

KEY 1



LECTURERS

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FIRST SEM. 2021/2022
MID-TERM EXAM

ACCT335

Time allowed= 80 minutes

Student Name: _____ Student #: _____

Section #: _____ Instructor Name: _____

Question 1 (Item)	Code
#1	A
#2	D
#3	C
#4	E
#5	A
#6	B
#7	E
#8	A
#9	D
#10	A

Question 3 (Statement)	Code
1.	B
2.	M
3.	H
4.	E
5.	G/C
6.	J
7.	C/D

1x7

Question 5	Value
A	20%
B	640,000
C	2,560,000
D	2,385,000
E	250,000
F	10.24

Question 6 (Multiple Choice)	Answer
1	B
2	B
3	B
4	D
5	C
6	B
7	B
8	C
9	C
10	D

1x10

1.5x6

1x10

Question 1 (10 points): For income reporting purposes, items can appear in any of the following components of the income statement, the statement of retained earnings, and related schedules and footnotes:

Statement Presentation	Code
Income from continuing operations or supporting schedules	A.
Results from discontinued operations	B.
Statement of comprehensive income	C.
Statement of retained earnings	D.
If the information would <u>not</u> appear in any of the above components	E.

Several items of accounting information are listed below:

Required

By placing the codes (A-E) in the spaces provided above, identify where the information would be most appropriately reported. Use the table on the cover page to fill in your answers.

	Item
1.	Loss on sale of plant assets <i>A</i>
2.	Cash dividends declared on common stock <i>D</i>
3.	Unrealized gains due to foreign currency translation adjustments <i>C</i>
4.	Discount on bonds payable <i>E</i>
5.	Interest revenue <i>A</i>
6.	Loss on sale of a major component of the business that was discontinued. <i>B</i>
7.	Details of Restrictions on Retained Earnings <i>E</i>
8.	Loss from a fire accident <i>A</i>
9.	Correction of error in recording depreciation expense two years ago. <i>D</i>
10.	Gain from collecting the value of an insurance policy. <i>A</i>

Question 2 (10 points):

A- When the accounts of Green Hand Co. were examined, the adjusting data listed below were uncovered on December 31, 2017 the end of an annual fiscal period.

B- Arkadash Corporation began operations on January 1, 2019. During its first 2 years of operations, it reported net income and declared dividends as follows.

	<u>Net Income</u>	<u>Dividends Declared</u>
2019	\$ 80,000	\$ 0
2020	275,000	60,000

The following information relates to 2021:

- Prior period adjustment: **understatement** of 2019 depreciation expense (before taxes) \$ 25,000
- Cumulative **decrease** in income from change in inventory methods (before taxes) \$ 35,000
- Dividends declared during 2021 (of this amount, \$25,000 will be paid on Jan. 15, 2022) \$100,000

Effective tax rate 40%

Required: Calculate the adjusted Beginning retained earnings balance for 2021, as it will appear in the retained earnings statement for the year ended December 31, 2021.

Answer:

Reported Beg. R.E 2021	=	295,000
Adjustments:		
Correction of Error, Net - (Prior period Adjusted)		(15,000)
Cumulative effect of Δ in Acc. method, Net		(21,000)
<u>Adjusted Beg. R.E 2021</u>		<u>\$ 259,000</u>

4 points

Question 4 (4 points): The records for Kiley Company showed the following for 2019:

	<u>Jan. 1</u>	<u>Dec. 31</u>
Unearned revenue	\$1,600	\$2,160
Accrued revenue	1,260	920

Cash collected during the year for revenue, \$75,000

Required: Compute the amount of revenue that should be reported on the income statement, under the accrual basis.

Answer:

$$75,000 + 1600 - 2160 - 1260 + 920$$

$$= \boxed{74,100}$$

4 points

Question 5 (9 points): You are given the following financial information for Manar Corporation, for the year ended 31 December, 2017:

Item	Amount
Pre-tax Income from continuing operations	\$ 3,200,000
Income tax rate % (percentage)	-A- 20%
Income tax amount	-B- 640,000
Income from continuing operations	-C- 2,560,000
Total loss from Discontinued operations (net of tax savings)	\$ (175,000)
Net Income for the year	-D- 2,385,000
Number of weighted average common shares outstanding during the year	-E- 250,000
EPS - from continuing operations	-F- 10.24
EPS- from discontinued operations	\$ (0.70)
EPS- Total	\$ 9.54

Required

Compute the missing items (from A to F), given that the Company has only one type of stock. Show your calculations below, and use the table on the cover page to fill in your answers.

Question 2 (13 points)

Use the following information from Nissan Company to prepare the statement of cash flows for year ended December 31, 2021 using the indirect method.

Item	Amount
Beginning cash balance:	\$21,470
Ending cash balance:	63,735
Net change in accounts receivable	1,800
Net change in inventory	(2,675)
Bad debt expense	2,000
Net change in accounts payable	(890)
Depreciation expense	6,000
Net income	23,450
Cash paid for dividends	2,625
Cash received from a loan	9,000
Purchase of treasury of stock	1,780
Cash received from sale of studio equipment	10,235
Purchase of office equipment	4,000
Purchase of land by issuance of common stock	50,000

Required:

Using the format provided on the next page, prepare a statement of cash flows (using the indirect method) for the year ended December 31, 2021 for Nissan Company.

12.5

Nissan Company
Statement of Cash Flows
For the Year Ended December 31, 2021

Cash flows from operating activities

\$23,450

Net income

Adjustments to reconcile net income to net cash provided by operating activities:

<u>Account Receivable</u>	<u>\$ 218 00</u>
<u>Prepaid Changes Inventory</u>	<u>2 675</u>
<u>Bad debt Expenses</u>	<u>(2 000)</u>
<u>Change account payable</u>	<u>(890)</u>
<u>Depreciation Expenses</u>	<u>6 000</u>

29 435

31 035

Net cash provided (used) by operating activities

Cash flows from investing activities

<u>Cash received from sale of studio equip</u>	<u>1 073 \$</u>
<u>Purchase of office equip</u>	<u>(4 600)</u>

6 235

Net cash provided (used) by investing activities

Cash flows from financing activities

<u>Cash paid for dividends</u>	<u>(2 625)</u>
<u>Cash reserve from loan</u>	<u>9 000</u>
<u>Purchase of treasury stock</u>	<u>(7 780)</u>

4 595

Net cash provided (used) by financing activities

Net increase (decrease) in cash

\$ 4 026.5

Cash, January 1, 2021

2 147 0

Cash, December 31, 2021

\$ 6 373.5

Noncash investing and financing activities

Purchase of land by issuance of common stock

(5 000)

Question 2 (20 points)

Bas Baladi for the marketing of cooperative agricultural products is a company based in Ramallah. It operates two separate major divisions: Organic Food division, and Beverage division. On December 31, 2015, Bas Baladi had \$327,000 operating Income.

Required:

- a) Based on the below information (A-H). Use the following format to prepare the statement of comprehensive income. (Assume the tax rate is 20%) (16 point)

Note: Some of the items provided will not affect the statement of comprehensive income.

A.	During 2015, the entity discovered that there's an error in the calculation of pension expense for 2014. The error overstated income before tax by \$17,000. <i>↓ P.E</i>
B.	Flood in Ramallah's farmland caused the company a loss of \$11,000. They received insurance coverage of \$6,500. Assume floods are common in Ramallah. <i>+ (4500) loss</i>
C.	Bas Baladi decided to dispose of the Beverage division at the beginning of 2015. The Beverage division recognized a loss from operations of \$150,000 before tax for the year ended 31 December 2015. The division was sold for \$1,000,000, while the carrying value of the division's assets was \$900,000. <i>1000000 - 900000 = 100000 (150,000)</i>
D.	In 2014 Bas Baladi purchased 10,000 shares of Padico stock at \$1.2 per share. The stocks were categorized as a trading security. During 2015, the company received cash dividends of \$0.05 per share. <i>investment Invest 12000 Cash 12000 500 gain</i>
E.	In December, 2015, Bas Baladi sold Padico's shares at \$2 per share. This is the only investment that Bas Baladi has. <i>2000 3</i>
F.	Until 2015, the company has used FIFO, and on January 1 st , 2015, It has decided to switch to LIFO. The cumulative effect of this change is \$60,000 before tax. <i>P.E to increase</i>
G.	The company suffered a \$10,000 loss before tax from foreign currency translation of its subsidiary's financial statements. <i>Comprehensive income</i>
H.	Minority interest in net income amounted to <u>\$22,480</u> .

Bas Baladi Company
Statement of Comprehensive income
for the year ended December 31, 2015

Operating Income	\$327,000
Other Revenues and Gains	
div: land revenue	500
Other Expenses and Losses	
loss from flood	(4 500)
Income from continuing operations before tax	323 000
Income tax expense	(64 600)
Income from continuing operations, after tax	258 400
Discontinued operations	
loss from operations less applicable tax 150 000 (30 000)	(120 000)
gain from disposal less applicable tax 100 000 (20 000)	80 000
Net loss of Discontinued oparte	(40 000)
Income before extraordinary items	218 400
Extraordinary gain from sale of share 800 less appliafk tax (1,600)	6 400
Net income	224 800
less: Net income attributable to noncontrolling intres	(22 480)
Net income attributable to controlling interest	202 320
Other comprehensive income	
loss on translation	(8 000)
Comprehensive income	<u>194 320</u>

Perfect!

b) Determine which item will be adjusted on the beginning retained earnings balance for the current year, and by how much? If the adjustment decreases retained earnings, the amount should be placed between brackets (). (4 points)

adjustments
Beg REs

Item	YES/NO	Amount (if any)
A.	Yes	(13600)
B.	No	-
C.	No	-
D.	No	-
E.	No	-
F.	Yes	48000
G.	No	-
H.	No	-

Increase or decrease?

Great work!

Question 3 (17 points)

Pal-Fit activities for the year ended December 31, 2016 included the following:

1.	Comprehensive income totaled \$538,000 including \$88,000 in other comprehensive income. ✓
2.	Paid a cash dividend of \$80,000 that was declared at the end of 2015. x
3.	Prepaid Insurance increased \$20,000 and unearned service revenue decreased \$10,000 during the year. <i>Prepaid insurance 20,000</i> <i>unearned service rev. 10,000</i>
4.	Accounts receivable increased \$33,000 and accounts payable decreased \$24,000 during the year. <i>- 24,000</i>
5.	New equipment was purchased for \$56,000 cash.
6.	The company sold equity investments for \$30,000. The book value of investment was \$27,000. <i>gain 3,000</i>
7.	Depreciation expense for the year totaled \$12,000.
8.	Land was acquired by issuing a 12%, seven-year, \$60,000 note payable to the seller. x
9.	Bad debt expense for the year totaled \$8,000.
10.	Issuance of bonds for cash in the amount of \$60,000. <i>Financing</i>
11.	500 shares of common stock were repurchased as treasury stock at a cost of \$18,000. <i>Financing</i>
12.	Equipment was sold for \$45,000, with a book value of \$50,000. <i>Capital loss 5,000</i>
13.	Pickup truck exchanged for a delivery truck. (both assets had the same fair market value \$20,000) +
14.	Issuance of common stock for cash in the amount of \$100,000. <i>Financing</i>

purchase loan.
 - 56,000
 + 30,000
 + 45,000

equipment 56,000 ✓
 land 60,000 ✓
~~28,000~~
 + 20,000 ✓
 - 20,000 ✓
AP

60,000
 66,000

- 80,000 ✓
 + 60,000 ✓
 - 18,000 ✓
 100,000 ✓

Required:

- a) Use the following format to prepare the cash flows from operating activities section of the statement of cash flows using the indirect method. (9 points)

Pal-Fit Company Statement of Cash Flows (Partial) For the year ended, December 31, 2016		
Cash flows from operating activities		
Net income	450,000	\$ 450,000
Adjustments to reconcile net income to net cash provided (used) by operating activities		
- gain from selling an investment	(30,000)	
+ Depreciation exp	12,000	
+ Bond debt exp	8,000	
+ loss on selling of an equity	5,000	
Δ A/R 75,000	(33,000)	
Δ A/P	(24,000)	
Prepaid insurance	(20,000)	
Accrued service rev.	10,000	
Net cash provided (used) from operating activities		385,000

Current assets
Current liabilities

Perfect!

b) Based on the above information, calculate the following: (8 points)

1. Net cash provided (used) from investing activities \$ 19000

2. Assume ending accumulated depreciation balance is 20,000, the total property, plant and equipment is \$ ~~116000~~ 116000

3. Net cash provided (used) from financing activities \$ 62000

4. Total long-term liabilities \$ ~~120000~~ 120000 }
 } Non payable 7yrs (60000)
 } Payable 1 (60000)

5. Total significant non cash investing and financing activities \$ 50,000

6. Assume that the beginning retained earnings balance is \$480,000, the retained earnings balance at December 31, 2016 is \$ 550,000

480,000	+	U.I.	
450,000	+	Dividends	
-20,000			
			End.

7. Assume that the beginning Accumulated other comprehensive income balance is \$200,000, the Accumulated other comprehensive income balance at December 31, 2016

200,000	+	82,000	
			End.

is \$ 282,000

8. Assume that the beginning stockholders' equity balance is \$1,280,000, the stockholders' equity at December 31, 2016 is \$ 1,820,000

+ R.E. 370,000
 + C.S. 100,000
 - T.S. (180,000)
 + other Comprehensive 820,000 ?

1280000			
<u>540000</u>	37000	10000	82000
<u>1820000</u>			

Perfect!