-in Capital, Treasury Stock | |  | 7,000 | | |
|  |  | |  |  | | |
| f. | Cash dividends (25,000 \* 4 + 402,000 \* 0.8) | | 421,600 |  | | |
|  | @ Cash dividends payable | |  | 421,600 | | |
|  |  | |  |  | | |
| g. | No entry | |  |  | | |
|  |  | |  |  | | |
| h. | Cash | | 18,000 |  | | |
|  | @ Treasury stock, common | |  | 27,000 | | |
|  | @ Paid-in Capital, Treasury Stock | | 7,000 |  | | |
|  | @ Retained Earnings | | 2,000 |  | | |
|  |  | |  |  | | |
| i. | Memo: 2 for 1 stock split common stock, new € 1 par value, 810,000 shares issued and outstanding. Also correct: No entry | |  |  | | |
|  |  | |  |  | | |
| j. | Stock dividends (810,000 \* 0.05 \* 7) | | 283,500 |  | | |
|  | @ Common stock distributable (810,000 \* 0.05 \* 1) | |  | 40,500 | | |
|  | @ Additional paid-in capital (810,000 \* 0.05 \* 6) | |  | 243,000 | | |
|  |  | |  |  | | |
| k. | Cash dividends payable | | 421,600 |  | | |
|  | @ Cash | |  | 421,600 | | |
|  |  | |  |  | | |
| l | Income summary | | 970,000 |  | | |
|  | @ Retained earnings | |  | 970,000 | | |
|  |  | |  |  | | |
| m | Retained earnings | | 705,100 |  | | |
|  | @ Cash dividends declared | |  | 421,600 | | |
|  | @ Stock dividends declared | |  | 283,500 | | |
|  |  | |  |  | | |
|  |  | |  |  | | |
|  |  | |  |  | | |
| ***LexCorp Chart of Accounts*** | | | | | | |
| **Account Number** | | | **Account Name** | | |  |
|  | | |  | | |  |
| **100** | | | **Assets** | | |  |
|  | | | Accounts Receivable | | |  |
|  | | | Cash | | |  |
|  | | | Interest Receivable | | |  |
|  | | | Land | | |  |
|  | | | Organization Costs | | |  |
|  | | |  | | |  |
| **200** | | | **Liabilities** | | |  |
|  | | | Accounts Payable | | |  |
|  | | | Bonds Payable | | |  |
|  | | | Cash Dividends Payable | | |  |
|  | | | Interest Payable | | |  |
|  | | | Unamortized Bond Discount | | |  |
|  | | | Unamortized Bond Premium | | |  |
|  | | |  | | |  |
| **300** | | | **Stockholders’ Equity** | | |  |
|  | | | Additional Paid-in Capital | | |  |
|  | | | Cash Dividends | | |  |
|  | | | Common Stock | | |  |
|  | | | Common Stock Distributable | | |  |
|  | | | Income Summary | | |  |
|  | | | Paid-in Capital, Treasury Stock | | |  |
|  | | | Preferred Stock | | |  |
|  | | | Retained Earnings | | |  |
|  | | | Stock Dividends | | |  |
|  | | | Treasury Stock, Common | | |  |
|  | | |  | | |  |
| **400** | | | **Revenue** | | |  |
|  | | | Bond Interest Revenue | | |  |
|  | | |  | | |  |
| **500** | | | **Expense** | | |  |
|  | | | Bond Interest Expense | | |  |
|  | | | Organization Expense | | |  |
|  | | |  | | |  |