

Practice Exam 3 - Financial Accounting for IB/E&BE

Exercise 1

Internet company Gold is located in Groningen. Its business activities consists of the import and sale of Webcams, and Blended Learning Projects. Gold presents the balance sheet on January 1, 2014, the statement of cash receipts and expenditures during 2014 and some additional information as follows (in euro):

<i>Balance sheet on January 1, 2014</i>			
Buildings	150,000	Mortgage	80,000
Inventory (webcams)	44,000	Interest Payable	
Accounts receivable (webcams)	17,000	Salaries Payable	3,000
Cash	16,000	Accounts Payable (webcams)	11,000
		Unearned Revenues Blended Learning Projects	23,000
		Share Capital	45,000
		Share Premium	45,000
		Retained Earnings	

<i>Cash receipts and expenditures during 2014</i>			
Receipts		Expenditures	
Accounts Receivable (webcams)	301,000	Repayment of Mortgage	
Unearned Revenues Blended Learning Projects	172,000	Interest Paid	
Sale of Building	145,000	Salaries Paid	230,000
Receipts from Issuing Shares	25,000	Accounts Payable (webcams)	171,000
		Dividends Paid	12,000
		Rent Paid	
		Payment of the Lease Term	8,000

Additional information:

- Interest on the mortgage is 6% per year. The yearly interest is paid in arrear, on September 1
- Gold sold the building on July 1, 2014. Depreciation expenses of the building in the first half-year of 2014 are € 7,500. The selling price of the building is € 145,000. Out of the sale revenues of this building, the mortgage on this building will be completely repaid on September 1, 2014. Gold will rent an office and pays every month € 2,500 rent. The starting date of the rent contract is August 1, 2014.
- The issue price of shares is 250% of their nominal values.

Gold will lease a truck

Start date lease contract:	Jan 2, 2014
Lease period	4 years
Type of lease	capital lease
Present value of lease terms	€26,496.00
Lease term	€8,000.00
Interest	8%

Depreciation 4 years, straight-line
Residual value €0,00

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

Inventory (webcams) €31,000
Accounts Receivable (webcams) €11,000
Salaries Payable €13,000
Accounts Payable (webcams) €21,000
Prepaid Revenues Blended Learning Projects €9,000

Question A

Complete the opening balance sheet of January 1, 2014 by calculating the amounts of Interest Payable and Retained Earnings.

Question B

Complete the statement of cash receipts and expenditures over 2014 and calculate the amount of Cash on December 31, 2014.

Question C

Prepare the journal entry of the first payment of the lease term on December 31, 2014

Account name	Debit	Credit

Question D

Complete the balance sheet on December 31, 2014

Balance sheet on December 31, 2014

Business Truck in Lease		Salaries Payable	13,000
Inventory (webcams)	31,000	Accounts Payable	21,000
Accounts Receivable (webcams)	11,000	Unearned Revenues Blended Learning Projects	9,000
Cash (question B)		Lease Obligation	
		Share Capital	
		Share Premium	
		Retained Earnings	
Total		Total	

Question E

Calculate Net Income using the Equity Method or using the Statement of Retained Earnings.

Question F

Prepare the cash flow statement from operating activities using the indirect method.

Question G

Prepare the cash flow statement from investing activities

Question H

Prepare the cash flow statement from financing activities

Question I

List the non-cash investing and financing transaction(s).

Question B

Calculate Cost of Goods Sold for the month of January

Question C

Prepare all the appropriate adjusting journal entries on January 31, 2014. You can exclude the entry for cost of goods sold for the month of January. Please skip a line between the different entries.

Pooling Ltd., Journal			
Date	Account name	Debit	Credit

Provided here is the adjusted trial balance of Pooling Ltd. For the whole year of 2014.

Pooling Ltd, Adjusted Trial Balance at December 31st, 2014		
Account	Debit	Credit
Accounts payable		39,000
Accounts receivable	82,000	
Accumulated Depreciation – building		60,000
Additional Paid-in Capital, Common Stock		1,000,000
Allowance for Uncollectible Accounts		24,000
Building	2,000,000	
Cash	387,475	
Common Stock		1,500,000
Cost of Goods Sold	745,000	
Depreciation Expense – Building	60,000	
Dividends	10,000	
Freight In	15,000	
Freight Out Expense	16,000	
Income Tax Expense	7,825	
Insurance Expense	1,200	
Inventory	167,000	
Purchase Discounts		10,000
Sales		1,860,000
Sales Discounts	30,000	
Uncollectible Accounts Expense	91,500	
Wage Expense	880,000	
Total	4,493,000	4,493,000

Question D

Prepare the closing entries for 2014

Exercise 3

The chart of accounts is added as a separate appendix at the end of the exam. Use only these accounts in your answers. Please skip a line between the different journal entries.

Picasso Art Ltd. is a company that deals in buying, selling and restoration of art works. Its clients include many famous museums and collectors. It was founded in 2002. On December 31, 2013, the stockholders' equity section of the company's balance sheet shows that the company is authorized to issue 500,000 common stock shares of €10 par/nominal value and that 200,000 common stock shares were issued and outstanding. Retained earnings and Additional paid-in capital on the balance sheet as of December 31, 2013 were €1,648,000 and €2,560,000 respectively.

Jan 4	The board of directors obtained authorization for 50,000 shares of €40 par value noncumulative preferred stock that carried an indicated dividend rate of €5 per share and was callable at €42 per share.
Jan 14	The company issued 25,000 shares of preferred stock at €40 per share and another 4,000 shares of preferred stock in exchange for a building valued at €160,000.
Mar 8	The board of directors declared a 2-for-1 stock split on the common stock.
Apr 20	The company purchased 6,000 shares of common stock for the treasury at an average price of €15 per share.
May 4	The company sold 2,000 of the shares purchased on April 20, at a price of €20 per share.
July 15	The board of directors declared a cash dividend of €5 per share on the preferred stock and €0.60 per share on the common stock.
July 25	Date of record.
Aug 15	Paid the cash dividend.
Sept 20	The company sold 3,000 of the shares purchased on April 20, at a price of €14 per share.
Dec 31	Close Dividends and Income Summary account to Retained Earnings. Net loss for 2014 was €575,000

Question A

Calculate the number and the value of common stock shares issued that should be reported in the balance sheet on December 31, 2014.

Question B

Calculate the number of common stock shares outstanding and in treasury stock on December 31, 2014.

Question C

Prepare the journal entries to record the stock related events. Please state explicitly if no entry is needed.

Date	Account	Debit	Credit

Charts of accounts exercise 2

Accounts payable

Accounts Receivable

Accumulated Depreciation – Building

Allowance for Uncollectible Accounts

Building

Cash

Common Stock

Cost of Goods Sold

Depreciation Expense – Building

Dividends Freight In

Freight Out Expense

Income Summary

Income Tax Expense

Insurance Expense

Insurance Payable

Inventory

Additional Paid-In Capital, Common stock

Prepaid Insurance

Purchases

Purchase Discounts

Purchase Returns and Allowances

Rent Expenses

Rent Payable

Retained Earnings

Sales

Sales Discounts

Sales Returns and Allowances

Uncollectible Accounts Expense

Wage Expense

Charts of accounts exercise 3

Additional Paid-In Capital, Common Stock

Additional Paid-In Capital, Treasury Stock

Bonds Payable

Building

Cash

Common Stock

Dividends, Common Stock

Dividends, Preferred Stock

Dividends Payable Income

Summary

Preferred Stock

Retained Earnings

Treasury Stock, Common

Unamortized Bond Discount

Unamortized Bond Premium

Answers practice exam 3

Exercise 1

Question A

<i>Balance sheet on January 1, 2014</i>			
Buildings	150,000	Mortgage	80,000
Inventory (webcams)	44,000	Interest Payable	1,600
Accounts receivable (webcams)	17,000	Salaries Payable	3,000
Cash	16,000	Accounts Payable (webcams)	11,000
		Unearned Revenues Blended Learning Projects	23,000
		Share Capital	45,000
		Share Premium	45,000
		Retained Earnings	18,400
Total	227,000	Total	227,000

Interest payable is $80,000 * 6\% * 4/12 = 1,600$

Retained earnings is $227,000 - 208,600 = 18,400$

Question B

<i>Cash receipts and expenditures during 2014</i>			
Receipts		Expenditures	
Accounts Receivable (webcams)	301,000	Repayment of Mortgage	80,000
Unearned Revenues Blended Learning Projects	172,000	Interest Paid	4,800
Sale of Building	145,000	Salaries Paid	230,000
Receipts from Issuing Shares	25,000	Accounts Payable (webcams)	171,000
		Dividends Paid	12,000
		Rent Paid	12,500
		Payment of the Lease Term	8,000

Repayment of mortgage is $80,000 - 0 = 80,000$

Interest Paid is $80,000 * 6\% = 4,800$

Rent Paid is $2,500 * 5 = 12,500$

And

Cash begin	16,000
Receipts	643,000
Expenditures	518,300
Cash end	140,700

Question C

Account name	Debit	Credit
Interest Expense	2,120	
Lease Obligation	5,880	
Cash		8,000

Question D

Business Truck in Lease	19,872	Salaries Payable	13,000
Inventory (webcams)	31,000	Accounts Payable	21,000
Accounts Receivable (webcams)	11,000	Unearned Revenues Blended Learning Projects	9,000
Cash (question B)	140,700	Lease Obligation	20,616
		Share Capital	55,000
		Share Premium	60,000
		Retained Earnings	23,959
Total	202,572	Total	202,572

Question E

Equity end: 138,959
 Equity begin: 108,400
 Deposit: 25,000
 Withdrawal: 12,000
 Net income: 17,599

Retained earnings end: 23,959
 Retained earnings begin: 18,400
 Dividends: 12,000
 Net income: 17,599

Question F

Net profit	17,599	
Book gain	2,500	
		SUB (145,000-142,500)
<i>Depreciation expenses:</i>		
Trucks in lease	6,624	ADD (24,496*1/4)
Building	7,500	ADD
Inventory	44,000 (begin); 31,000 (end); 13,000 (change) POS	
Accounts receivable	17,000 (begin); 11,000 (end); 6,000 (change) NEG	
Interest Payable	1,600 (begin); 0 (end); 1,600 (change) POS	
Salaries payable	3,000 (begin); 13,000 (end); 10,00 (change) POS	
Accounts payable	11,000 (begin); 21,000 (end); 10,000 (change) POS	
Prepaid revenues	23,000 (begin); 9,000 (end); 14,000 (change) NEG	

Total cash flow: 52,580

Question G

Cash flow IN
Book value Building: 150,000 – 7,500 = 142,500
Book gain: 2,500
Total cash flow: 145,000

Question H

Cash flow IN
Share issue: 25,000
Cash flow OUT
Repayment mortgage: 80,000
Dividend: 12,000
Repayment lease: 5,880
Total cash flow: (72,880)

Question I

Lease contract Trucks: 26,496

Exercise 2

Question A

Pooling Ltd., Journal			
Date	Account name	Debit	Credit
1/1	Cash	2,500,000	
	@Common Stock		1,500,000
	@Additional Paid-In Capital, Common Stock		1,000,000
1/1	Building	2,000,000	
	@Cash		2,000,000
1/1	Prepaid Insurance	600	
	@Cash		600
3/1	Purchases	12,000	
	@Accounts Payable		12,000
9/1	Accounts Receivable	18,000	
	@Sales		18,000
9/1	Freight Out Expense	1,000	
	@Cash		1,000
12/1	Purchases	30,000	
	@Accounts Payable		30,000
12/1	Freight In	1,800	
	@Cash		1,800
16/1	Accounts Payable	12,000	
	@Cash		12,000
18/1	Cash	17,460	
	Sales Discounts	540	
	@Accounts Receivable		18,000
20/1	Accounts Payable	30,000	
	@Purchase Discounts		600
	@Cash		29,400
23/1	Accounts Receivable	11,000	
	@Sales		11,000

Question B

Number of sales (15 on 9th + 10 on 23th) = 25

3/1 Purchases = 20 for 12,000 = 600 per swimming pool

12/1 Purchases = 30 for 30,000 = 1,000 per swimming pool

COGS = 20 * 600 + 5 * 1,000 = 17,000

Question C

Pooling Ltd., Journal			
Date	Account name	Debit	Credit
31/1	Insurance Expense	100	
	@Prepaid Insurance		100
31/1	Depreciation Expense – Building	5,000	
	@Accumulated Depreciation - Building		5,000
31/1	Uncollectible Accounts Expense	1,423	
	@Allowance for Uncollectible Accounts		1,423

Calculations

Depreciation Expense – Building: $(2,000,000 - 200,000) / 30 \text{ years} / 12 \text{ months} = 5,000$

Net sales = $18,000 + 11,000 - 540 \text{ (discount)} = 28,460$

Uncollectible accounts expense = $5\% * 28,460 = 1,423$

Question D

Pooling Ltd., Journal			
Date	Account name	Debit	Credit
31/12	Sales	1,860,000	
	@Sales Discounts		30,000
	@Freight Out Expense		16,000
	@Income Summary		1,814,000
31/12	Income Summary	1,790,525	
	Purchase Discounts	10,000	
	@Cost of Goods Sold		745,000
	@Depreciation Expense – Building		60,000
	@Freight In		15,000
	@Income Tax Expense		7,825
	@Insurance Expense		1,200
	@Uncollectible Accounts Expense		91,500
	@Wage Expense		880,000
31/12	Income Summary	23,475	
	@Retained Earnings		23,475
31/12	Retained Earnings	10,000	
	@Dividends		10,000

Exercise 3

Question A

200,000 x 2 = 400,000 shares

With a par/nominal value of €5 each

Question B

Shares Outstanding = 400,000 – 6,000 + 2,000 + 3,000 = 399,000

Treasury Stock = 1,000 shares

Question C

Date	Account	Debit	Credit
Jan 4	No entry		
Jan 14	Cash	1,000,000	
	Building	160,000	
	@Preferred Stock		1,160,000
Mar 8	Memo entry or no entry		
Apr 20	Treasury Stock, Common	90,000	
	@Cash		90,000
May 4	Cash	40,000	
	@Treasury Stock, Common		30,000
	@Paid-In Capital, Treasury Stock		10,000
Jul 15	Dividends, Preferred Stock	145,000	
	Dividends, Common Stock	237,600	
	@Dividends Payable		382,600
July 25	No entry		
Aug 15	Dividends payable	382,600	
	@Cash		382,600
Sept 20	Cash	42,000	
	Paid-In Capital, Treasury Stock	3,000	
	@Treasury Stock, Common		45,000
Dec 31	Retained Earnings	575,000	
	@Income Summary		575,000
Dec 31	Retained Earnings	382,600	
	@Dividends		382,600

Question D

Picasso Art Ltd. Stockholders' Equity December 31, 2014		
Contributed Capital		
- Preferred Stock, €40 par value, €5 dividend, 50,000 shares authorized, 29,000 shares Issued and outstanding	1,160,000	
- Common Stock, €5 par value, 500,000 shares authorized, 399,000 shares issued and outstanding	1,995,000	
- Additional Paid-in Capital	2,560,000	
- Paid-in Capital, Treasury Stock	7,000	
Total contributed capital		5,722,000
Add: Retained Earnings (1,648,000 – 575,000 – 382,600)		690,400
Total Contributed Capital & Retained Earnings		6,412,400
Less: Treasury Stock, Common (1,000 shares at cost €15)		(15,000)
Total Stockholders' Equity		6,397,400