

Total credits

List number

UNIVERSITY OF GRONINGEN
Faculty of Economics and Business
Department of Accounting

MID-TERM EXAM FINANCIAL ACCOUNTING
FOR IB / E&BE

Semester 1.2 2017/2018
Wednesday December 6, 2017
Time: 18:30 to 20:00

Location: Aletta Jacobs Hall and Other Rooms

Name:

Student number:

☐ IB student ☐ E&BE student ☐ IE&M student ☐ pre-master student ☐ other

Procedures examination:

- The exam accounts for 30% of the grade. The maximum number of credits is 60.
- The exam contains one exercise on 7 pages. Check your exam for completeness.
- Fill in the structured answering blocks and write your name, student number and program (IB, E&BE, IE&M, pre-master or other) on this front page.
- Please write your answers with a pen.
- If you have any questions about the exam, please come to the front.
- After finishing your exam, please bring your exam to one of the examiners.
- The use of dictionaries and list of accounting terms is not allowed.
- Visiting the toilet is not allowed during the exam.
- You may only use the pocket calculator Casio fx-82ES or Casio fx-82MS.
- Standard answers will be provided on Nestor.
- The date of inspection is announced on Nestor as soon as possible.

Good luck!

Exercise Dartboards (60 credits)

Grants Company is a producer of high quality dartboards. The company sells its dartboards to different wholesale businesses. Regarding the production of dartboards during January 2017 the following information is available.

Beginning inventory on January 1: 50 dartboards at a cost of € 100 each

Finished a batch of 50 dartboards on January 9 at a cost of € 105 each

Finished a batch of 60 dartboards on January 22 at a cost of € 110 each.

Grants uses the **Periodic Inventory System** together with the **First in, first out (FIFO) Inventory Cost method**.

During the month of January 2017, Grants engaged in the following sales transactions:

- 2/1 Sold 40 dartboards on credit to Flyer Company for € 150 each, terms 3/10, n/30, FOB shipping point. Freight expenses were € 30.
- 5/1 Gave full credit to Flyer Company for 5 dartboards returned from the sale of January 2.
- 15/1 Received payment from Flyer Company for the amount due for the sale of January 2 less the return of January 5.
- 22/1 Sold 30 dartboards on credit to Flyer Company for € 160 each, terms 3/10, n/30, FOB shipping point.
- 29/1 Received payment from Flyer Company for the amount due for the sale of January 22.

The chart of accounts is added at the end of this exam. **Use only these accounts in your answers.**

Question A (10 credits)

Prepare the journal entries for the transactions of Grants Company in January 2017. Please skip a line between the different journal entries.

Date	account	Debit	Credit
2/1	Accounts Receivable	6,000	
	@ Sales		6,000
5/1	Sales Returns and Allowances	750	
	@ Accounts Receivable		750
15/1	Cash	5,250	
	@ Accounts Receivable		5,250
22/1	Accounts Receivable	4,800	
	@ Sales		4,800
29/1	Cash	4,656	
	Sales Discounts (0.03 * 4,800)	144	
	@ Accounts Receivable		4,800

Flyer Company is a wholesale business in professional dartboards. It sells dartboards to different Pool Bars and Dartboard Clubs. On January 1, 2017 the inventory contained 30 dartboards at a cost of € 140 each.

Flyer Company uses the **Perpetual Inventory System** together with the **Last in, first out (LIFO) inventory cost method**.

During the month of January 2017, Flyer engaged in the following transactions:

- 2/1 Purchased 40 dartboards on credit from Grants Company for € 150 each, terms 3/10, n/30, FOB shipping point. Freight expenses were € 30.
- 5/1 Returned 5 dartboards to Grants Company for full credit from the purchase of January 2.
- 10/1 Sold 50 dartboards on credit to Johnny's Pool Bar for € 200 each, terms n/30, FOB shipping point.
- 15/1 Paid Grants Company for the amount due for the purchase of January 2 less the return of January 5.
- 16/1 Paid the courier for the freight expenses regarding the purchase on January 2.
- 18/1 Received payment from Johnny's Pool Bar for the amount due for the sale of January 10.
- 22/1 Purchased 30 dartboards on credit from Grants Company for € 160 each, terms 3/10, n/30, FOB shipping point.
- 29/1 Paid Grants Company for the amount due for the purchase of January 22.
- 30/1 Sold 40 dartboards on credit to Johnny's Pool Bar for € 210 each, terms n/30, FOB shipping point.

Question B (24 credits)

Prepare the journal entries for the transactions of Flyer Company in January 2017. Please skip a line between the different journal entries.

Date	Account	Debit	Credit
2/1	Merchandise Inventory	6,000	
	Freight in	30	
	@ Accounts Payable		6,030
5/1	Accounts Payable	750	
	@ Merchandise Inventory		750
10/1	Accounts Receivable	10,000	
	@ Sales		10,000
	Cost of Goods Sold (35 * 150 + 15 * 140)	7,350	
	@ Merchandise Inventory		7,350

15/1	Accounts Payable	5,250	
	@ Cash		5,250
16/1	Accounts Payable	30	
	@ Cash		30
18/1	Cash	10,000	
	@ Accounts Receivable		10,000
22/1	Merchandise Inventory	4,800	
	@ Accounts Payable		4,800
29/1	Accounts Payable	4,800	
	@ Purchase Discounts ($0.03 * 4,800$)		144
	@ Cash		4,656
30/1	Accounts Receivable	8,400	
	@ Sales		8,400
	Cost of Goods Sold ($30 * 160 + 10 * 140$)	6,200	
	@ Merchandise Inventory		6,200

Johnny's Pool Bar is a pub where several dartboard players organize their competitions.

Johnny's Pool Bar uses the **Periodic Inventory System** together with **the First in, first out (FIFO) inventory cost method**.

During the month of January 2017, Johnny's Pool Bar engaged in the following transactions:

- 10/1 Purchased 50 dartboards on credit from Flyer Company for € 200 each, terms 3/10, n/30, FOB shipping point after the opening of an additional dart board room.
- 18/1 Paid Flyer Company for the amount due for the purchase of January 10.
- 30/1 Purchased 40 dartboards on credit from Flyer Company for € 210 each, terms 3/10, n/30, FOB shipping point after the opening of a second pub.

Question C (6 credits)

Prepare the journal entries for the transactions of Johnny's Pool Bar in January 2017. Please skip a line between the different journal entries.

date	Account	Debit	Credit
10/1	Dartboards	10,000	
	@ Accounts Payable		10,000
18/1	Accounts Payable	10,000	
	@ Cash		10,000 / 9,700
	Taking the purchase discount is also correct!		300
30/1	Dartboards	8,400	
	@ Accounts Payable		8,400

The following information for Johnny's Pool Bar is available at January 31, 2017:

- Bar supplies has a balance of € 500 on January 1, 2017. On January 31, 2017 bar supplies of € 200 were at hand.
- Prepaid insurance has a balance of € 4,200 on January 1, 2017. This balance refers to the insurance premium payment on December 1, 2016 for a period of 3 months ahead.
- Unrecorded interest receivable on a bank saving account is € 175
- Unearned sales has a balance of € 2,500 on January 1, 2017. Sales for € 1,800 received in advance have now been earned.

Question D (8 credits)

Prepare the adjusting journal entries for Johnny's Pool Bar on January 31, 2017.. Please skip a line between the different journal entries.

date	account	Debit	Credit
31/1	Bar Supplies Expense	300	
	@ Bar Supplies		300
31/1	Insurance Expense	2,100	
	@ Prepaid Insurance		2,100
31/1	Interest Receivable	175	
	@ Interest Revenues		175
31/1	Unearned Sales	1,800	
	@ Sales		1,800

Question E (6 credits)

Companies can prepare the Income Statement in different format. They can use the single step or the multistep format. Explain the differences between both formats and explain which format is more informative. Be explicit in your answer.

In a single-step income statement, net income before income taxes is derived in a single step by putting the major categories of revenues in the first part of the statement and the major categories of costs and expenses in the second part.

A multistep income statement goes through a series of steps to arrive at net income. Those steps are net sales, gross margin, income from operations, other revenues and expenses, income before income taxes and net income.

The multistep income statement is more informative because there is a separation between revenues and expenses from (normal) operations and other kinds of revenues and expenses.

Question F (6 credits)

There are several ratios or measuring the profitability of a company. Two of them are the net profit margin and the return on assets. Give the definition of the net profit margin and the return on assets and explain which of those measures gives the most complete picture of profitability.

Net profit margin = net income / revenues

Return on assets = net income / (average) total assets

Return on assets gives the most complete picture because it takes also the asset turnover into account, while the net profit margin does not consider the assets necessary to produce income.

Chart of Accounts (in alphabetic order)

Accounts Payable
Accounts Receivable
Accumulated Depreciation Dartboards
Bar Supplies
Bar Supplies Expense
Cash
Cost of Goods Sold
Dartboards
Freight in
Freight out Expense
Insurance Expense
Insurance Payable
Interest Expense
Interest Payable
Interest Receivable
Interest Revenues
Merchandise Inventory
Prepaid Insurance
Prepaid Interest
Prepaid Rent
Purchases
Purchase Discounts
Purchase Returns and Allowances
Rent Expense
Rent Payable
Rent Receivable
Rental Revenues
Sales
Sales Discounts
Sales Returns and Allowances
Unearned Sales