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Birzeit University
Faculty of Commerce & Economics
Accounting Department

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First Sem. 2003/2004
First Hour Exam

1020699
Nour Abu Suelimen

"Acct.335"

Part One
Multiple Choice (30%)

1- The Wheat Committee proposed the creation of:
- a- the AICPA
- b- the Accounting Principles Board
- c- the FASB
- d- the Committee on Accounting Procedures.

2- The Financial Accounting Standards Board employs a "due process" system which
- a. is an efficient system for collecting dues from members.
- b. enables interested parties to express their views on issues under consideration.
- c. identifies the accounting issues that are the most important.
- d. is an efficient system for dealing with the AICPA.

3- Which of the following is a publication of the FASB:
- a. Technical Bulletins
- b. Accounting Research Bulletins
- c. Practice Bulletins
- d. Statements of Position

4- The FASB pronouncement that deals with accounting on new and unusual financial transactions that need to be resolved quickly:
- a. Practice Bulletins
- b. Financial Accounting Concepts
- c. Interpretations
- d. Emerging Issues Task Force Statements

5- ------------------selects the member of the FASB and overseas FASB activities:
- a. Financial Accounting Standards Advisory Council
- b. Financial Accounting Foundation
- c. Accounting Standards Executive Committee.
- d. American Accounting Association

6- Timeliness is an ingredient of the primary quality of:

	Relevance	Reliability
a.	NO	NO
b.	YES	YES
c.	YES	NO
d.	NO	YES

7- Which of the following statements is an objective of financial reporting?
a. provide information that is useful in investment and credit decisions.
b. provide information about enterprise resources, claims to those resources, and changes to them.
c. provide information that is useful in assessing cash flow prospects
d. all of the above.

8- The most authoritative category of generally accepted accounting principles is:
a. AICPA Practice Bulletins
b. AICPA Accounting Guides
c. APB Opinions
d. AICPA Accounting Interpretations.

9- Comprehensive Income includes:
a. interest revenues.
b. unrealized holding gains on investments.
c. owners' investments
d. a and c
e. a and b

10- An increase in net assets arising from peripheral or incidental transactions is called a(n)
a. gain
b. investment by owners.
c. loss.
d. revenue.

11- Which of the following is true about intraperiod tax allocation?
a. it rises because certain revenue and expense items appear in the income statement either before or after they are included in the tax return.
b. Its purpose is to relate the income tax expense to the items that affect the amount of tax.
c. Its purpose is to allocate income tax expense evenly over a number of accounting periods.
d. It is required for extraordinary items and cumulative effect of accounting changes but not for discontinued operations.

12- Loss from fluctuation of foreign exchange is classified as:
a. extraordinary losses
b. discontinued operation loss
c. other non-operating expenses and losses
d. cumulative effect of a change in accounting principles

13- Reversing entries are made for the following adjustments except:
a. accrued revenues
b. accrued salaries
c. all prepaid items for which original transaction was debited or credited to an expense or revenue.
d. depreciation.

14- If an adjusting entry to record depreciation is not made, then:

a. assets are understated
b. assets are overstated
c. owners equity is understated.
d. expenses are overstated.

15- In order to be classified as other unusual gain or loss, an event or a transaction should be:

a. unusual
b. infrequent
c. unusual or infrequent
d. unusual and infrequent

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Part Two (15%)

State the accounting assumption, principle, information characteristic, or constraint that is most applicable in the following cases.

1- All payments less than $25 are expensed as incurred. (Don't use conservatism)

~~Matching~~ principle Mater materiality - constraint

2- The company employs the same inventory valuation method from period to period.

Consistenty Consistency

3- Assuming that dollars today will buy as much as ten years ago.

Monetary Unit assumption.

4- A patent is capitalized and amortized over the periods benefited.

~~Going~~ concern assumption. Matching going concern assumption ?

5- Presentation of error-free information with representational faithfulness.

~~Neutrality~~ Representational faithfulness. Reliable Reial.

6- Financial statements are prepared each year

Time period assumption. Time lines

7- Recording inflows at the end of production is an allowable exception in some cases. (Don't use industry practices).

Revenue Recognition Principle.

8- Quality of information that confirms users' earlier expectations.

Feed back value

9- Permit the use of market value in certain situation.

Conservatism Industry Revenue Recognition

10- Rationale why plant assets are not reported at liquidation value (don't use cost principle).

Going concern assumption.

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Part Three
Solving problems (55%)

Problem #1:

Global Graphics Company was organized on January 1, 2002, by Jill Jay. At the end of the first 6 months of operations, the trial balance contained the following accounts.

Debits		Credits	
Cash	$ 9,500	Notes Payable	$ 17,000
Accounts Receivable	14,000	Accounts Payable	9,000
Equipment	45,000	Jill Jay, Capital	25,000
Insurance Expense	1,800	Graphic Revenue	52,100
Salaries Expense	30,000	Consulting Revenue	6,000
Supplies Expense	3,700		
Advertising Expense	1,900		
Rent Expense	1,500		
Utilities Expense	1,700		
	$109,100		$109,100

Analysis reveals the following additional data.

1. The $3,700 balance in Supplies Expense represents supplies purchased in January. At June 30, $1,300 of supplies was on hand.
2. The note payable was issued on February 1. It is a 12%, 6-month note.
3. The balance in Insurance Expense is the premium on a one-year policy, dated March 1, 2002.
4. Consulting fees are credited to revenue when received. At June 30, consulting fees of $1,100 are unearned.
5. Graphic revenue earned but unbilled at June 30 totals $2,000.
6. Depreciation is $2,000 per year.

Instructions

Journalize the adjusting entries at June 30. (Assume adjustments are recorded every 6 months.)

Answer

1 Supplies 1,300
Supplies Expense 1,300

2 Interest Expense ~~[illegible]~~ 1,700 ($12\% \times \frac{5}{12} \times 17,000$)
Interest payable ~~[illegible]~~

3 Prepaid Insurance 1200
Insurance Expense 1200
$\frac{5}{12} \times 1,800 = 600$ expired
1800 − 750 = 1200 (not expired)

4 Consulting fee revenue 1100
unearned consulting fee revenue 1,100

5 Account Receivable 2000
Graphic revenue 2000

6 Depreciation Expense 1000
Accumulated Depreciation 1000
($2000 \times \frac{6}{12}$)

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Problem #2

Farmer & associates maintains its records on the cash basis. You have engaged to convert its cash basis income statement to the accrual basis. The cash basis income statement, along with additional information, follows:

Farmer & Associates Income Statement (Cash Basis) For the Year Ended December 31,2003		
Cash receipts from customers		$350,000
Cash payments:		
Operating expenses	255,000	
Interest expense	25,000	280,000
Net income		$70,000

Additional information:

	Balances at	
	January 1	December 31
Prepaid insurance	$4,000	$8,000
Accounts payable (relate to operations)	10,000	17,000
Unearned revenue	14,000	20,000
Accounts receivable	50,000	35,000
Interest payable	3,000	5,000
Accumulated depreciation	65,000	88,000

No plant assets were sold during 2003.

Required:

Convert the cash basis income statement to the accrual income statement. (Show supporting calculations).

Answer

Farmer and Associates
~~Income statement~~
For the year Ended Dec 31, 2003

Revenue	$ 329,000
Expense	(308,000)
Net Income (Loss)	~~$ 21,000~~ $ 21,000

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Expense on accrual basis = Cash payment for Expense ~~+~~ Inc In Prepaid Insurance + Inc in Accr Expense + D
~~280,000~~ − 4,000 + 7,000 + 2,000 + 23,000

Revenue on accrual basis = Cash receipts from customer + Dec in A/R − Inc in Unearned Re
= 350,000 + 15,000 − 6000
= ~~[illegible]~~ 329,000

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Problem #3:

Presented below is an income statement for Larsen Company for the year ended December 31,2002.

Larsen Company
Income Statement
Fro the Year Ended December 31,2002

Net sales		$900,000
Cost of goods sold		(650,000)
Gross margin		$250,000
Selling, general and administrative expenses		(70,000) → 70,000 - 6,000 = 64,000
Income from operations		$180,000
XX Other net losses	(17,000) 6,000 4,000 1,000	(11,000)
Income before taxes		$169,000
Income tax (40%)		(67,600)
Net income		$101,400

Additional information:

1- "Selling, general, and administrative expenses" included a usual but infrequent charge of $6,000 due to a loss on the sale of land.

2- "Other net losses" consisted of interest revenue, $5,000, and an extraordinary loss of $16,000.

3- On January 1,2002, Larsen changed from straight line to double declining balance method of depreciation. The effect of the change is as follows:

Total depreciation in prior years if computed using:

Straight line	$32,000	14,000 loss
Double declining	46,000	

4- Larsen had 200,000 shares of common stock outstanding during the year.

Required:

Using multiple step format, prepare a corrected income statement, including the appropriate per share disclosures.

Answer

Larsen Company

18,333

$\left(\frac{11,000}{60\%}\right) = 18,333$

(46,000 - 21,000)

21,000
11,000
+ 5

21,000 (7,000)

$\frac{11,000}{60\%}$

17,000

Larsen Company
Income statement
For the year Ended Dec. 31, 2012

Net Sales		~~$ 900,000~~
Cost of good Sold		650,000
Gross margin		250,000
Selling and administrative Expense (70,000 - 6,000)		~~(64,000)~~
Income from operation		186,000
other gains and revenue		
Interest Revenue	~~$ 5,000~~	
other losses and Expense (11,000 + 6,000) (17,000 - ~~5,000~~ - (6,000) 1,000	(3333 ~~17,000~~)	1667
Income before Income tax		~~187,667~~ 187,667
Income taxes expense (40%)		~~(7,50 67)~~
Income from continued operation		112,600
extraordinary loss net of 6400 tax saving		~~(9600)~~
cumulative effect of change in accounting principle net of (5,600) tax saving 14,000 @ 40%		~~(5,600)~~
Net Income		~~$ 102,000~~ $ 97,400

Earning Per Share

Income from continued operation	$\frac{112,600}{200,000}$	~~0.563~~
Income = extraordinary loss	$\frac{9600}{200,000}$	~~(0.048)~~
= = cumulative effect of change in acc Principle	$\frac{5,600}{200,000}$	~~(0.028)~~
Net Income		~~$ 0.487~~

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Net Income

Problem #4:

Presented below is certain information pertaining to Gordon Company.

Assets, January 1	$220,000
Assets, December 31	230,000
Liabilities, January 1	150,000
Common stock, December 31	60,000
Retained earnings, December 31	35,000
Common stock sold during the year	15,000
Cash dividends declared during the year	8,000
Stock dividend declared and distributed	6,000

comm. 75,000

Compute the net income for the year. (show organized calculations).

Answer.

Δ Assets = 100,000

Retaind Earning Dec 31 = 60,000

(6) cash dividend + stock dividend = 14,000

or Retained Earning Jan 1 + net Income – (cash dividends + stock Dividend) = Ret Ear
25,000 14,000 35,000

11,000 + net Income = 35,000

net Income = 24,000

(1) A = L + O/E

Retaind Earning + common stock

(2) 230,000 = ~~150,000~~ + 35,000 + 60,000

95,000

L = 135,000 => Dec 31

Dec 31 60,000 + 35,000

95,000

(5) 35,000 – 10,000 = 25,000

Retained Earning Jan 1

~~ΔA = 10,000~~

~~ΔL = (15,000)~~

~~(20,000) => Dec In O/E During the year.~~

~~(14,000) Dividends~~

~~34,000~~ net loss

(3) ΔA = ΔL + ΔO/E

10,000 = -15,000 + ΔO/E

+15,000 +15,000

Good luck

(4) ΔO/E = Δcommon stock + ΔRetain Earn

25,000 = 15,000 + ΔRet

-15,000 -15,000

10,000 = ΔRet E

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