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BIRZEIT UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS
ACCOUNTING DEPARTMENT

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SECOND SEM. 2012/2013
FIRST HOUR EXAM

ACCT. "335"

Student Name:

Student #: 14

Questions 1 & 2

Answer Sheet

Multiple Choices

1	d
2	~~b~~
3	c
4	a
5	d
6	~~d~~
7	c
8	a
9	c
10	d

12

1	Measurement principle
2	Economic entity assumption
3	Expense recognition principle
4	going Concern ~~Measurement~~ principle
5	full disclosure principle

4

a	Representational faithfullness
b	timeliness
c	neutrality
d	Consistency
e	Reliability ~~and~~ Relevance
f	neutrality
g	Comparability
h	~~tim~~ feed-back value
i	Consistency and comparability
j	Virfiability

7

19

Question 1 (5 points)

Danny Manning and Larry Brown are accountants for the Engineering Institute. They disagree over the following transactions that occurred during 2010. Larry disagrees with Danny on each of the transactions below. just mention

1. The Engineering Institute finds a bargain for a commercial-grade plotter and pays $3,000. Danny argues that if they had bought it from the dealer, they would have paid $4,000. Danny suggests they record the plotter for $4,000. measurement Principle (Historical Cost)

2. Timothy West, president of the Engineering Institute, used his company expense account to purchase a new BMW for his personal use. Danny argues that since the president is also the owner of the Engineering Institute, it really does not matter who paid for it.

Ec economic entity assumption

3. Depreciation for the year was $114,000. Danny argues that since net income is expected to be lower in the current fiscal year, they should just charge it as an expense next year.

exp. Recognition Principle

4. Danny suggests that the Engineering Institute value its equipment on its balance sheet at its liquidation value, which is $50,000 less than cost. going - concern

going concern assumption

5. The Engineering Institute signed a lease on its offices for the next five years. A lease liability is not included on the company's balance sheet. Danny doesn't think such information needs to be disclosed.

"Full disclosure Principle"

Required

For each of the above transactions, identify why Larry disagrees. Also identify the assumption, principle, or constraint that has been violated.

1 - ~~Expence Recogni~~ Measurement

2 - Economic entity assumption

3 - Expense recognition

4 - ~~Historical~~ Measurement Principle

5 - full disclosure

Question 2 (10 points)
SFAC No. 2 ~~identifies~~ the qualitative characteristics that make accounting information useful. Presented below are a number of questions related to these qualitative characteristics and underlying constraints. different companies (engredient)

(a) Davison Robertson Inc. income statement reports sales of $1,000,000 when it had sales of only $725,000. Which qualitative characteristic of accounting is not followed?
representational faithfullness (reliability)

(b) Macbeth Inc. does not issue its first-quarter report until after the second quarter's results are reported. Which qualitative characteristic of accounting is not followed?
timeliness (relevance)

(c) The chairman of the SEC at one time noted, "If it becomes accepted or expected that accounting principles are determined or modified in order to secure purposes other than economic measurement, we assume a grave risk that confidence in the credibility of our financial information system will be undermined." Which qualitative characteristic of accounting information should ensure that such a situation will not occur?
Neutrality (~~relevance~~) reliability

(d) Jack Hampton Inc. switches from the "percentage of sales" to the "percentage of receivables" method in calculating uncollectible accounts over a 2-year period. Which qualitative characteristic of accounting information is not followed?
Consistency &

(e) Identify the two overall or pervasive constraints developed in SFAC No. 2.
Reliability & Relevance Cost-benefit / and materiality

(f) Assume that the profession permits the savings and loan industry to defer losses on investments it sells, because immediate recognition of the loss may have adverse economic consequences on the industry. Which qualitative characteristic of accounting is not followed?
neutrality

(g) Jason Rich, Inc. is the only company in its industry to depreciate its plant assets on straight-line basis. Which qualitative characteristic of accounting information may not be followed?
Comparability

(h) What is the quality of information that enables users to confirm or correct prior expectations? ~~time period~~ feed-back value

(i) Two secondary qualities that make accounting information useful for decision-making purposes.
consistency, comparability

(j) Casper Leon Company has attempted to determine the replacement cost of its inventory. Three different appraisers arrive at substantially different amounts for this value. The president, nevertheless, decides to report the middle value for external reporting purposes. Which qualitative characteristic of information is lacking in these data?
virfiability

Question 3 (12 points)

On January 1, 2012, Columbo Co. hired a new controller. During the year, the controller, working closely with Columbo's president and outside accountants, made changes in existing accounting policies, instituted new accounting policies, and corrected several errors from prior years.

For each of the items listed below, select a classification from List A and the general accounting treatment required to report the change from List B. Place the letter answers in the boxes next to each item.

Item	List A	List B
1. Columbo manufactures customized equipment to customer specifications on a contract basis. Columbo changed its method of accounting for these long-term contracts from the completed contract method to the percentage of completion method because Columbo is now able to make reasonable estimates of future construction costs.	A	Y
2. Based on improved collection procedures, Columbo changed the percentage of credit sales used to determine the allowance for uncollectible accounts from 3% to 2%.	B	Z

List A - Type of Change		List B – General Accounting Treatment	
A.	Change in accounting principle	Y.	Retrospective application
B.	Change in accounting estimate	Z.	Prospective application
C.	Correction of an error in previously presented financial statements		
D.	Neither an accounting change nor an error correction		

List A represents possible classifications of these items as a change in accounting principle, a change in accounting estimate, correction of an error in previously presented financial statements or neither an accounting change nor an error correction.

List B represents the general accounting treatment required for these transactions. These treatments are:

- Retrospective application - Apply the cumulative effect resulting from the accounting change or error correction to the carrying amounts of assets and liabilities, with an adjustment to opening balance of retained earnings, in the current financial statements. Also apply adjustments to the financial statements for each individual prior period presented.
- Prospective application - Report current year and future financial statements on the new basis, but do not adjust opening retained earnings or include the cumulative effect of the change in the current year income statements.

For each of the items listed below, in addition to selection of a classification from List A and the general accounting treatment from List B, a **third** response is required. For these items, determine the amount of the change, if any; assume income tax rate is 40%. Place the letter and numerical answers in the spaces provided next to the item.

NI↑

Item	List A	List B	Amount
3. On January 1, 2012, Columbo changed from average cost to FIFO to account for its inventory. Cost of goods sold under each method was as follows: Time Frame — Average cost — FIFO Years prior to year 2012 — $63,000 — $68,000 Year 2012 — 66,000 — 72,000	A	Y	~~$6,600~~ 3300 ~~added to beginning retained earning~~
4. In January of year 2011, Columbo purchased a machine with a 4 years useful life and no salvage value for $50,000. The machine was depreciated using the Straight-line method. On December 30 of year 2012, Columbo discovered that depreciation on the machine had been calculated using a 30% rate.	~~B~~ C	~~Z~~ Y	2011 ~~1500~~ 5000 ~~2,500~~ added to Beg R as correction prior period + 2012 correcting entry by 2500 depreciation expense

3- Avg FiFo ~~excess decreased by~~ excess fifo on avg

63,000 68,000 5,000

66,000 72,000 6,000

11,000

11,000 x .6 = 6,600 add to beg R.E

4- ~~2011~~ 2012 (Straight line)

~~50000~~ 50,000 / 4 = 12,500 depreciation expense (as adjusted)

before

as calculated = 50,000 x 30% = 15,000

15,000 - 12,5000 = 2,500 expense overstated NI↓

Dep↑ NI↓

Question 4 (18 points)

Presented below is information related to Nissan Company for 2011.

Retained earnings, January 1, 2011	$ 650,000
Sales	1,400,000
Selling and administrative expenses	230,000
Hurricane loss (pre-tax) on plant (extraordinary item)	290,000
Loss on operations of the electronics division (pre- tax)	90,000
Gain on the disposition of the electronics division (pre- tax)	60,000
Cash dividends declared on common stock	33,600
Cost of goods sold	780,000
Other revenue	120,000
Other expenses	100,000

Required

a) Prepare in good form a multiple-step income statement for the year ended December 31, 2011. Assume a 30% tax rate and that 100,000 shares of common stock were outstanding during the year.

b) Calculate the total tax expense for the year ended December 31, 2011.

a) Income from continuing operation before tax 410,000
Income tax
x 30% tax rate
123,000
tax expenses

* loss on discontinued operations
pretax = 90,000
x 30% tax rate
27,000 tax savings
net loss - tax saving
90,000 - 27,000 =

* loss on plant
290,000 x 30%
= 87,000 ~~tax~~
tax saving
290,000 - 87,000
= 203,000

* gain on disposion: pretax 60,000
x 30% tax rate
18,000
tax expense
net gain = 60,000 - 18,000 = 42,000

b) Tax expense = Income tax expense + tax expense on ~~dispo~~ disposal discontinued - tax saving on discontinued - tax saving on Ex
= 123,000 + 18,000 - 27,000 - 87,000
= $ 27,000

2 ? !

Multiple Choice Questions (15 points)

1. The purpose of the Emerging Issues Task Force is to

   a. develop a conceptual framework as a frame of reference for the solution of future problems.
   b. lobby the FASB on issues that affect a particular industry.
   c. do research on issues that relate to long-term accounting problems.
   d. issue statements which reflect a consensus on how to account for new and unusual financial transactions that need to be resolved quickly.

2. Financial accounting standards:
   a. are products of absolute logic.
   b. are issued by the FASB without the input of parties such as corporate accountants or analysts.
   c. are often the result of compromises among the interested parties.
   d. have never been rejected by the SEC.
   e. none of the above statements are true.

3. A company records items on the cash basis throughout the year and converts to an accrual basis for year-end reporting. Its cash-basis net income for the year is $70,000.

The company has gathered the following comparative balance sheet information:

	Beginning of year	*End of year*
Accounts payable	− $ 3,000	+ $1,000
Unearned revenue	+ 300	− 500
Wages payable	− 300	+ 400
Prepaid rent	+ 1,200	− 1,500
Accounts receivable	− 1,400	+ 600
	Rev. −1000	−2200

Revenues
−~~3000 + 1000~~ + 300 − 500
−1400 + 600
Expenses:
−1200 + 1500
−3000 + 1000
−300 + 500
(−1500)

What amount should the company report as its accrual-basis net income for the current year?
   a. $68,800
   b. $70,200
   c. $71,200
   d. $73,200

4. A company decided to sell an unprofitable division of its business. The company can sell the entire operation for $800,000, and the buyer will assume all assets and liabilities of the operations. The tax rate is 30%. The assets and liabilities of the discontinued operation are as follows:

800,000

Buildings	$5,000,000
Accumulated depreciation	3,000,000
Mortgage on buildings	1,100,000
Inventory	500,000
Accounts payable	600,000
Accounts receivable	200,000

What is the after-tax net loss on the disposal of the division?

a. $140,000
b. $200,000
c. $1,540,000
d. $2,200,000

5. Which of the following is an example of managing earnings down?
   a. Changing estimated bad debts from 3 percent to 2.5 percent of sales.
   b. Reducing research and development expenditures.
   c. Not writing off obsolete inventory.
   d. Revising the estimated life of equipment from 10 years to 8 years.

6. Which of the following is a component of other comprehensive income?
   a. Minimum accrual of vacation pay.
   b. Cumulative currency-translation adjustments.
   c. Changes in market value of inventory.
   d. Unrealized gain or loss on trading securities.

7. On June 1, Royal Corp. began operating a service company with an initial cash investment by shareholders of $2,000,000. The company provided $6,400,000 of services in June and received full payment in July. Royal also incurred expenses of $3,000,000 in June that were paid in August. During June, Royal paid its shareholders cash dividends of $1,000,000. What was the company's income before income taxes for the two months ended July 31 under the following methods of accounting?

Accrual Cash   Cash Accrued

	Cash Basis	Accrual Basis
a.	$3,400,000	$3,400,000
b.	$5,400,000	$2,400,000
c.	$6,400,000	$3,400,000
d.	$6,400,000	$2,400,000

e. none of the above are correct

~~2,000,000~~   ~~2,000,000~~
6,400,000   6,400,000
-3,000,000
= ~~1,000,000~~

8. After all of the account balances have been extended to the Income Statement columns of the work sheet, the totals of the debit and credit columns are $87,500 and $98,300, respectively. What is the amount of the net income or net loss for the period?

a. $10,800 net income
b. $10,800 net loss
c. $98,300 net income
d. $87,500 net loss

9. Martiny Company received $9,000 on August 1, 2010 for one year's rent in advance and recorded the transaction with a credit to a nominal account. The December 31, 2010 adjusting entry is

   a. debit Unearned Rent and credit Rent Revenue, $3,750.
   b. debit Rent Revenue and credit Unearned Rent, $3,750.
   c. debit Rent Revenue and credit Unearned Rent, $5,250.
   d. debit Unearned Rent and credit Rent Revenue, $5,250.

Cash 9000
U.R 9000
Dr. UR 9000
Cr R.R 9000
Dr. R. Cr. U.R

10. When a full set of general-purpose financial statements are presented, comprehensive income and its components should

   a. Appear as a part of discontinued operations and extraordinary items.
   b. Be reported net of related income tax effect, in total and individually.
   c. Appear in a supplemental schedule in the notes to the financial statements.
   d. Be displayed in a financial statement that has the same prominence as other financial statements