Nummer presentielijst:

Vrije Universiteit Amsterdam

Faculty of Economics and Business Administration

Accounting Department
Exam Accounting (E_IBA1_ACC)

28 May 2015

Name: ……

Studentnumber: ……

Signuature:

Do not write (for official use only)	
Question 1	
Question 2	
Question 3	
Question 4	
Total	

Question 1 (20 marks)

(a)1. (2 Marks)

Inventory		90	
To	Accounts Payable		90

(a)2. (2 Marks)

Accounts Receivables		88	
To	Sales Revenue		88
CGS		80	
To	Inventory		80

(a)3 (2 Marks)

Building		750	
To	Cash		300
	Mortgage Payable		450

(a)4 (2 Marks)

Prepaid insurance		3.6	
To	Cash		3.6

(a)5. (2 Marks)

Cash		18	
To	Unearned Revenue		18

(a)6. (2 Marks)

Cash		6	
To	Capital/Common Stock		6

(b)7. (2 Marks)

Provision for Warrantly Expenses		15	
To	Inventory		15

(b)8. (2 Marks)

Insurance Expenses		1.8	
To	Prepaid Insurance		1.8
(6/12 x (3.6))			

(b)9. (2 Marks)

Unearned Revenue		1	
To	Revenue		1
(18/18*1)			

(b)10. (2 Marks)

Warranty Expenses		4.5	
To	Provision for Warranty Expenses		4.5
150*3%			

Question 2 (18 Marks)

a. (2 Marks)

Depreciable value = 40,000-2,000 = 38,000
Useful life, 4 year.
Depreciation method, Straight line.
Depreciation per year = 38,000/4 =9,500

b. (2 Marks)

Gain on sale of fixed assets = Sales proceeds less Book value
Book value = 40,000-9,500*3 = 11,500
Gain on sale of the truck = 8,000 – 11,500 = 3,500 loss.

c.

Basically because the cost allocation is arbitrary. You can verify the arithmetic, but that does not make the profit number verifiable in any substantive sense. The loss on the sale of the truck does not represent a change in the economic circumstances of the company during 2014, it is just the outcome of a calculation.

d. (2 Marks)

Both alternatives are possible although it is easier to argue for P&L: if truck is used for operations, change in value probably reflects 'wear and tear' because of use and is therefore properly shown as part of profits. This argument is stronger if the truck is bought second-hand, and/or if the 'current value' is determined on the basis of replacement cost (otherwise steep 'day one' steep drop in value for a new truck)
OCI: a common argument for OCI is that fair value changes are not reliable enough, or too volatile, to give meaningful profit numbers . That is probably not a big issue with a truck. The argument of 'day one losses' might be used to argue for OCI, but it is not so easy to see why, over the life of the truck, the total loss of value should not be shown as an expense in the income statement. Some kind of "recycling" of gains and losses from OCI to P&L would be called for.

e. (2 Marks)

Operating Profit = 180 – 65 – 20 – 10 - 4.8 **= 80.2**

f. (2 Marks)

Adjusted operating income
Operating profit = 80.2 + 3 (adjustment for accounts receivables) = 83.2
Adjusted net assets
Net assets from information given 120 + 30 = 150 (total equity + non-current liabilities) + 3.0 (allowance for trade receivables) = 153
EVA = 83.2 – 153*.12 = 64.84

g. (2 Marks)

1. Cash flow from operating activities
75,000 + 30,000-3,000-12,000+2,000-16,000 = 76,000
2. Cash flow from investing activities
54,000-9,000 = 45,000
3. Cash flow yield = Cash flow from operating activities/ Net income
76,000/75,000 = 1.0

Question 3 (16 Marks)

a. (2 Marks)

Selling price 40
Variable cost 15+8+5+2 = 30; fixed costs 200,000 + 250,000 = 450,000
Contribution margin (per chair) 40-30 = 10
Breakeven 450,000/10 = 45,000 chairs

b. (2 Marks)

Breakeven + 22,500/(.6) 450,000/10 = (450,000 + 22,500/.6)/10 = 48,750 * 40 = 1,950,000

c. (2 Marks)

Sales €2,000,000. In units 50,000
2,000,000 – 50,000*30 – 4,500,000 = 50,000

d. (2 Marks)

Operating leverage = CM/Net income
10*50,000/50,000 = 10

e. (2 Marks)

Sales in units - beginning inventory + ending inventory
50,000 – 1,200 + 1,500 = 50,300 chairs.

f. (2 Marks)

Material required to meet the current year's manufacturing demands – opening inventory or material + closing inventory of material
50,300*3 -600 +900 = 151,200 m2.

g. (2 Marks)

Price offered – incremental cost
37 - (15+8+5) = 9*10,000 = 90,000
Loss of revenu = 10*10,000 = 100,000
Should not accept the order.

h. (2 Marks)

Variable costs: discussed under the heading "Using contribution to make decisions: marginal analysis" (pp. 333-343)
1. Pricing/assessing opportunities to enter contracts:
2. Determining the most efficient use of scarce resources:
3. Make-or-buy decisions:
Full costs: discussed under the heading "Why do managers want to know the full cost" (pp. 350-351) 1. Pricing and output decisions: In the long-run prices need to cover all costs. (That is in difference to the short-run decision of whether to accept one additional order, discussed as point (1) above.) 2. Exercising control: budgets are typically expressed in full cost terms.

Question 4 (12 Marks)

f. (2 Marks)

Feedback: a. ($100,000 + 40,000 + 200,000 + 20,000)/40,000 DLH = $9.00/DLH;
Job 400: $1,500 + 1,400 + ($9 × 100 DLH) = $3,800
Job 402: $3,500 + 4,000 + ($9 × 300 DLH) = $10,200

b. Setup: $100,000/500 = $200/setup
Ordering: $40,000/3,200 = $12.50/order
Maintenance: $200,000/4,000 = $50/machine hour
Power: $20,000/80,000 = $0.25/KWHr

	Job 400	Job 402
Set up 200*2; 200*5	400	1,000
Ordering 12.5*8; 12.5*4	100	500
Maintenance50*40; 50*100	2,000	5,000
Power0.25*60; 0.25*200	15	50
Overhead	2,515	6,100
Material	1,500	3,500
Labor	1,400	4,000
Total cost	5,415	13,600

f. (2 Marks)

Overall profitability will remain unchanged. It is just the distribution of costs among different jobs.

f. (2 Marks)

A more appropriate allocation of costs among different jobs (products) that can help managers in deciding the right price.

An expensive system to implement and may not always produce results that are significantly better than those produced by traditional costing method.

f. (2 Marks)

Value engineering: Focuses on cost saving during the designing stage.
Keizen costing: Focuses on cost saving during the production phases.

f. (2 Marks)

Choice 3. Both statement i and ii are correct.