

Bangladesh Open University
BBA Program
Semester: 212 (4th Level)

Course Title: Financial Accounting-II

Date: November 17, 2023

Instructions

- Answer the all questions in your own handwriting on A4 size white paper.
- Fill-in the cover page of your assignment with care.
- Enclose the photocopy of your ID Card with the assignment (next to the cover page).
- Don't make spiral binding. Instead, make soft binding.
- Submit the assignment to the respective course tutor and ensure his/her signature on your Assignment Acknowledgement Form (see page#4 of Semester Calendar).

Questions

1. (a) “An accounting information system creates the structure to encourage adherence to management policies”. Explain.
- (b) List and describe two features of an effective accounting information system an accounting information system.
- (c) Starr Company’s chart of accounts includes the following selected accounts.

101 Cash	157 Equipment
120 Merchandise Inventory	201 Accounts Payable
130 prepaid Insurance	306 R. Starr, Drawing

On November 1 the accounts payable ledger of Starr Company showed the following balances: P. McCartney \$4,000, J. Lennon \$2,100, G. Harrison \$800, and J. Lynne \$1,300. The November transactions involving the payment of cash were as follows.

- Nov. 1 Purchased merchandise, check no. 11, \$950.
3 Purchased store equipment, check no. 12, \$1,400.
5 Paid J. Lynne balance due of \$1,300, Less 1% discount, check no. 13, \$1,287.
11 Purchased merchandise, check no. 14, \$1,700.
15 Paid G. Harrison balance due of \$\$800, less 3% discount, check no. 15, \$776.
16 R. Starr, the owner, withdrew \$400 cash for own use, check no. 16.
19 Paid J. Lennon in full for invoice no. 1245, \$2,100 less 2% discount, check no. 17, \$2,058.
25 Paid premium due on one-year insurance policy, check no. 1, \$2,400.
30 Paid P.McCartney in full for invoice no. 832, \$2,900, check no. 19.

Instructions:

- (a) Journalize the transactions above in a four-column cash payments journal with columns for Other Accounts Dr., Accounts Payable Dr., Merchandise Inventory Cr., and Cash Cr. Foot and crossfoot the journal.
- (b) Insert the beginning balances in the Accounts Payable control and subsidiary accounts, and post the November transactions to these accounts.
- (c) Prove the agreement of the control account and the subsidiary account balances.

- 2 (a) How do documentation procedures contribute to good internal control?
 (b) What internal control objectives are met by physical controls?
 (c) On May 31, 2010, James Logan Company had a cash balance per books of \$6,781.50. The bank statement from Farmers State Bank on that date showed a balance of \$6,404.60. A comparison of the statement with the cash account revealed the following facts.
1. The statement included a debit memo of \$40 for the printing of additional company checks.
 2. Cash sales of \$836.15 on May 12 were deposited in the bank. The cash receipts journal entry and the deposit slip were incorrectly made for \$886.15. The bank credited Logan Company for the correct amount.
 3. Outstanding checks at May 31 totaled \$576.25. Deposits in transit were \$1,916.15.
 4. On May 18, the company issued check No. 1181 for \$685 to Barry Trest, on account. The check, which cleared the bank in May, was incorrectly journalized and posted by Logan Company for \$658.
 5. A \$2,500 note receivable was collected by the bank for Logan Company on May 31 plus \$80 interest. The bank charged a collection fee of \$20. No interest has been accrued on the note.
 6. Included with the cancelled checks was a check issued by Bridgetown company to Tom Lujak for \$800 that was incorrectly charged to Logan Company by the bank.
 7. On May 31, the bank statement showed an NSF charge of \$680 for a check issued by Sandy Grifton, a customer, to Logan Company on account.

Instructions

- (a) Prepare the bank reconciliation at May 31, 2010.
 - (b) Prepare the necessary adjusting entries for Logan Company at May 31, 2010.
3. (a) Distinguish between the two bases that may be used in estimating uncollectible accounts.
 (b) Mendosa Company closes its books monthly. On September 30, selected ledger account balances are:

Notes Receivable	\$33,000
Interest Receivable	170

Notes Receivable include the following.

<u>Date</u>	<u>Maker</u>	<u>Face</u>	<u>Term</u>	<u>Interest</u>
Aug. 16	Chang Inc.	\$8,000	60 days	8%
Aug. 25	Hughey Co.	9,000	60 days	10%
Sept. 30	Skinner Corp.	16,000	6 months	9%

Interest is computed using a 360-day year. During October, the following transactions were completed.

- Oct. 7 Made sales of \$6,900 on Mendosa credit cards.
- 12 Made sales of \$900 on Master Card credit cards. The credit card service charge is 3%.

- 15 Added \$460 to Mendosa customer balance for finance charges on unpaid balances.
- 15 Received payment in full from Chang Inc. on the amount due.
- 24 Received notice that the Hughey note has been dishonored. (Assume that Hughey is expected to pay in the future.)

Instructions

- (a) Journalize the October transactions and the October 31 adjusting entry for accrued interest receivable.
- (b) Enter the balances at October 1 in the receivable accounts. Post the entries to all of the receivable accounts.
- (c) Show the balance sheet presentation of the receivable accounts at October 31.

4. The following are selected transactions of Donn Company. Donn prepares financial statements quarterly.

- Jan. 2 Purchased merchandise on account from Stein Company, \$20,000, terms 2/10, n/30.
- Feb. 1 Issues a 12%, 2-month, \$20,000 note to Stein in payment of account.
- Mar. 31 Accrued interest for 2 month on Stein note.
- Apr. 1 paid face value and interest on Stein note.
- July 1 Purchased equipment from Morelli Equipment paying \$12,000 in cash and signing a 10%, 3-month, \$25,000 note.
- Sept. 30 Accrued interest for 3 months on Morelli note.
- Oct. 1 paid face value and interest on Morelli note.
- Dec. 1 Borrowed \$15,000 from the Federated Bank by issuing a 3-month, 12% note with a face value of \$15,000.
- Dec. 31 Recognized interest expense for 1 month on Federated Bank note.

Instructions

- (a) Prepare journal entries for the above transactions and events.
- (b) Post to the accounts, Notes Payable, Interest Payable, and Interest Expense.
- (c) Show the balance sheet presentation of notes and interest payable at December 31.
- (d) What is total interest expense for the year?

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Course Title: Financial Accounting-II

Date: December 22, 2023

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Questions

1. (a) W. Mantle, N. Cash, and W. DiMaggio have a partnership called Outlaws. A dispute has arisen among the partners. Mantle has invested twice as much in assets as the other two partners, and he believes net income and net losses should be shared in accordance with the capital ratios. The partnership agreement does not specify the division of profits and losses. How will net income and net loss be divided?
- (b) At the end of its first year of operations on December 31, 2010. CNU Company's accounts show the following:

<u>Partner</u>	<u>Drawings</u>	<u>Capital</u>
Reese Caplin	\$23,000	\$48,000
Phyllis Newell	14,000	30,000
Betty Uhrich	10,000	25,000

The capital balance represents each partner's initial capital investment. Therefore, net income or net loss for 2010 has not been closed to the partners' capital accounts.

Instructions

- (a) Journalize the entry to record the division of net income for the year 2010 under each of the following independent assumptions.
 - (1) Net income is \$30,000. Income is shared 6:3:1.
 - (2) Net income is \$37,000. Caplin and Newell are given salary allowances of \$15,000 and \$10,000, respectively. The remainder is shared equally.
 - (3) Net income is \$19,000. Each partner is allowed interest of 10% on beginning capital balances. Caplin is given a \$12,000 salary allowance. The remainder is shared equally.
- (b) Prepare a schedule showing the division of net income under assumption (3) above.
- (c) Prepare a partners' capital statement for the year under assumption (3) above.

2. Jeff Lynne (see E13-1) has studied the information you gave him in that exercise and has come to you with more statements about corporations.
 1. Corporation management is both an advantage and a disadvantage of a corporation compared to a proprietorship or a partnership.
 2. Limited liability of stockholders, government regulations, and additional taxes are the major disadvantages of a corporation.
 3. When a corporation is formed, organization costs are recorded as an asset.
 4. Each share of common stock gives the stockholder the ownership rights to vote at stockholder meetings, share in corporate earnings, keep the same percentage ownership when new shares of stock are issued, and share in assets upon liquidation.
 5. The number of issued shares is always greater than or equal to the number of authorized shares.
 6. A journal entry is required for the authorization of capital stock.
 7. Publicly held corporations usually issue stock directly to investors.
 8. The trading of capital stock on a securities exchange involves the transfer of already issued shares from an existing stockholder to another investor.
 9. The market value of common stock usually the same as its par value.
 10. Retained earnings is the total amount of cash and other assets paid in to the corporation by stockholders in exchange for capital stock.

Instructions

Identify each statement as true or false. If false, indicate how to correct the statement.

3. (a) In general, what are the requirements for the financial statement presentation of long-term liabilities?
- (b) The following is taken from the Pinkston Company balance sheet

**PINKSTON COMPANY
Balance Sheet (partial)
December 31, 2010**

Current liabilities		
Bond interest payable (for 6 months from July 1 to December 31)		\$105,000
Long-term liabilities		
Bonds payable, 7% due January 1, 2021	\$3,000,000	
Add: Premium on bonds payable	200,000	\$3,200,000

Interest is payable semiannually on January 1 and July 1. The bonds are callable on any semiannual interest date. Pinkston uses straight-line amortization for any bond premium or discount. From December 31, 2010, the bonds will be outstanding for an additional 10 years (120 months).

Instructions

- (a) Journalize the payment of bond interest on January 1, 2011.
 - (b) Prepare the entry to amortize bond premium and to pay the interest due on July 1, 2011, assuming no accrual of interest on June 30.
 - (c) Assume that on July 1, 2011, after paying interest, Pinkston Company calls bonds having face value of \$1,200,000. The call price is 101. Record the redemption of the bonds.
 - (d) Prepare the adjusting entry at December 31, 2011, to amortize bond premium and to accrue interest on the remaining bonds.
4. In January 2010, the management of Noble Company concludes that it has sufficient cash to permit some short-term investments in debt and stock securities. During the year, the following transactions occurred.
- Feb. 1 Purchased 600 shares of Hiens common stock for #31,800, plus brokerage fees of \$600.
 - Mar. 1 Purchased 800 shares of Pryce common stock for \$20,000, plus brokerage fees of \$400.
 - Apr. 1 Purchased 50 \$1,000, 7% Roy bonds for \$50,000, plus \$1,000 brokerage fees. Interest is payable semiannually on April 1 and October 1.
 - July 1 Received a cash dividend of \$0.60 per share on the Hiens common stock.
 - Sept. 1 Received a \$1 per share cash dividend on the Pryce common stock.
 - Oct. 1 Received the semiannual interest on the Roy bonds
 - Oct. 1 Sold the Roy bonds of \$50,000 less \$1,000 brokerage fees.
- At December 31, the fair value of the Hiens common stock was \$55 per share. The fair value of the Pryce common stock was \$24 per share.

Instructions:

- (a) Journalize the transactions and post to the accounts Debt Investments and Stock Investments. (Use the T-account form)
- (b) Prepare the adjusting entry at December 31, 2010, to report the investment securities at fair value. All securities are considered to be trading securities.
- (c) Show the balance sheet presentation of investment securities at December 31, 2010.
- (d) Identify the income statement accounts and give the statement classification of each account.