vrije Universiteit amsterdam

School of Business and Economics

Number on the attendance list:

Name:

Student No.:

Exam:	Accounting I
Code:	E_IBA1_ACC
Examinator:	Juan P. Mendoza
Co-readers:	P.C.M. Claes and S.C.P.J. Go
Date:	31 May 2018
Time:	15:15
Duration:	2 hours
Calculator allowed:	Yes
Graphical calculator allowed:	No
Number of questions:	4
Type of questions:	Open and multiple choice
Answer in:	English

Remarks:

- Write your name and student number on both the assignments and the answer sheet.
- Write your answers in the answer sheet. You must show your calculations.
- A list of account names is given in the Appendix (page 3). You may only use these account names when making journal entries.
- **Both the exam and the answer sheets must be handed in at the end of the exam.**

Credit score:	66 credits count for a 10
Grades:	The grades will be made public on: Wednesday, 13 June 2018
Inspection:	To be announced later on Canvas
Number of pages:	8 (including front page)

Good luck!

Assignment 1 (20 credits)

Selected transactions for Roops BV during the fiscal year 2016/2017 are presented below.

1. On 1 May 2016, Roops purchased a machine for € 180,000, paying € 120,000 in cash and signing a 2-year 8%-note payable for the remaining value.
2. Issued 2,000 shares of common stock with a par value of € 5 per share for € 25,000 cash.
3. Goods costing € 12,000 were sold on account and delivered to Lavis NV for € 18,000.
4. On 1 August 2016, Roops paid € 7,200 for 3-year fire insurance coverage.
5. Resold 500 shares of common stock for € 8,000. These shares were purchased from the stockholders for € 5,000 earlier this year.
6. Collected € 9,000 cash from debtors.
7. Wrote off the accounts of customer NiMo NV, totaling € 11,000. NiMo has gone bankrupt.

a. Provide the journal entries for the transactions listed above. Only use account names that appear on the next page (Appendix).

On 31 March 2017, the end of the fiscal year, the controller notices that the company has not posted adjusting journal entries for the following facts.

8. Depreciation of the machine purchased in 2016 (see 1). Estimated useful life is 5 years; residual value is € 15,000; depreciation is straight-line.
9. Accrued interest of the note payable (see 1).
10. Expired fire insurance premium (see 4).

b. Prepare adjusting entries for the facts 8 through 10.

Appendix: Account Names

Only use the following accounts when preparing journal entries.

Accounts Payable	Loss on Sale of Assets
Accounts Receivable	Machines
Accumulated Depreciation Automobiles	Merchandise Inventory
Accumulated Depreciation Buildings	Mortgage Payable
Accumulated Depreciation Equipment	Notes Payable
Accumulated Depreciation Machines	Paid-in Capital, Treasury Stock
Additional Paid-in Capital	Prepaid Insurance Premiums
Advertising Expenses	Prepaid Rent
Allowance for Uncollectible Accounts	Prepaid, Other
Automobiles	Purchases
Bonds Payable	Purchases Discounts
Buildings	Purchases Returns &Allowances
Cash	Rent Expense
Common Stock	Rent Payable
Common Stock Distributable	Rent Revenues
Cost of Goods Sold	Retained Earnings
Depreciation Expenses	Sales Discounts
Dividends	Sales Returns &Allowances
Dividends Payable	Sales Revenues
Equipment	Service Revenues
Estimated Warranty Liability	Stock Dividends
Gain on Sale of Assets	Supplies
Income Taxes Expenses	Supplies Expense
IncomeTaxes Payable	Treasury Stock
Insurance Expenses	Uncollectible Accounts Expense
Interest Earned	Unearned Revenues
Interest Expenses	Wages Expense
Interest Payable	Wages Payable
Interest Receivable	Warranty Expenses
Loan Payable	

Assignment 2 (13 credits)

Statement: "A business must accept a decline in return on assets when its profit margin drops."

a. Is this statement true or false? Justify your answer by defining return on assets and profit margin (maximum 50 words).

Consider the following part of Table 2 from the paper of Healy (1985) from the required reading.

Table 2

Summary of the association between accruals and bonus plan parameters.

Portfolio[a]	Proportion of accruals with given sign: Positive	Proportion of accruals with given sign: Negative	Number of company-years	Mean accruals[b]	*t*-test for difference in means
		Sample C: Aggregate of samples A and B			
Portfolio LOW	0.31	0.69	96	−0.0437	4.3247[c]
Portfolio MID	0.38	0.62	1287	−0.0117	7.4593[c]
Portfolio UPP	0.10	0.90	144	−0.0536	
χ^2 (d.f. = 2)	43.7818[c]				

b. The fact that the Mean accruals in all portfolios are negative can be easily explained by:

A. The revenue recognition principle
B. The prudence principle
C. The matching principle
D. The going concern assumption

Assignment 2 (continued)

During the fiscal year 2017, cash increased € 280, accounts receivable increased € 35, merchandise inventory decreased € 15, accounts payable decreased € 10, dividends payable increased € 25, and retained earnings increased € 160 (all amounts are reported in € 1,000s).

The 2017 income statement provides the following information: net income € 640, depreciation expense € 175, interest expense € 40, loss on sale of equipment € 5, and income tax expense € 150.

During 2017, equipment was bought for € 120 cash and obsolete equipment with a book value of € 20 was sold for cash.

c. Calculate the cash flow from operating activities in 2017.

d. Calculate the cash flow from investing activities in 2017.

e. Calculate the dividends that will be disclosed in the 2017 cash flow statement.

During a fiscal year, a company erroneously misses to create a provision for warranty liabilities.

f. What's the impact of this error on: 1) assets, 2) liabilities, 3) net income, 4) cash flows. You may choose between: overstated, none, understated.

Assignment 3 (16 credits)

Kiempe Co. produces a single product. Kjempe sold 30,000 units last year, with the following results:

Sales	€ 900,000
Variable costs	540,000
Fixed costs	240,000
Operating income	120,000
Income taxes (40%)	48,000
Net income	€ 72,000

a. Calculate Kiempe's break-even quantity for last year.

b. Calculate Kiempe's margin of safety percentage for last year.

c. Calculate the number of units Kiempe had to sell last year to earn € 126,000 in net income.

To improve its product, Kiempe's managers are considering to replace a component part that costs € 5 per unit with a better part that costs € 9 per unit. The replacement would take place in the upcoming year. To increase plant capacity, they would need a new machine, which costs € 84,000 and has a useful life of 7 years with no salvage value. Kjempe uses straight-line depreciation on all plant assets.

Assume Kiempe holds the sales price constant and makes the suggested changes. Calculate the number of product units Kjempe must sell:

d. in the coming year to break even.

e. in order to make the same net income as last year.

Kiempe is considering the possibility to produce a special one-time order for a large super market.

f. Provide a short-term disadvantage and a long-term advantage of accepting a special one-time order.

The following cost information pertaining to INP industries is as follows:

Hours	Total costs	Hours	Total costs
12,900	€ 392,942	14,900	€ 427,676
13,300	€ 399,486	12,500	€ 405,500
12,300	€ 391,254	16,300	€ 426,920
15,500	€ 429,020	14,500	€ 399,620
11,300	€ 384,920	15,100	€ 423,182
13,700	€ 399,326	11,700	€ 403,022

g. Using the high-low method, calculate variable costs per hour.

h. Using the high-low method, calculate total costs (rounded to dollars) when the number of hours worked are 14,200.

Assignment 4 (14 credits)

AXAM NV produces the product Oleds, which has the following standard cost:

Direct materials	5.00	kg	@	€ 2.00	=	€ 10.00
Direct labor	0.25	dlhr	@	€ 15.00	=	€ 3.75
Variable manufacturing overhead	0.20	mhr	@	€ 40.00	=	€ 8.00
Fixed manufacturing overhead	0.20	mhr	@	€ 60.00	=	€ 12.00

Budgeted production and sales for 2017 were 90,000 units. Budgeted selling price was € 45 per unit. Budgeted fixed manufacturing overhead costs were € 1,080,000. Manufacturing overhead is allocated by machine-hours.

Actual production and sales in 2017 were 80,000 units, with a selling price of € 48 per unit. Actual materials usage was 408,000 kg with a total cost of € 836,400. Labor costs were € 312,000, at an average hourly wage of € 16.25. In 2017, 14,400 machine hours were made. Actual variable manufacturing overhead was € 604,800 and actual fixed manufacturing overhead costs were € 1,045,000.

a. Statement I: Interest revenue could be an example of an opportunity cost.
Statement II: Sunk costs are irrelevant for decision making.

Which of the following answers is true?

A. Statement I and II are true.
B. Only statement I is true.
C. Only statement II is true.
D. Statement I and II are false.

b. Statement I: Normal standards are more likely than ideal standards to result in unethical practices.
Statement II: Normal standards allow for rest periods, machine breakdowns, and setup time.

Which of the following answers is true?

A. Statement I and II are true.
B. Only statement I is true.
C. Only statement II is true.
D. Statement I and II are false.

c. The sales price variance was:

A. € 270,000 (F)
B. € 30,000 (U)
C. € 240,000 (F)
D. € 10,000 (U)
E. None of the above.

Assignment 4 (continued)

d. The direct materials efficiency variance was:

A. € 16,000 (U)
B. € 86,100 (F)
C. € 84,000 (F)
D. € 16,400 (U)
E. None of the above.

4e The direct labor flexible budget variance was:

A. € 49,500 (U)
B. € 25,500 (F)
C. € 25,500 (U)
D. € 12,000 (U)
E. None of the above.

4f The variable manufacturing overhead spending variance was:

A. € 28,800 (U)
B. € 28,800 (F)
C. € 35,000 (F)
D. € 32,000 (U)
E. None of the above.

4g The fixed manufacturing overhead budget variance was:

A. € 85,000 (U)
B. € 120,000 (F)
C. € 10,000 (U)
D. € 35,000 (F)
E. None of the above.