




**Question B**

Calculate the carrying amount or book value at which the bonds are reported in Fossil's balance sheet on March 31, 2015.

**Question C**

Calculate the total amount that is reported as interest expense (with respect to these bonds) in Fossil's Income Statement for the year ending December 31, 2007.

**Question D**

Calculate the carrying amount or book value at which the bonds are reported in Fossil's balance sheet on December 31, 2007.

**Question E**

Calculate the interest expense over the first quarter of the year 2008.

**Question F**

Calculate the carrying amount or book value of the bonds on March 31, 2008.

On April 1, 2008 the bondholders present all the bonds for conversion into common shares. The common shares have a par value of €100 each. Each set of ten bonds, each with a face value of € 500, can be converted into 7 shares.

**Question G**

Prepare the journal entry to record the conversion of the bonds into common shares. Please use only the accounts as presented on the charts of accounts at the end of the exam.

<b>Fossil Group Journal</b>			
<b>Date</b>	<b>Account</b>	<b>Debit</b>	<b>Credit</b>

**Question H**

What are the main advantages of issuing common stock over issuing long term debt (i.e bonds)? Mention **two** advantages.

## Exercise 2

Little Bikes is a trading company specialized in buying and selling miniature bicycle models. The financial year starts on January 1 and ends on December 31. Little Bikes' beginning balance sheet (in euros) on January 1, 2014, is shown below:

*Balance sheet on January 1, 2014 (in euros)*

Building	1,500,000	Long term debt	800,000
Trucks	120,000	Accounts payable trade	140,000
Trade inventory	360,000	Salaries payable	26,000
Accounts receivable (net)	88,000	Interest payable	16,000
Cash	45,000	Common stock	600,000
		Additional paid in capital	300,000
		Retained earnings	306,000
		Treasury Stock	(75,000)
Total	2,113,000	Total	2,113,000

In the footnotes, the following information is available:

The interest percentage of the long term debt is 6% per year. The interest will be paid twice a year, on March 1, and September 1. The long term debt will be repaid in 10 years, in equal amounts, on March 1. The first repayment took place on March 1, 2014.

All purchases and sales are on credit.

Accounts receivable trade (net) consists of the following items:

Accounts receivable trade (gross)	100,000
Allowance for uncollectible accounts	<u>(12,000)</u>
Accounts receivable trade (net)	88,000

Little Bikes uses the percentage of net sales method to estimate the allowance for uncollectible accounts. The percentage used is 2.5%. During 2014, one customer went bankrupt. The value of his bill was € 4,000.

The par value of a share is € 100. On January 1, 2014, there were 600 shares in treasury stock. Half of these treasury shares were sold on July 23, 2014 for € 42,000.

A dividend of 10% of common stock was declared on July 12, 2014. The date of payment is August 1, 2014.

A truck with a purchase price of € 24,000 and a carrying value of € 12,000 was sold with a gain of € 2,000.

Gross sales during 2014 are € 850,000. During the year, total sales discounts are € 50,000.

The table below gives an overview of all cash receipts and cash expenditures during 2014 (in euros).

<b>Receipts</b>		<b>Expenditures</b>	
Payments on accounts receivable	762,000	Payments on accounts payable	450,000
Sale of treasury stock	42,000	Salaries paid	80,000
Disposal of truck		Interest paid	
		Repayment of long term debt	
		Dividends paid	

On December 31, 2014, the amounts of the following balance sheet items are given:

Building	1,450,000
Trucks	94,000
Trade inventory Accounts payable trade	320,000
Accounts receivable trade (gross)	110,000
Salaries payable	134,000
	5,000

#### **Question A**

Complete the overview of cash receipts and expenditures during 2014 and determine the amount of cash on December 31, 2014.

#### **Question B**

Calculate the uncollectible accounts expense over the year 2014 and the ending balance for the allowance for uncollectible accounts on December 31, 2014.

#### **Question C**

Calculate the purchase of trade inventory over the year 2014.

#### **Question D**

Calculate the cost of goods sold over the year 2014.

#### **Question E**

Complete the income statement for 2014

#### *Income statement, 2014 (in euros)*

Cost of goods sold	460,000	Gross sales	850,000
Salaries expense		Sales discounts	(50,000)
Depreciation expense building		Gain on disposed truck	2,000
Depreciation expense trucks			
Interest expense			
Uncollectible accounts expense	20,000		
Net income	155,000		



## **Charts of accounts exercise 1**

Account payable  
Accounts receivable  
Additional Paid-In Capital, Common Stock  
Additional Paid-In Capital, Treasury Stock  
Bonds Payable  
Cash  
Common Stock  
Convertible Bonds Payable  
Dividends  
Dividends Payable  
Dividends Receivable  
Income Summary  
Income Tax  
Income Expense  
Interest Payable  
Interest Receivable  
Interest Revenues  
Retained Earnings  
Treasury Stock  
Unamortized Bond Discount  
Unamortized Bond Premium

## Antwoorden

### Exercise 1

#### Question A

<b>Fossil Group Journal</b>			
<b>Date</b>	<b>Account</b>	<b>Debit</b>	<b>Credit</b>
01/04/2007	Cash	32,029,500	
	@ Unamortized Bond Premium		2,029,500
	@ Convertible Bonds Payable		30,000,000
30/09/2007	Interest Expense ( $32,029,500 * 0.04 * \frac{1}{2}$ )	€640,590	
	Unamortized Bond Premium	€109,410	
	@ Cash ( $30,000,000 * 0.05 * \frac{1}{2}$ )		750,000
31/12/2007	Interest Expense ( $31,920,090 * 0.04 * \frac{3}{12}$ )	€319,200	
	Unamortized Bond Premium	55,800	
	@ Interest Payable ( $30,000,000 * 0.05 * \frac{3}{12}$ )		375,000
31/03/2008	Interest Expense ( $31,920,090 * 0.04 * \frac{3}{12}$ )	€319,200	
	Unamortized Bond Premium	55,800	
	Interest Payable ( $30,000,000 * 0.05 * \frac{3}{12}$ )	375,000	
	@ Cash ( $30,000,000 * 0.05 * \frac{1}{2}$ )		750,000

#### Question B

€30,000,000 (or €0)

#### Question C

€640,590 + €319,200 = €959,790

#### Question D

$(30,000,000 + 2,029,500) - (\text{€}109,410 + 55,800) = \text{€}31,864,290$

**Question E**

$$€31,920,090 * 0.04 * 3/12 = €319,200$$

**Question F**

$$(30,000,000 + 2,029,500) - (€109,410 + 55,800 + 55,800) = €31,808,490$$

**Question G**

<b>Fossil Group Journal</b>			
<b>Date</b>	<b>Account</b>	<b>Debit</b>	<b>Credit</b>
01/04/2008	Convertible Bonds Payable	30,000,000	
	Unamortized Bond Premium	1,808,490	
	@ Common Stock (60,000 bonds / 10 bonds) * 7 shares of €100		4,200,000
	@ Additional Paid-In Capital, Common Stock		27,608,490

**Question H**

1. No repayment of the principal amount; with a favourable influence on liquidity.
2. Without the obligation to pay a fixed amount of interest; with a favourable influence on liquidity as well as on profitability

Cash payments of interest don't depend on profitability; you always need to pay interest.

Cash payments of dividend will depend on profitability.



## Exercise 2

### Question A

*Schedule of cash receipts and expenditures over 2014*

Receipts		Expenditures	
Payments on accounts receivable	762,000	Payments on accounts payable	450,000
Sale of treasury stock	42,000	Salaries paid	80,000
Disposal of truck	<b>14,000</b>	Interest paid	<b>45,600</b>
		Repayment of long term debt	<b>80,000</b>
		Dividends paid	<b>54,000</b>

Disposal of truck:  $12,000 + 2,000 = 14,000$

Interest paid:  $(6/12 * 6\% * 800,000) + (6/12 * 6\% * 720,000) = 45,600$

Repayment of debt:  $800,000 / 10 = 80,000$

Dividends paid: 6,000 shares issued, 600 in treasury stock on Jan. 1. Treasury shares sold after dividend declared, so  $5,400 * 100 * 10\% = 54,000$

Amount of cash on Dec. 31:  $45,000$  (beginning) +  $818,000 - 709,600 = 153,400$

### Question B

Uncollectible accounts expense:  $2,5\% * 800,000$  (net sales) = **20,000**

Ending balance: beginning balance is  $12,000$  (credit). Write-off is  $4,000$ . Addition is  $20,000$ , so ending balance is **28,000**.

### Question C

Accounts payable beginning + purchases – payments = accounts payable ending  $140,000 +$  purchases -  $450,000 = 110,000$

Purchases = **420,000**

### Question D

Trade inventory beginning + purchases – cost of goods sold = trade inventory ending

$360,000 + 420,000 - 460,000 = 320,000$

Cost of goods sold = **460,000**

### Question E

Cost of goods sold	460,000	Gross sales	850,000
Salaries expense	<b>59,000</b>	Sales discounts	(50,000)
Depreciation expense building	<b>50,000</b>	Gain on disposed truck	2,000
Depreciation expense trucks	<b>14,000</b>		
Interest expense	<b>44,000</b>		
Uncollectible accounts expense	20,000		
Net income	155,000		

### Calculations

Salaries expense: salaries paid + change in salaries payable: payable has gone down, so part of previous period has been paid:  $80,000 - (26,000 - 5,000) = \mathbf{59,000}$

Depreciation building: difference between old (1,500,000) and new (1,450,000) balance sheet account: **50,000**

Depreciation truck: difference between old (120,000) and new (94,000) balance sheet account, minus carrying value of sold truck:  $26,000 - 12,000 = \mathbf{14,000}$

Interest expense:  $(2/12 * 800,000 * 6\%) + (10/12 * 720,000 * 6\%) = 8,000 + 36,000 = \mathbf{44,000}$ .

### **Question F**

Building	1,450,000	Long term debt	<b>720,000</b>
Trucks	94,000	Accounts payable trade	110,000
Trade inventory	320,000	Salaries payable	5,000
Accounts receivable trade (net)	<b>106,000</b>	Interest payable	<b>14,400</b>
Cash	153,400	Common stock	600,000
		Additional paid in capital	300,000
		Retained earnings	<b>407,000</b>
		Treasury stock	<b>(37,500)</b>
		Paid in capital, treasury stock	<b>4,500</b>
Total	<b>2,123,400</b>	Total	<b>2,123,400</b>

### Calculations

Accounts receivable trade (net):  $134,000 - 28,000 = \mathbf{106,000}$

Long term debt:  $800,000 - 80,000 = \mathbf{720,000}$

Interest payable:  $4/12 * 6\% * 720,000 = \mathbf{14,400}$

Retained earnings: beginning + net income – dividends =  $306,000 + 155,000 - 54,000 = \mathbf{407,000}$

Treasury stock:  $0,5 * 75,000 = \mathbf{37,500}$

Paid in capital, treasury stock:  $42,000 - 37,500 = \mathbf{4,500}$

### **Question G**

Net income		155,000
Depreciation expense building	50,000	
Depreciation expense truck	14,000	
Gain disposal truck	<u>(2,000)</u>	62,000
<i>Changes in working capital</i>		
Decrease inventory	40,000	
Increase accounts receivable	(18,000)	
Decrease accounts payable	(30,000)	
Decrease salaries payable	(21,000)	
Decrease interest payable	<u>(1,600)</u>	<u>(30,600)</u>
Net cash flow from operations		<u>186,400</u>