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SZÉCHENYI 2020

Financial Accounting

Handout

Prepared by
Zsuzsanna KOVÁCS, PhD

Methodological expert: Edit Gyáfrás

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SZÉCHENYI 2020

Európai Unió
Európai Szociális
Alap



BEFECTETÉS A JÖVŐBE

Preface

Financial accounting incorporates two courses: the related lecture and the seminar. The aim of the courses is to entitle the students with the knowledge of the most important topics of accounting such as property plant and equipment, merchandising operations, inventories and receivables. This handout provides case studies for learning purposes and also includes a sample exam.

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Lecturer: Zsuzsanna KOVÁCS

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Course information

Course title: FINANCIAL ACCOUNTING

Course code:
60C101 Lecture
60C102 Seminar

Credit: 6

Type: lecture and seminar

Contact hours / week: 2+2

Evaluation: Lecture: exam mark (five-grade), Seminar: practical course mark (five-grade)

Semester: 4th

Prerequisites: Introduction to Accounting

Learning Outcomes

- a) *regarding knowledge, the student*
- *has a clear idea of the basic concepts and methods of financial accounting*
 - *is familiar with the basic economic events related to plant property and equipment items, merchandising operations, inventories, cash, receivable and trading securities*
- b) *regarding competencies, the student*
- *is capable of determining how the balances related to plant property and equipment items, merchandising operations, inventories, cash, receivable and trading securities are modified by basic economic events*
 - *is capable of editing accounting entries and applying the basic rule of double-entry bookkeeping for the above items*
- c) *regarding attitude, the student*
- *is capable of critical evaluation of financial accounting data*
 - *is devoted to performing high quality work in the field of financial accounting*
- d) *regarding autonomy and responsibility, the student*
- *works individually in the field of financial accounting with responsibility*
 - *prepares and presents accounting-related tasks and projects*

Requirements

For the seminar (60C102): the practical course mark (five-grade) is based on the results of the mid-term tests written during the semester. Opportunity to retake mid-term test: once at the end of the semester. ***50% of the points have to be collected in order to pass.***

For the lecture (60C101): written exam during the examination period. Questions will cover the material of both the lecture and the seminar.

Only those students who had passed the seminar (have grade „pass” or better) may take the lecture exam.

50% of the points have to be collected in order to pass.

Class attendance is not compulsory but recommended as well as continuous (weekly) learning and practicing during the semester.

Grading

- 0-49%: fail
- 50-59%: pass
- 60-69%: satisfactory
- 70-79%: good
- 80-100%: excellent

TOPIC 1: Property, Plant and Equipment

Learning outcome:

The students will learn about Property, Plant and Equipment items: definition, function and classification. They will be informed about the related accounts and depreciation calculations. The most important outcome is to be able to calculate and post linear, units-of-output, double-declining and sum-of-the-years-digits depreciation. Acquisition and disposal transactions are also introduced and discussed as well as lump-sum acquisitions.

Problem P/1.

Pear Co. is buying land, building and equipment for \$1,375,000. The estimated market prices are the following:

- ✓ Land: \$175,000
- ✓ Building: \$800,000
- ✓ Equipment: \$500,000

How do we allocate the purchase price between these assets?

Worksheet:

Asset	Market value	% of total market value
Land		
Building		
Equipment		
Total		

Asset	Purchase price	% of total market value	Allocated cost
Land			
Building			
Equipment			
Total			

Problem P/2.

On January 1, 20X2, Accounting Corporation purchased a machine for 6,400,000 €. There was an additional 600,000 € cost of instalment. The machine has a service life of 3 years and it is expected to be disposed for a 400,000 € salvage value. The Corporation uses a straight-line depreciation method.

1. Prepare a table showing the annual depreciation expense, accumulated depreciation and related calculations for each year!
2. How much is the book value in the Balance Sheet at Dec. 31, 20X3?
3. Prepare Journal entries to record the asset's acquisition, annual depreciation for each year and the asset's sale (at the end of the service life) for 400,000 €.

Worksheet:

1.

Year	Annual Expense	Accumulated Depreciation at End of Year	Annual Expense Calculation

2.

Property, Plant & Equipment (20X3)

Equipment:

Less: Accumulated depreciation:

Book value:

3.

<i>General Journal</i>			
<i>Date</i>	<i>Accounts</i>	<i>Debit</i>	<i>Credit</i>

Problem P/3.

On January 1, 20X2, 'This test is the best' Co. purchased a machine for 2,000,000 €. There was an additional 600,000 € cost of instalment. The machine has a service life of 3 years and it is expected to be disposed for a 200,000 € salvage value. The Corporation uses a straight-line depreciation method.

1. Prepare a table showing the annual depreciation expense, accumulated depreciation and related calculations for each year!
2. How much is the book value in the Balance Sheet at Dec. 31, 20X3?
3. Prepare Journal entries to record the asset's acquisition, annual depreciation for each year and the asset's sale (at the end of the service life) for 400,000 €.

Worksheet:

1.

Year	Annual Expense	Accumulated Depreciation at End of Year	Annual Expense Calculation

2.

Property, Plant & Equipment (20X3)

Equipment:

Less: Accumulated depreciation:

Book value:

3.

General Journal			
Date	Accounts	Debit	Credit

Problem P/4.

On January 1, 20X2, Bakery Corporation purchased an equipment for 200,000 €. The machine has a service life of 3 years and a salvage value of 10,000 €. The Corporation uses the double-declining balance depreciation method.

Prepare a table for the annual depreciation expense, accumulated depreciation and related calculations for each year!

Worksheet:

Year	Annual Expense	Accumulated Depreciation at End of Year	Annual Expense Calculation

Problem P/5.

On January 1, 20X2, Lucky Corporation purchased an automobile for 15,000 €. According to the original plan, the machine has a service life of 4 years. The Corporation uses the straight-line depreciation method. The salvage value of the asset is 5,000 €.

In February 20X5, it turns out that the depreciation estimates need to be revised:

- The Corporation decides to use the car for 6 years (instead of 4)
- The scrap value (salvage value) will be 2,000 €.

Prepare a table for the annual depreciation expense, accumulated depreciation and related calculations for each year!

Worksheet:

Year	Annual Expense	Accumulated Depreciation at End of Year	Annual Expense Calculation

Problem P/6.

On January 1, 20X2, Sunny Corporation purchased an equipment for 150,000 €. Originally planned, the asset has a service life of 5 years. The Corporation uses the straight-line depreciation method. The salvage value of the asset is 10,000 €.

In February, 20X5, it turns out that the depreciation estimates need to be revised:

- The Corporation decided to use the asset for 6 years (instead of 5)
- The scrap value (salvage value) will be 5,000 €.

Worksheet:

Year	Annual Expense	Accumulated Depreciation at End of Year	Annual Expense Calculation

Problem P/7.

On January 1, 20X2, 'Easy' Corporation purchased an equipment for 300,000 €. The machine has a salvage value of 15,000 €.

Prepare a table for the annual depreciation expense, accumulated depreciation and related calculations for each year for the following cases:

- a) The Corporation uses the sum-of-the-years'-digits depreciation method, service life is 4 years.
- b) The Corporation uses the double declining balance depreciation method service life is 3 years.
- c) The Corporation uses the sum-of-the-years'-digits depreciation method, service life is 3 years.
- d) The Corporation uses the units of output depreciation method. Total output: 100,000 pieces. Annual outputs: 1st year: 50,000, 2nd year: 30,000, 3rd year: 20,000
 - d/1) Prepare a schedule for the annual depreciation expense, accumulated depreciation and related calculations.
 - d/2) Show how the asset and the related depreciation would appear on the balance sheet at Dec. 31, 20X3.
 - d/3) Prepare Journal entries to record the asset's acquisition, annual depreciation for each year and the asset's eventual sale for 15,000 €

Worksheet:

a) In case of Sum-of-the-years-digits, 4 years

Year	Annual Expense	Accumulated Depreciation at End of Year	Annual Expense Calculation

b) In case of double-declining balance, 3 years.

Year	Annual Expense	Accumulated Depreciation at End of Year	Annual Expense Calculation

c) In case of sum-of-the-years-digits 3 years.

Year	Annual Expense	Accumulated Depreciation at End of Year	Annual Expense Calculation

d/1) In case of units-of-output. Total output: 100,000 pieces. 1st year: 50,000, 2nd year: 30,000, 3rd year: 20,000

Year	Annual Expense	Accumulated Depreciation at End of Year	Annual Expense Calculation

d/2)

d/3)

General Journal			
Date	Accounts	Debit	Credit

Problem P/8.

On January 1, 20X2, ‘Funny’ Corporation purchased an automobile for 25,000 €. Originally planned, the car has a service life of 4 years. The Corporation uses the straight-line depreciation method. The salvage value of the asset is 5,000 €.

Scenario “A”

In February, 20X5, it turns out that the depreciation estimates need to be revised:

- The Corporation decided to use the car for 6 years (instead of 4)
- The scrap value (salvage value) will be 4,000 €.

Worksheet:

Year	Annual Expense	Accumulated Depreciation at End of Year	Annual Expense Calculation

Scenario “B”

It turned out in early 20X6 that useful life will be 8 years (total), new salvage value will be 500.

Worksheet:

Year	Annual Expense	Accumulated Depreciation at End of Year	Annual Expense Calculation

Problem P/9.

On January 1, 20X2, ‘Extended’ Corporation purchased equipment for 200,000 €. In scenarios a-c) the machine has a salvage value of 30,000 €.

Prepare a table for the annual depreciation expense, accumulated depreciation and related calculations for each year for the following cases.

Scenarios:

- a) The Corporation uses the straight-line depreciation method, service life is 5 years.
- b) The Corporation uses the units of output depreciation method. Total output: 340 pieces. Annual outputs:
 - 1st year: 40
 - 2nd year: 60
 - 3rd year: 120
 - 4th year: 35
 - 5th year: 85
- c) The Corporation uses the sum-of-the-years’-digits depreciation method, service life is 5 years.
- d) The Corporation uses the double declining balance depreciation method service life is 5 years and the salvage value is 20,000 in this case.

Worksheet:

Year	Annual Expense	Accumulated Depreciation at End of Year	Annual Expense Calculation
a) 20X2			
b) 20X2			
c) 20X2			
d) 20X2			

SOLUTION for Problems

Solution P/1.

<i>Asset</i>	<i>Market value</i>	<i>% of total market value</i>	
Land	175 000	12%	
Building	800 000	54%	
Equipment	500 000	34%	
Total	1 475 000	100%	
<i>Asset</i>	<i>Purchase price</i>	<i>% of total market value</i>	<i>Allocated cost</i>
Land	1 375 000	12%	165 000
Building	1 375 000	54%	742 500
Equipment	1 375 000	34%	467 500
Total	-	100%	1 375 000

Solution P/2.

1. Depreciable base = 7,000,000-400,000 = 6,600,000

Year	Annual Expense	Accumulated Depreciation at End of Year	Annual Expense Calculation
20X2	2,200,000	2,200,000	6,600,000/3
20X3	2,200,000	4,400,000	same as above
20X4	2,200,000	6,600,000	same as above

- 2.

Property, Plant & Equipment (20X3, €)

7,000,000-4,400,000= 2,600,000

3.

General Journal			
Date	Accounts	Debit	Credit
20X2.01.01	D: Technical equipment	7,000,000	
	C: Cash		7,000,000
	<i>Purchase of equipment</i>		
20X2.12.31.	D: Depreciation expense	2,200,000	
	C: Accumulated depreciation		2,200,000
	<i>Annual depreciation of 20X2</i>		
20X3.12.31.	D: Depreciation expense	2,200,000	
	C: Accumulated depreciation		2,200,000
	<i>Annual depreciation of 20X3</i>		
20X4.12.31.	D: Depreciation expense	2,200,000	
	C: Accumulated depreciation		2,200,000
	<i>Annual depreciation of 20X4</i>		
20X4.12.31.	D: Cash	400,000	
	D: Accumulated Depreciation	6,600,000	
	C: Technical Equipment		7,000,000
	<i>To record the disposal of the asset on December 31, 20X4</i>		

Solution P/3.

1. Depreciable base = 2,600,000 - 200,000 = 2,400,000

Year	Annual Expense	Accumulated Depreciation at End of Year	Annual Expense Calculation
20X2	800,000	800,000	2,400,000/3
20X3	800,000	1,600,000	same as above
20X4	800,000	2,400,000	same as above

2.

Property, Plant & Equipment (20X3)

Equipment: 2,600,000 €
 Less: Accumulated depreciation: 1,600,000 € 1,000,000 €

3.

General Journal			
Date	Accounts	Debit	Credit
20X2.01.01	D: Technical equipment	2,600,000	
	C: Cash		2,600,000
	<i>Purchase of equipment</i>		
20X2.12.31.	D: Depreciation expense	800,000	
	C: Accumulated depreciation		800,000
	<i>Annual depreciation of 20X2</i>		
20X3.12.31.	D: Depreciation expense	800,000	
	C: Accumulated depreciation		800,000
	<i>Annual depreciation of 20X3</i>		
20X4.12.31.	D: Depreciation expense	800,000	
	C: Accumulated depreciation		800,000
	<i>Annual depreciation of 20X4</i>		
20X4.12.31.	D: Cash	300,000	
	D: Accumulated	2,400,000	

	Depreciation		
	C: Technical Equipment		2,600,000
	C: Gain		100,000
	<i>To record the disposal of the asset on December 31, 20X4</i>		

Solution P/4.

Rate in case of straight-line: 0,33

Double rate: 0,66

Year	Annual Expense	Accumulated Depreciation at End of Year	Annual Expense Calculation
20X2	132,000	132,000	$200,000 * 0,66$
20X3	44,880	176,880	$(200,000 - 132,000) * 0,66$
20X4	13,120 (190,000 - 176,880)	190,000	$(200,000 - 176,880) * 0,66 = 15,259.2$, But! Accumulated depr. can not exceed 190,000

Solution P/5.

Year	Annual Expense	Accumulated Depreciation at End of Year	Annual Expense Calculation
20X2	2,500	2,500	$(15,000 - 5,000) / 4$
20X3	2,500	5,000	same as above
20X4	2,500	7,500	same as above
20X5	1,833.33	9,333.33	$(15,000 - 7,500 - 2,000) / 3$
20X6	1,833.33	11,166.66	same as above
20X7	1,833.33	13,000	same as above

Solution P/6.

Year	Annual depreciation	Accumulated depreciation	Calculations
20X2	28 000	28 000	$(150000-10000)/5$
20X3	28 000	56 000	same as above
20X4	28 000	84 000	same as above
20X5	20 333	104 333	$(150000-84000-5000)/3$
20X6	20 333	124 666	same as above
20X7	20 333	145 000	same as above

Solution P/7.

a) Sum-of-the-years-digits, 4 years

Year	Annual Expense	Accumulated Depreciation at End of Year	Annual Expense Calculation
20X2	114,000	114,000	$(300,000-15,000)*4/10$
20X3	85,500	199,500	$(300,000-15,000)*3/10$
20X4	57,000	256,500	$(300,000-15,000)*2/10$
20X5	28,500	285,000	$(300,000-15,000)*1/10$

b) Double-declining balance, 3 years.

Rate in case of straight-line: 0,33

Double rate: 0,66

Year	Annual Expense	Accumulated Depreciation at End of Year	Annual Expense Calculation
20X2	198,000	198,000	$300,000*0,66$
20X3	67,320	265,320	$(300,000-198,000)*0,66$
20X4	19,680 (285,000-265,320)	285,000	$(300,000-265,320)*0,66=22,888.8$ But! Accumulated depr. can not exceed 285,000

c) Sum-of-the-years-digits 3 years.

Year	Annual Expense	Accumulated Depreciation at End of Year	Annual Expense Calculation
20X2	142,500	142,500	$(300,000-15,000)*3/6$
20X3	95,000	237,500	$(300,000-15,000)*2/6$
20X4	47,500	285,000	$(300,000-15,000)*1/6$

d/1) Units-of-output. Total output: 100,000 pieces. 1st year: 50,000, 2nd year: 30,000, 3rd year: 20,000

Year	Annual Expense	Accumulated Depreciation at End of Year	Annual Expense Calculation
20X2	142,500	142,500	$(300,000-15,000)*50,000/100,000$
20X3	85,500	228,000	$(300,000-15,000)*30,000/100,000$
20X4	57,000	285,000	$(300,000-15,000)*20,000/100,000$

d/2

Property, Plant & Equipment (20X4)

Equipment: 7,000,000 €
 Less: Accumulated depreciation: 4,400,000 € 2,600,000 €

d/3

General Journal			
Date	Accounts	Debit	Credit
20X2.01.01	D: Technical equipment	7,000,000	
	C: Cash		7,000,000
	<i>Purchase of equipment</i>		
20X2.12.31.	D: Depreciation expense	2,200,000	
	C: Accumulated depreciation		2,200,000
	<i>Annual depreciation of 20X2</i>		
20X3.12.31.	D: Depreciation expense	2,200,000	
	C: Accumulated depreciation		2,200,000
	<i>Annual depreciation of 20X3</i>		
20X4.12.31.	D: Depreciation expense	2,200,000	
	C: Accumulated depreciation		2,200,000
	<i>Annual depreciation of 20X4</i>		
20X4.12.31.	D: Cash	400,000	
	D: Accumulated Depreciation	6,600,000	
	C: Technical Equipment		7,000,000
	<i>To record the disposal of the asset on December 31, 20X4</i>		

Solution P/8.

Scenario A:

Year	Annual Expense	Accumulated Depreciation at End of Year	Annual Expense Calculation
20X2	5,000	5,000	$(25,000-5,000)/4$
20X3	5,000	10,000	same as above
20X4	5,000	15,000	same as above
20X5	2,000	17,000	$(25,000-15,000-4,000)/3$
20X6	2,000	19,000	same as above
20X7	2,000	21,000	same as above

Scenario B:

Year	Annual Expense	Accumulated Depreciation at End of Year	Annual Expense Calculation
20X2	5,000	5,000	$(25,000-5,000)/4$
20X3	5,000	10,000	same as above
20X4	5,000	15,000	same as above
20X5	5,000	20,000	same as above
20X6	1,125	21,125	$(25,000-20,000-500)/4$
20X7	1,125	22,250	same as above
20X8	1,125	23,375	same as above
20X9	1,125	24,500	same as above

Solution P/9.

a)

<i>Year</i>	<i>Annual depreciation</i>	<i>Accumulated depreciation</i>	<i>Calculations</i>
20X2	34 000	34 000	$(200000-30000)/5$
20X3	34 000	68 000	same as above
20X4	34 000	102 000	same as above
20X5	34 000	136 000	same as above
20X6	34 000	170 000	same as above

b)

<i>Year</i>	<i>Annual depreciation</i>	<i>Accumulated depreciation</i>	<i>Calculations</i>
20X2	20 000	20 000	$(200000-30000)/340*40$
20X3	30 000	50 000	$(200000-30000)/340*60$
20X4	60 000	110 000	$(200000-30000)/340*120$
20X5	17 500	127 500	$(200000-30000)/340*35$
20X6	42 500	170 000	$(200000-30000)/340*85$

c)

<i>Year</i>	<i>Annual depreciation</i>	<i>Accumulated depreciation</i>	<i>Calculations</i>
20X2	56 666	56 666	$(200000-30000)*5/15$
20X3	45 333	101 999	$(200000-30000)*4/15$
20X4	34 000	135 999	$(200000-30000)*3/15$
20X5	22 666	158 665	$(200000-30000)*2/15$
20X6	11 333	170 000	$(200000-30000)*1/15$

d)

<i>Year</i>	<i>Annual depreciation</i>	<i>Accumulated depreciation</i>	<i>Calculations</i>
20X2	80 000	80 000	$200000*0,4$
20X3	48 000	128 000	$(200000-80000)*0,4$
20X4	28 800	156 800	$(200000-128000)*0,4$
20X5	17 280	174 080	$(200000-156800)*0,4$
20X6	5 920	180 000	$(200000-174080)*0,4$

TOPIC 2: Merchandising operations

Learning outcome:

The students will learn about merchandising operations: purchases, sales, shipping. They will be informed about the related accounts and discount calculations. The most important outcome is to be able to calculate and post receivable and payable balances. F.O.B. formulas are also introduced and discussed as well as income-statements of merchandising operations.

Problem M/1.

Szeged Aquarium Corporation purchases merchandise on account from its supplier. Check the invoice below from Colourful Fish Szeged!

Colourful Fish Szeged			
Swordfish Ltd.			
Sold to: Szeged Aquarium 6723 Szeged			Invoice #5841
Delivery Date	Invoice Date	F.O.B. Point	Terms
Mar 12, 2015	Mar 12, 2015	Szeged	2/10, n/30
QTY	Description	Unit Price	Total (€)
12	Plants	€ 5	60
5	Pebbles	€ 4	20
4	Fish	€ 80	320
		TOTAL:	400

Prepare Szeged Aquarium's journal entries for the following transactions (assuming they use a perpetual method of recording):

1. To record the invoice on March 12.
2. To record the return of the pebbles on March 14.
3. To record the payment of the balance on March 20.

Worksheet:

Date	Accounts	Debit	Credit

Problem M/2.

Seasoning Company sells devices to several restaurants across the country under the terms 1/10, n/30.

Prepare the Journal entries to record the sale and the payment for the following transactions:

Transaction	F.O.B. terms	Cost of goods sold	Selling Price	Delivery Cost	Date of Sale	Date of Payment
1.	Destination	2,000	3,200	300	05-Mar	10-Mar
2.	Shipping point, <u>Price prepaid</u>	3,000	4,800	150	08-Mar	01-Apr
3.	Shipping point	350	500	60	11-Mar	11-Apr
4.	Destination	5,000	6,500	650	12-Mar	02-Apr
5.	Shipping point	1,000	2,800	430	20-Mar	24-Mar

Worksheet

1.

Date	Accounts	Debit	Credit
05-Mar			
10-Mar			

2.

Date	Accounts	Debit	Credit
08-Mar			
01-Apr			

3.

Date	Accounts	Debit	Credit
11-Mar			
11-Apr			

4.

Date	Accounts	Debit	Credit
12-Mar			
02-Apr			

5.

Date	Accounts	Debit	Credit
20-Mar			
24-Mar			

Problem M/3.

The following transactions of Apple Retail occurred during April:

April 3: Purchased merchandise on account from Pear Wholesale for 6,000€. Terms: 3/20, n/30, FOB Shipping Point, price prepaid.

April 5: Sold merchandise on account to Fine Bistro (selling price: 1,400€, cost 1,000€). Terms 2/20, n/eom, FOB destination.

April 12: Paid 25€ to deliver goods to Fine Bistro.

April 16: Returned some goods of the April 3 purchase and received a credit memo. The price of the returned goods was 700€.

April 17: Sold merchandise to cash customers (selling price: 740€, cost: 340€).

April 19: Paid the balance to Pear Wholesale for the April 3 purchase.

April 20: Fine Bistro returned some of the goods from the April 5 sale (selling price: 200€, cost 140€).

April 21: Purchased 5,000€ inventory for cash.

April 24: Received payment from Fine Bistro.

Journalize the entries for the above transactions!
 Calculate the Gross Profit of Apple Retail for April!
 Worksheet is on the next page.

Date (April)	Accounts	Debit	Credit
03			
09			
10			
10			
16			
17			

18			
18			
20			
22			
23			

Net Sales =
 Cost of Goods Sold =
 Gross Profit =

Problem M/4.

The following transactions of Sporty Retail occurred during April:

April 3: Purchased merchandise on account from T-Shirt Wholesale for 4,000€. Terms: 3/20, n/eom, FOB Destination.

April 5: Sold merchandise on account to Athletic (selling price: 4,500€, cost 3,000€). Terms 5/20, n/eom, FOB destination.

April 12: Paid 50€ to deliver goods to Fine Bistro.

April 16: Returned some goods of the April 3 purchase and received a credit memo. The price of the returned goods was 400€.

April 17: Sold merchandise to cash customers (selling price: 960€, cost: 740€).

April 19: Paid the balance to T-Shirt Wholesale for the April 3 purchase.

April 20: Athletic returned some of the goods from the April 5 sale (selling price: 300€, cost 220€).

April 21: Purchased 2,000€ inventory for cash.

April 24: Received payment from Athletic.

Journalize the entries for the above transactions!

Calculate the Gross Profit and Net Income of Apple Retail for April!

Date (April)	Accounts	Debit	Credit
03			
09			
10			
10			
16			
17			
18			

18			
20			
22			
23			

Net Sales =
 Cost of Goods Sold =
 Gross Profit =
 Net Income =

Solution for Problems

Solution M/1.

Date	Accounts	Debit	Credit
Mar 12	Inventory	400	
	Accounts Payable		400
	<i>Purchased merchandise on account, terms 2/10, n/30.</i>		
Mar 14	Accounts Payable	20	
	Inventory		20
	<i>Returned pebbles</i>		
Mar 20	Accounts Payable	380	
	Cash		372.4
	Inventory		7.6
	<i>Paid invoice, discount taken $((400-20)*0,02)=7,6$.</i>		

Solution M/2.

1.

Date	Accounts	Debit	Credit
05-Mar	Accounts receivable	3,200	
	Sales revenue		3,200
	Delivery expense	300	
	Cash		300
	Cost of goods sold	2,000	
	Inventory		2,000
	<i>Sold merchandise on account for 3,200, terms F.O.B. destination, paid the freight bill of 300. COGS: 2,000.</i>		
10-Mar	Cash	3,168	
	Sales Discount	32	
	Accounts receivable		3,200
	<i>Collected invoice amount less 1%.</i>		

2.

Date	Accounts	Debit	Credit
08-Mar	Accounts receivable	4,950	
	Sales revenue		4,800
	Cash		150
	Cost of goods sold	3,000	
	Inventory		3,000
	<i>Sold merchandise on account for 4,800, terms F.O.B. shipping point, 150 freight prepaid. COGS: 3,000.</i>		
01-Apr	Cash	4,950	
	Accounts receivable		4,950
	<i>Collected invoice amount plus prepaid fright.</i>		

3.

Date	Accounts	Debit	Credit
11-Mar	Accounts receivable	500	
	Sales		500
	Cost of goods sold	350	
	Inventory		350
	<i>Sold merchandise on account for 500, terms F.O.B. shipping point. COGS: 350.</i>		
11-Apr	Cash	500	
	Accounts receivable		500
	<i>Collected invoice amount.</i>		

4.

Date	Accounts	Debit	Credit
12-Mar	Accounts receivable	6,500	
	Sales revenue		6,500
	Delivery expense	650	
	Cash		650
	Cost of goods sold	5,000	
	Inventory		5,000
	<i>Sold merchandise on account for 6,500, terms F.O.B. destination, paid the freight bill of 650.</i>		
02-Apr	Cash	6,500	
	Accounts receivable		6,500
	<i>Collected invoice amount.</i>		

5.

Date	Accounts	Debit	Credit
20-Mar	Accounts receivable	2,800	
	Sales revenue		2,800
	Cost of goods sold	1,000	
	Inventory		1,000
	<i>Sold merchandise on account for 2,800, terms F.O.B. shipping point. COGS: 1,000.</i>		
24-Mar	Cash	2,772	
	Sales discount	28	
	Accounts receivable		2,800
	<i>Collected invoice amount less 1%.</i>		

Solution M/3.

Date (April)	Accounts	Debit	Credit
03	Inventory (€6,000 + €500)	6,500	
	Accounts Payable – Pear Wholesale		6,500
	<i>Record purchase of inventory on account.</i>		
05	Accounts Receivable – Fine Bistro	1,400	
	Sales Revenue		1,400
	Cost of Goods Sold	1,000	
	Inventory		1,000
	<i>Record sale on account.</i>		
12	Delivery Expense	25	
	Cash		25
	<i>Record payment of freight charges.</i>		
16	Accounts Payable – Pear Wholesale	700	
	Inventory		700
	<i>Record return of merchandise to supplier.</i>		
17	Cash	740	
	Sales Revenue		740
	Cost of Goods Sold	340	
	Inventory		340
	<i>Record cash sales.</i>		
19	Accounts Payable – Pear Wholesale	5,800	
	Cash (€5,800 – €159)		5,641
	Inventory ((€6,000 – 700) × 0.03)		159
	<i>Record payment on account within discount period.</i>		

20	Sales Returns and Allowances	200	
	Accounts Receivable – Fine Bistro		200
	Inventory	140	
	Cost of Goods Sold		140
	<i>Record receipt of returned goods.</i>		
21	Inventory	5,000	
	Cash		5,000
	<i>Record purchase of inventory for cash.</i>		
24	Cash (€1,200 × 0.98)	1,176	
	Sales Discounts (€1,200 × 0.02)	24	
	Accounts Receivable – Fine Bistro		1,200
	<i>Record payment.</i>		

Net Sales = 1,400 + 740 – 200 (SR&A) – 24 (SD) = 1,916

Cost of Goods Sold = 1,000 + 340 -140 (Ret.) = 1,200

Gross Profit = 1,916 – 1,200 = 716

Solution M/4.

Date (April)	Accounts	Debit	Credit
03	Inventory	4,000	
	Accounts Payable – T-Shirt Wholesale		4,000
	<i>Record purchase of inventory on account.</i>		
05	Accounts Receivable – Athletic	4,500	
	Sales Revenue		4,500
	Cost of Goods Sold	3,000	
	Inventory		3,000
	<i>Record sale on account.</i>		
12	Delivery Expense	50	
	Cash		50
	<i>Record payment of freight charges.</i>		
16	Accounts Payable – T-Shirt Wholesale	400	
	Inventory		400
	<i>Record return of merchandise to supplier.</i>		
17	Cash	960	
	Sales Revenue		960
	Cost of Goods Sold	740	
	Inventory		740
	<i>Record cash sales.</i>		
19	Accounts Payable – T-Shirt Wholesale	3,600	
	Cash (3,600 x 0.97)		3,492
	Inventory (3,600 x 0.03)		108
	<i>Record payment on account within discount period.</i>		

20	Sales Returns and Allowances	300	
	Accounts Receivable – Athletic		300
	Inventory	220	
	Cost of Goods Sold		220
	<i>Record receipt of returned goods.</i>		
21	Inventory	2,000	
	Cash		2,000
	<i>Record purchase of inventory for cash.</i>		
24	Cash (€4,200 × 0.95)	3,990	
	Sales Discounts (€4,200 × 0.05)	210	
	Accounts Receivable – Athletic		4,200
	<i>Record payment received on account</i>		

Net Sales = 4,500 + 960 – 300 (SR&A) – 210 (SD) = 4,950

Cost of Goods Sold = 3,000 + 740 -220 (Ret.) = 3,520

Gross Profit = 4,950 – 3,520 = 1,430

Net Income = Gross Profit – Delivery expense = 1,430 – 50 = 1,380

TOPIC 3: Inventories

Learning outcome:

The students will learn about inventories: purchases and sales implications. They will be informed about the related accounts and income calculations. Perpetual and periodic inventory recording systems are discussed related to this topic. The most important outcome is to be able to use different inventory costing methods: FIFO, LIFO, moving average method in the perpetual system.

Problem I/1.

The inventory transactions of Perpetual Forever in August (€):

Date		Transaction	Quantity	Unit Cost
Aug	1	Balance	100	5
	4	Purchase	120	6
	7	Sale	70	
	12	Purchase	80	7
	17	Sale	70	
	21	Sale	115	
	30	Balance	45	

Selling price of the goods is 10€/ unit!

Task:

PART A: Calculate the Cost of the Goods sold using perpetual FIFO, LIFO and moving average!

PART B: Prepare the journal entries of the period and calculate Gross Profit!

Worksheet:

Goods available for sale:

Ending inventory:

Sold goods:

Working tables for PART A and B are on the following pages.

PART A:

Date	Purchases			Cost of goods sold			Inventory on hand		
	Quant.	Cost/Unit	Total	Quant.	Cost/Unit	Total	Quant.	Cost/unit	Total
Jun 1									
Aug 4									
Aug 7									
Aug 12									
Aug 17									
Aug 21									
Aug 30									

fifo

Date	Purchases			Cost of goods sold			Inventory on hand		
	Quant.	Cost/Unit	Total	Quant.	Cost/Unit	Total	Quant.	Cost/unit	Total
Aug 1									
Aug 4									
Aug 7									
Aug 12									
Aug 17									
Aug 21									
Aug 30									

lifo

Date	Purchases			Cost of goods sold			Inventory on hand			average
	Quant.	Cost/Unit	Total	Quant.	Cost/Unit	Total	Quant.	Cost/unit	Total	
Aug 1										
Aug 4										
Aug 7										
Aug 12										
Aug 17										
Aug 21										
Aug 30										

PART B:
Journal Entries for FIFO

Date (Aug)	Accounts	Debit	Credit
04			
07			
12			
17			
21			

Net sales:
 Cost of goods sold:
Gross Profit:
Ending Inventory:
 LIFO

Date (Aug)	Accounts	Debit	Credit
04			
07			
12			
17			
21			

Net sales:
 Cost of goods sold:
Gross Profit:
Ending Inventory:

Average

Date (Aug)	Accounts	Debit	Credit
04			
07			
12			
17			
21			

Net sales:

Cost of goods sold:

Gross Profit:

Ending Inventory:

Problem I/2.

The inventory transactions of Practice and Achieve in August (€):

Date		Transaction	Quantity	Unit Cost
Jun	1	Balance	50	10
	4	Purchase	60	11
	7	Sale	60	
	12	Purchase	140	13
	17	Sale	40	
	21	Sale	90	
	30	Balance	60	

Selling price of the goods is 20€/ unit!

Task:

PART A: Calculate the Cost of the Goods sold using perpetual FIFO, LIFO and moving average!

PART B: Prepare the journal entries of the period!

Worksheet:

Goods available for sale:

Ending inventory:

Sold goods:

Working tables for PART A and B are on the following pages.

PART A:

Date	Purchases			Cost of goods sold			Inventory on hand		
	Quant.	Cost/Unit	Total	Quant.	Cost/Unit	Total	Quant.	Cost/unit	Total
Jun 1									
Jun 4									
Jun 7									
Jun 12									
Jun 17									
Jun 21									
Jun 30									

fifo

Date	Purchases			Cost of goods sold			Inventory on hand		
	Quant.	Cost/Unit	Total	Quant.	Cost/Unit	Total	Quant.	Cost/unit	Total
Jun 1									
Jun 4									
Jun 7									
Jun 12									
Jun 17									
Jun 21									
Jun 30									

lifo

Date	Purchases			Cost of goods sold			Inventory on hand		
	Quant.	Cost/Unit	Total	Quant.	Cost/Unit	Total	Quant.	Cost/unit	Total
Jun 1									
Jun 4									
Jun 7									
Jun 12									
Jun 17									
Jun 21									
Jun 30									

average

PART B:

Journal Entries for FIFO

Date (Jun)	Accounts	Debit	Credit
04			
07			
12			
17			
21			

Net sales:

Cost of goods sold:

Gross Profit:

Ending Inventory:

LIFO

Date (Jun)	Accounts	Debit	Credit
04			
07			
12			
17			
21			

Net sales:

Cost of goods sold:

Gross Profit:

Ending Inventory:

Average

Date (Jun)	Accounts	Debit	Credit
04			
07			
12			
17			
21			

Net sales:

Cost of goods sold:

Gross Profit:

Ending Inventory:

Solution for Problems

Solution I/1.

PART A:

FIFO

Date	Purchases			Cost of goods sold			Inventory on hand		
	Quant.	Cost/Unit	Total	Quant.	Cost/Unit	Total	Quant.	Cost/unit	Total
Aug 1							100	5	500
Aug 4	120	6	720				100	5	500
							120	6	720
Aug 7				70	5	350	30	5	150
							120	6	720
Aug 12	80	7	560				30	5	150
							120	6	720
							80	7	560
Aug 17				30	5	150	80	6	480
				40	6	240	80	7	560
Aug 21				80	6	480			
				35	7	245	45	7	315
Aug 30	200		1280	255		1465	45		315

LIFO

Date	Purchases			Cost of goods sold			Inventory on hand		
	Quant.	Cost/Unit	Total	Quant.	Cost/Unit	Total	Quant.	Cost/unit	Total
Aug 1							100	5	500
Aug 4	120	6	720				100	5	500
							120	6	720
Aug 7				70	6	420	100	5	500
							50	6	300
Aug 12	80	7	560				100	5	500
							50	6	300
							80	7	560
Aug 17				70	7	490	100	5	500
							50	6	300
							10	7	70
Aug 21				10	7	70	45	5	225
				50	6	300			
				55	5	275			
Aug 30	200		1280	255		1555	45		225

Average

Date	Purchases			Cost of goods sold			Inventory on hand		
	Quant.	Cost/Unit	Total	Quant.	Cost/Unit	Total	Quant.	Cost/unit	Total
Aug 1							100	5,00	500,00
Aug 4	120	6	720				220	5,55	220,00
Aug 7				70	5,55	388,50	150	5,55	832,50
Aug 12	80	7	560				230	6,04	392,50
Aug 17				70	6,04	422,80	160	6,04	966,40
Aug 21				115	6,04	694,60	45	6,04	271,80
Aug 30	200		1280	255		1505,90	45		271,80

PART B:

Journal Entries for FIFO

Date (Aug)	Accounts	Debit	Credit
04	Inventory	720	
	Accounts Payable		720
	Purchase of inventory on account (120*6).		
07	Accounts receivable	700	
	Sales revenue		700
	Cost of goods sold	350	
	Inventories		350
	Sold 70 units for 10€ each.		
12	Inventory	560	
	Accounts Payable		560
	Purchase of inventory on account (80*7).		
17	Accounts receivable	700	
	Sales revenue		700
	Cost of goods sold	390	
	Inventories		390
	Sold 70 units for 10€ each.		
21	Accounts receivable	1,150	

	Sales revenue		1,150
	Cost of goods sold	725	
	Inventories		725
	Sold 115 units for 10€ each.		

Net sales: 2,550

Cost of goods sold: 1,465

Gross Profit: 1,085

Ending Inventory: 315

LIFO

Date (Aug)	Accounts	Debit	Credit
04	Inventory	720	
	Accounts Payable		720
	Purchase of inventory on account (120*6).		
07	Accounts receivable	700	
	Sales revenue		700
	Cost of goods sold	420	
	Inventories		420
	Sold 70 units for 10€ each.		
12	Inventory	560	
	Accounts Payable		560
	Purchase of inventory on account (80*7).		
17	Accounts receivable	700	
	Sales revenue		700
	Cost of goods sold	490	
	Inventories		490
	Sold 70 units for 10€ each.		
21	Accounts receivable	1,150	
	Sales revenue		1,150
	Cost of goods sold	645	
	Inventories		645
	Sold 115 units for 10€ each.		

Net sales: 2,550
 Cost of goods sold: 1,555
Gross Profit: 995
Ending Inventory: 225

Average

Date (Aug)	Accounts	Debit	Credit
04	Inventory	720	
	Accounts Payable		720
	Purchase of inventory on account (120*6).		
07	Accounts receivable	700	
	Sales revenue		700
	Cost of goods sold	389	
	Inventories		389
	Sold 70 units for 10€ each.		
12	Inventory	560	
	Accounts Payable		560
	Purchase of inventory on account (80*7).		
17	Accounts receivable	700	
	Sales revenue		700
	Cost of goods sold	423	
	Inventories		423
	Sold 70 units for 10€ each.		
21	Accounts receivable	1,150	
	Sales revenue		1,150
	Cost of goods sold	695	
	Inventories		695
	Sold 115 units for 10€ each.		

Net sales: 2,550
 Cost of goods sold: 1,507
Gross Profit: 1,043
Ending Inventory: 272

Solution 1/2.

Journal Entries for FIFO

Date (Jun)	Accounts	Debit	Credit
04	Inventory	660	
	Accounts Payable		660
	Purchase of inventory on account (60*11).		
07	Accounts receivable	1,200	
	Sales revenue		1,200
	Cost of goods sold	610	
	Inventories		610
	Sold 60 units for 20€ each.		
12	Inventory	1,820	
	Accounts Payable		1,820
	Purchase of inventory on account (140*13).		
17	Accounts receivable	800	
	Sales revenue		800
	Cost of goods sold	440	
	Inventories		440
	Sold 40 units for 20€ each.		
21	Accounts receivable	1,800	
	Sales revenue		1,800
	Cost of goods sold	1,150	
	Inventories		1,150
	Sold 90 units for 20€ each.		

Net sales: 3,800

Cost of goods sold: 2,200

Gross Profit: 1,600**Ending Inventory: 780**

LIFO

Date (Jun)	Accounts	Debit	Credit
04	Inventory	660	
	Accounts Payable		660
	Purchase of inventory on account (60*11).		
07	Accounts receivable	1,200	
	Sales revenue		1,200
	Cost of goods sold	660	
	Inventories		660
	Sold 60 units for 20€ each.		
12	Inventory	1,820	
	Accounts Payable		1,820
	Purchase of inventory on account (140*13).		
17	Accounts receivable	800	
	Sales revenue		800
	Cost of goods sold	520	
	Inventories		520
	Sold 40 units for 20€ each.		
21	Accounts receivable	1,800	
	Sales revenue		1,800
	Cost of goods sold	1,170	
	Inventories		1,170
	Sold 90 units for 20€ each.		

Net sales: 3,800

Cost of goods sold: 2,350

Gross Profit: 1,450

Ending Inventory: 630

Average

Date (Jun)	Accounts	Debit	Credit
04	Inventory	660	
	Accounts Payable		660
	Purchase of inventory on account (60*11).		
07	Accounts receivable	1,200	
	Sales revenue		1,200
	Cost of goods sold	633	
	Inventories		633
	Sold 60 units for 20€ each.		
12	Inventory	1,820	
	Accounts Payable		1,820
	Purchase of inventory on account (140*13).		
17	Accounts receivable	800	
	Sales revenue		800
	Cost of goods sold	494	
	Inventories		494
	Sold 40 units for 20€ each.		
21	Accounts receivable	1,800	
	Sales revenue		1,800
	Cost of goods sold	1,112	
	Inventories		1,112
	Sold 90 units for 20€ each.		

Net sales: 3,800

Cost of goods sold: 2,240

Gross Profit: 1,560

Ending Inventory: 742

TOPIC 4: Cash, trading securities, accounts receivable

Learning outcome:

The students will learn about current assets: cash, trading securities and accounts receivable. They will be informed about the related accounts and calculations. The most important outcome is to be able to calculate and post transactions including notes receivable. Petty cash recording is also introduced and discussed as well as posting the acquisition and subsequent valuation of trading securities.

Problem C/1.

‘LastTest’ Co. established a petty cash fund on May 1. During May, the transactions related to the fund are the following. Prepare the necessary journal entries!

1. May 1: a € 1,500 petty cash fund was established and Ms. Happy was appointed as custodian.
2. May 31: the fund contained:
 - ✓ remaining cash of €648
 - ✓ receipts for €350 office supplies, €150 fuel ticket and a €300 delivery expense slip.
3. Ms. Happy calculated the cash short and a check for €852 was written. The cash was placed in the box.

Worksheet:

Date	Accounts	Debit	Credit
1.			
2.			
3.			

Problem C/2.

'Cash again' Co. established a petty cash fund on Sep 1. During September, the transactions related to the fund are the following. Prepare the necessary journal entries!

1. Sep 1: a € 1,600 petty cash fund was established and Mr. Wright was appointed as custodian.
2. Sep 31: the fund contained:
 - ✓ remaining cash of €688
 - ✓ receipts for €450 office supplies, €250 fuel ticket and a €310 delivery expense slip.
3. Ms. Happy calculated the cash over and a check for 912 was written. The cash was placed in the box.

Worksheet:

Date	Accounts	Debit	Credit
1.			
2.			
3.			

Problem C/3.

Electronic Company purchases 1,000 shares (trading securities) of Technique Ltd. Prepare the journal entries for the purchase and the necessary end-of-month adjustments based on the following data:

- April 22 Purchased 1,000 shares of Technique. Price: €15 per share.
- April 30 The fair value of Technique's share: €13 per share.
- May 31 The fair value of Technique's share: €16 per share.
- June 18 Received a dividend from Technique. Amount: €0.20 per share.
- June 30 The fair value of Technique's share: €22 per share.

Worksheet:

Date	Accounts	Debit	Credit
22 Apr			
30 Apr			
31 May			
18 Jun			
30 Jun			

Problem C/4.

Prepare Journal entries of 'Monday' Co. for the following transactions:

1. On December 1, 20X4, 'Monday' Co. received a € 15,000, 4%, 1-year note from 'Tuesday' Co. The note was issued based on an account balance of Tuesday as a customer of Monday.
2. On December 31, 20X4, Monday made an end-of-year adjusting entry to accrue the interest on the note.
3. On November 30, 20X5, Monday collected the full amount due to the note receivable.

Worksheet:

Date	Accounts	Debit	Credit
Dec 1			
Dec 31			
Nov 30			

Problem C/5.

'One more cash' Co. established a petty cash fund on Oct 1. During October, the transactions related to the fund are the following. Prepare the necessary journal entries!

1. Oct 1: a € 3,200 petty cash fund was established and Ms. Right was appointed as custodian.
2. Oct 31: the fund contained:
 - ✓ remaining cash of €1,780
 - ✓ receipts for €1,200 office supplies, €750 fuel ticket and a €570 delivery expense slip.
3. Help Ms. Right! What should she do?

Worksheet:

Date	Accounts	Debit	Credit
1.			
2.			
3.			

Solution for Problems

Solution C/1.

Date	Accounts	Debit	Credit
1.	Petty cash	1,500	
	Cash		1,500
	<i>To establish a 1,500€ petty cash fund.</i>		
2.	Office supplies expense	350	
	Fuel expense	150	
	Postage expense	300	
3.	Cash short	52	
	Cash		852
	<i>To record the expenses and replenishment of petty cash.</i>		

Solution C/2.

Date	Accounts	Debit	Credit
1.	Petty cash	1,600	
	Cash		1,600
	<i>To establish a 1,600€ petty cash fund.</i>		
2.	Office supplies expense	450	
	Fuel expense	250	
	Postage expense	310	
3.	Cash Over		98
	Cash		912
	<i>To record the replenishment of petty cash.</i>		

Solution C/3.

Date	Accounts	Debit	Credit
22 Apr	Trading securities	15,000	
	Cash		15,000
	<i>To record the purchase of 1,000 shares of Technique at €15 per share.</i>		
30 Apr	Unrealized loss on investments	2,000	
	Trading securities		2,000
	<i>To record a €2 per share decrease in the fair value</i>		
31 May	Trading securities	3,000	
	Unrealized gain on investments		3,000
	<i>To record a €3 per share increase in the fair value</i>		
18 Jun	Cash	200	
	Dividend Income		200
	<i>To record the €0.20 per share cash dividend</i>		
30 Jun	Trading securities	6,000	
	Unrealized gain on investments		6,000
	<i>To record a €6 per share increase in the fair value</i>		

Solution C/4.

Date	Accounts	Debit	Credit
Dec 1	Notes receivable	15,000	
	Accounts receivable		15,000
	<i>Receipt of 4% 1-year note</i>		
Dec 31	Interest receivable	50	
	Interest income		50
	<i>Computed accrued interest on note (15,000*0,04*1/12).</i>		
Nov 30	Cash	15,600	
	Notes receivable		15,000
	Interest income		550
	Interest receivable		50
	<i>To record interest income (11 months: 15,000*0,04*11/12=550) and the collection of note receivable and accrued interest.</i>		

Sample Exam

THIS IS A SAMPLE EXAM. PLEASE BE AWARE THAT THE ACTUAL EXAMS WILL BE DIFFERENT FROM THIS (REGARDING QUESTIONS, TOPICS, POINTS).

TASK 1. (15 POINTS)

A company purchased an asset for 200.000 with an expected useful life of five years and a salvage value of 20.000. After two years of use the company decided to revise the estimates. As of the beginning of the 3rd year: the total life will be 7 years, and the salvage value 10.000. Calculate the data for the following table!

Year	Annual depreciation	Accumulated depreciation at End of Year	Calculation of annual depreciation
1st			
2nd			
3rd			
4th			
5th			
6th			
7th			

TASK 2. (10 POINTS)

'Exam Company purchases 2,000 shares (trading securities) of Midterm Ltd. Prepare the journal entries for the purchase and the necessary end-of-month adjustments based on the following data:

- June 22 Purchased 2,000 shares of Midterm. Price: €22 per share.
- June 30 The fair value of Midterm's share: €18 per share.
- July 15 Received a dividend from Midterm. Amount: €0.50 per share.
- July 31 The fair value of Midterm's share: €23 per share.
- August 30 The fair value of Midterm's share: €25 per share.

Date	Accounts	Debit	Credit

TASK 3. (8 POINTS)

Prepare Journal entries of ‘Monday’ Co. for the following transactions:

1. On December 1, 20X4, ‘Monday’ Co. received a € 15,000, 4%, 1-year note from ‘Tuesday’ Co. The note was issued based on an account balance of Tuesday as a customer of Monday.
2. On December 31, 20X4, Monday made an end-of-year adjusting entry to accrue the interest on the note.
3. On November 30, 20X5, Monday collected the full amount due to the note receivable.

Date	Accounts	Debit	Credit

TASK 4. (7 POINTS)

Calculate the cost of goods sold using periodic FIFO method!

- 1st purchase: 100 pieces, price: 250 Ft/piece
- 2nd purchase: 140 pieces, price: 210 Ft/piece
- 3rd purchase: 200 pieces, price: 220 Ft/piece
- 4th purchase: 300 pieces, price: 230 Ft/piece
- Sold: 350 pieces

The cost of goods sold: _____

Calculations:

TASK 5. (15 POINTS)

WHAT IS DEFINED HERE?

_____ : It is recorded when the carrying amount of a fixed-asset is not recoverable from its expected future cash flows.

_____ : These are fixed assets that lack physical substance.

_____ : It is the difference between sales and cost of goods sold.

_____ : A formula meaning that freight is borne by seller.

Name four typical current obligations!

TRUE OR FALSE?

Prepayments by customers: arise from transaction such as selling magazine subscriptions in advance or gift-cards, etc. TRUE/FALSE

Collections for third parties: arise when the recipient of some payment is the same person as the beneficiary of the payment. TRUE/FALSE

The total earnings of an employee is the ‚gross pay‘. TRUE/FALSE

Net earnings equal gross earnings plus deductions. TRUE/FALSE

Social security and medicare/medicaid tax amounts must be matched by employers (they must pay the same amount as the employee). TRUE/FALSE

Accrued liabilities relate to expenses that accumulate with the passage of time, but will be paid in one lump-sum amount. TRUE/FALSE

SOLUTION FOR SAMPLE EXAM

TASK 1. (15 POINTS)

Year	Annual depreciation	Accumulated depreciation at End of Year	Calculation of annual depreciation
1st	36000	36000	$(200000-20000)/5$
2nd	36000	72000	$(200000-20000)/5$
3rd	23600	95600	$(200000-72000-10000)/5$
4th	23600	119200	$(200000-72000-10000)/5$
5th	23600	142800	$(200000-72000-10000)/5$
6th	23600	166400	$(200000-72000-10000)/5$
7th	23600	190000	$(200000-72000-10000)/5$

TASK 2. (10 POINTS)

Date	Accounts	Debit	Credit
June 22	trading securities	44000	
	cash		44000
	<i>to record the purchase of 2000 shares</i>		
June 30	unrealized loss on investment	8000	
	trading securities		8000
	<i>to record a € 4 per share decrease in the</i>		
July 15	cash	1000	
	divided income		1000
	<i>to record received dividends</i>		
July 31	trading securities	10000	
	unrealized gain on investment		10000
	<i>to record a € 5 per share increase in the value</i>		
Aug 30	trading securities	4000	
	unrealized gain on investment		4000
	<i>to record a € 2 per share increase in the value</i>		

TASK 3. (8 POINTS)

Date	Accounts	Debit	Credit
Dec 1	Notes receivable	15,000	
	Accounts receivable		15,000
	<i>Receipt of 4% 1-year note</i>		
Dec 31	Interest receivable	50	
	Interest income		50
	<i>Computed accrued interest on note (15,000*0,04*1/12).</i>		
Nov 30	Cash	15,600	
	Notes receivable		15,000
	Interest income		550
	Interest receivable		50
	<i>To record interest income (11 months: 15,000*0,04*11/12=550) and the collection of note receivable and accrued interest.</i>		

TASK 4. (7 POINTS)

Calculate the **cost of goods sold** using periodic FIFO method!

1st purchase: 100 pieces, price: 250 Ft/piece

2nd purchase: 140 pieces, price: 210 Ft/piece

3rd purchase: 200 pieces, price: 220 Ft/piece

4th purchase: 300 pieces, price: 230 Ft/piece

Sold: 350 pieces

The cost of goods sold: 78,600

Calculations:	
Beginning inventory	0
Plus: purchases	167,400
Goods available for sales	167,400
Less: ending inventory	88,800
(300*230+90*220)	
Cost of goods sold =	78,600

TASK 5. (15 POINTS)

WHAT IS DEFINED HERE?

___ASSET IMPAIRMENT___: It is recorded when the carrying amount of a fixed-asset is not recoverable from its expected future cash flows.

___Intangible asset___: These are fixed assets that lack physical substance.

___Gross Profit___: It is the difference between sales and cost of goods sold.

___ F.O.B Destination___: A formula meaning that freight is borne by seller.

Name four typical current obligations!

ACCOUNTS PAYABLE

NOTES PAYABLE

THE CURRENT PORTION OF LONG TERM DEBT

ACCRUED LIABILITIES

TRUE OR FALSE?

Prepayments by customers: arise from transaction such as selling magazine subscriptions in advanced or gift-cards, etc. TRUE/FALSE TRUE

Collections for third parties: arise when the recipient of some payment is the same person as the beneficiary of the payment. TRUE/FALSE FALSE

The total earnings of an employee is the „gross pay“. TRUE/FALSE TRUE

Net earnings equal gross earnings plus deductions. TRUE/FALSE FALSE

Social security and medicare/medicaid tax amounts must be matched by employers (they must pay the same amount as the employee). TRUE/FALSE TRUE

Accrued liabilities relate to expenses that accumulate with the passage of time, but will be paid in one lump-sum amount. TRUE/FALSE TRUE

