Exam Practicing - Financial Accounting for IB/E&BE

Question 1
Why are payments on Accounts payable debited to Accounts payable and credited to Cash?

Question 2
How do you account for share issues without a par value? And how do you determine the amount of dividends in this case?

Question 3
During 2009 one customer went bankrupt; the amount of this receivable was €24,000. Only 8% of the gross value of the receivable is recovered from the trustee.

How do we account for liquidation payments?

Question 4
On January 1, 2020 Packing Logistics becomes the owner of the packaging machine. Packing Logistics decides, however, to exchange the old packaging machine and to buy a similar new one. The list price of this new machine is € 45,000. The trade-in allowance for the old machine is € 3,000. Furthermore, the old machine was part of a lease.

Prepare the journal entry of the purchase transaction of the new machine, as well as the exchange of the old one, on January 1, 2020.

Question 5
What are the steps for operating activities?

Answers

Question 1

Payments on Accounts payable literally means that you are paying your bills. Hence, your Cash goes down (and is credited) and your liability Accounts payable also goes down (and is debited).

Question 2

If there is a stated value, it works the same as a par value. If there is no par value or stated value, the entire proceeds of the stock issue go to Common stock. As for dividends, either a percentage of Common stock is provided, or we will give you a dividend amount for each outstanding share

Question 3

Payment from the trustee: €24,000 * 0.08 = 1,920
We account for liquidation payments in terms of journal entries. The following will happen when you look at bankruptcy and the payment:

Cash:	1,920	
Allowance for uncollectible accounts:	22,080	
@Accounts receivable:		24,000

The payment ends up debited to cash, and credited back to the allowance. In terms of cash flows: the amount received from the bankrupt customer will automatically reduce the uncollectible accounts expense by the same amount, so this cancels each other out (this means that there is no 'additional' cash flow).

Question 4

It is known that the book value of the new machine is 45,000 (debited to Machine new), so it is also known that Packing Logistics is trading in the old machine for a new one and gets 3,000 for the old one. This means that the company has to pay 45,000 – 3,000 = 42,000 (credited to Cash).

Since the old machine was part of a lease, we know that the two accounts will need to disappear. Capital lease equipment (CLE) and accumulated depreciation CLE. Therefore, it is needed to determine the company's balance at the time of the substation from the old to the new machine.

The new machine is acquired in 2020; the residual value of the machine at the end of 2019 is 10% of the purchase price, which is 4,000. Accumulated depreciation at the time of the substitution therefore is 40,000 - 4,000 = 36,000.

The balance of the Capital Lease Equipment is still 40,000.

Concluding: we know that we 'removed' the CLE account with a credit of 40,000 and also credited Cash with 42,000 as part of the deal (so 82,000 credits in total).
On the debit side, we debited accumulated depreciation (36,000) and the new machine (45,000), so 81,000 in total.

- ➔ We are short 1,000 which is a loss on the exchange of the machine (and therefore it is also debited).

Question 5

1. Start with net income
2. Make adjustments for
   a. Depreciation, amortization and depletion
   b. Gains or losses
   c. Current assets and current liabilities