

335

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10-18

9 + 10
?

BIRZEIT UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS
ACCOUNTING DEPARTMENT

26
45

LECTURER: SAMIA SHAMMAS

SECOND SEM. 2013/2014
FIRST HOUR EXAM

ACCT. "335"

Student Name:

Student #:

Multiple Choices

Question 2

Questions 1

1	A
2	C
3	A
4	B
5	B
6	A
7	A
8	K
9	C
10	B
11	B
12	B
13	B
14	D
15	D
16	K
17	A
18	A

1	Principle - Measurement
2	Assumption - Economic Entity Assumption
3	Constraint - Conservatism
4	Assumption - Going Concern Assumption
5	Principle - Full Disclosure Principle
6	Measurement Principle

Principle
Reverse
Princ.

Constraint - conservatism
?

1	T
2	B
3	A
4	F
5	F.N
6	A
7	A
8	K
9	A
10	A

10

7/10

Question 1 (6 points)

Baher and Maher are accountants for the Engineering Institute. They disagree over the following transactions that occurred during 2013. Maher disagrees with Baher on each of the transactions below.

1. The Engineering Institute finds a bargain for a commercial-grade plotter and pays \$3,000. Baher argues that if they had bought it from the dealer, they would have paid \$4,000. Baher suggests they record the plotter for \$4,000. *Historical cost principle*

2. Rimon is the president of the Engineering Institute, used his company expense account to purchase a new BMW for his personal use. Baher argues that since the president is also the owner of the Engineering Institute, it really does not matter who paid for it. *Economic entity Assumption*

3. Depreciation for the year was \$114,000. Baher 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. Rec. prin*

4. Baher 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 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. Baher doesn't think such information needs to be disclosed. *Full disclosure principle*

6. Baher decides to establish a large gain on this year because of the possibility that it may gain a pending patent infringement lawsuit.

Required

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

اه فصلة
متوقع انها ضارة
لزم اسجلها
انما انا كنت متوقفا
منع ما بسجله

~~10~~ ??

Question 2 (10 points)

Presented below are a number of items. Select the item that is most applicable in the following cases. Use the following letter code for your selections.

<input checked="" type="checkbox"/> A. Expense recognition principle	<input type="checkbox"/> H. Monetary unit assumption	<input type="checkbox"/> O. Relevance
<input checked="" type="checkbox"/> B. Timeliness	<input checked="" type="checkbox"/> I. Neutrality	<input type="checkbox"/> P. Economic entity assumption
<input type="checkbox"/> C. Reliability	<input type="checkbox"/> J. Measurement principle	<input checked="" type="checkbox"/> Q. Industry practice
<input type="checkbox"/> D. Periodicity assumption	<input checked="" type="checkbox"/> K. Feedback value	<input checked="" type="checkbox"/> R. Comparability
<input checked="" type="checkbox"/> E. Consistency	<input type="checkbox"/> L. Conservatism	<input type="checkbox"/> S. Full disclosure principle
<input checked="" type="checkbox"/> F. Materiality	<input type="checkbox"/> M. Verifiability	<input checked="" type="checkbox"/> T. Representational faithfulness
<input type="checkbox"/> G. Revenue recognition principle	<input checked="" type="checkbox"/> N. Cost-benefit relationship	<input type="checkbox"/> U. Predictive value

- T (1) Tulkarem Inc. income statement reports sales of \$1,200,000 when it had sales of only \$825,000. ~~AAA~~ T
- B (2) Bethlehem Inc. does not issue its first-quarter report until after the second quarter's results are reported. B
- I (3) 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."
- E (4) Hebron Company, switches from percentage of sales to percentage of receivables over a 2-year period.
- NIF (5) Identify the two overall or pervasive constraints developed in SFAC No. 2.
- A (6) 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.
- R (7) Jenin Inc. is the only company in its industry to depreciate its plant assets on straight-line basis.
- X (8) What is the quality of information that enables users to confirm or correct prior expectations?
- RIE (9) Two secondary qualities that make accounting information useful for decision-making purposes.
- MC (10) Jerusalem 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.

verifiability

Question 3 (16 points)

Jala Cotton Clothing Company is in the process of preparing its Financial Statements for December 31, 2013.

The items listed below represent various transactions that occurred during 2013.

The following two responses are required for each item:

- Compute the amount of gain, loss, or adjustment to be reported in the year-end financial statements, assuming an interest rate of 30%.
- Select from the list below the financial statement category in which the gain, loss, or adjustment should be presented.

Financial Statement Categories	
A.	Operating item section on the income statement
B.	Ordinary or unusual (but not extraordinary) item on the income statement
C.	Discontinued operations
D.	Extraordinary item
E.	Other comprehensive income
F.	Change in accounting principles to beginning retained earnings
G.	Prior period adjustment to beginning retained earnings
H.	Change in estimate

7
16

Item	Amount	Category
1. During the year, Jala discontinuance of all production in Beit-Jala at a loss in the amount of \$30,000 pre-tax. The manufacturing operations were relocated to Ramallah. Compute the amount of gain/(loss) and select the proper category. <p style="text-align: center;">Pre tax</p>	(losses) / gain Loss of \$30,000 other expenses loss 30,000 (\$21,000) 30,000	B B
2. During the year obsolete cotton clothing inventory was written off by Jala Co. at a loss in the amount of \$50,000 pre-tax by using the indirect method. This was the first loss/ of this type in the company's history. Compute the amount gain/(loss) and select the proper category. <p style="text-align: center;">Pre tax</p>	Loss on obsolete 50,000 less: Applicable for 15,000 write off (35,000) 50,000 (\$35,000)	B C
3. During the year Jala disposed of a manufacturing shoes segment, the segment had revenues of \$800,000 and expenses of \$500,000; the gain from the disposal of the manufacturing shoes segment was \$200,000 pre-tax. Compute the amount of gain/(loss) from the results of	300,000 gain report 300,000 less: Applicable for 140,000 210,000 gain on disposal 200,000 less: Applicable for 60,000 140,000	E ✓

Gain on disposal 300,000
less: Applicable for 140,000
210,000

Gain on disposal 200,000
less: Applicable for 60,000
140,000

300,000
200,000 } 500,000 * .7
350,000

Gain \$350,000

145

operations - 210,000
 disposed - 140,000

<p>operations and disposal of the manufacturing shoes segment and select the proper category.</p>	<p>net tax 350,000</p>	<p>C</p>									
<p>4. Jala decided to change from the % of credit sales method to the % of receivables method in determining bad debt expense in 2013. Data related to this change is presented below.</p> <table border="1" data-bbox="203 567 941 714"> <thead> <tr> <th></th> <th>Old Method</th> <th>New Method</th> </tr> </thead> <tbody> <tr> <td>Bad debt expense 2011</td> <td>\$80,000</td> <td>\$60,000</td> </tr> <tr> <td>Bad debt expense 2012</td> <td>120,000</td> <td>90,000</td> </tr> </tbody> </table> <p>Compute the amount of the change and state the direction increase/(decrease) and select the proper category.</p>		Old Method	New Method	Bad debt expense 2011	\$80,000	\$60,000	Bad debt expense 2012	120,000	90,000	<p>Paym R.E less: Adjusted Bad Debt 24,000 in Pay R.E Account Receivable 50,000 Retained Earning Income Tax Payable</p>	<p>F F 35,000 = increases 15,000</p>
	Old Method	New Method									
Bad debt expense 2011	\$80,000	\$60,000									
Bad debt expense 2012	120,000	90,000									
<p>5. In January 2013, Jala determined that the 10-year estimated useful life of a machine purchased for \$48,000 with a salvage value \$8,000 in January 2008 should be extended by 3 years and with a salvage value \$4,000. The machine is being depreciated using the straight-line method. Compute the amount of depreciation expense that should be reported in the financial statements for the year ended December 31, 2013 and select the proper category.</p>	<p>book value = 28,000 salvage = 4,000 useful life = 8 Dep exp = 3,000</p>	<p>H</p>									
<p>6. During the previous year's physical count, Jala erroneously counted goods held on consignment in the amount of \$20,000. Compute the amount of the adjustment and state the direction increase/(decrease) and select the proper category.</p>	<p>retained earnings 14,000 tax payable 6,000 Inventory 2,000 adjustment 14,000 (D) Inventory 20,000 (D) Tax Payable 6,000 (D) (14,000)</p>	<p>G</p>									
<p>7. During 2013, Jala earned a foreign currency transaction gain \$20,000 pre-tax on a purchase of equipment from a German Co. Compute the amount gain/(loss) and select the proper category.</p>	<p>20,000 x 70% \$14,000 Gain</p>	<p>B</p>									
<p>8. During 2013 Jala had an unrealized holding loss of \$100,000 pre-tax on available for sale securities in Palvest Co. Compute the amount gain/(loss) and select the proper category.</p>	<p>(70,000)</p>	<p>E</p>									

U.S.

Multiple Choice Questions (18 points)

2009

2010

2010

1. 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.

2. 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	+ 2000
-Unearned revenue	300	500	(200)
-Wages payable	300	400	(100)
-Prepaid rent	1,200	1,500	300
-Accounts receivable	1,400	600	(800)

Cash basis Net Income
 Less: Beg Accrual liability (3,300)
 Add: End Accrual liability 1,400
 Add: Beg Prepaid 1,200
 Less: End Prepaid (1,500)
 Less: Beg A/R (1,400)
 Add: End A/R 600
 Add Beg unearned 300
 Less: End unearned (500)
 Accrual liability Beg 3300

79,000

End 1,400

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

3. 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

Fact 701

\$ 800,000

liabilities of the discontinued operation are as follows:

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

\$ 1,000,000

less 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

less operation 200,000
less: Accumulated depreciation (600,000)

less 140,000

4. 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.

5. 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.

		Cash
June	2,000,000	1,000,000
July	6,400,000	

6. 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?

	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	

	June	July	
June	Dr Cash		2,000,000
		Cr R.E.	2,000,000
June	Dr A/R		6,400,000
		Cr Service Re.	6,400,000
July	Dr Cash		6,400,000
		Cr A/R	6,400,000
June	Dr Exp		3,000,000

Handwritten scribbles and initials.

June Dividend 1,000,000
cr Cash 1,000,000

7. 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

Initial Entry
 Aug 1 Dr Cash 90,000
 Cr Rent Revenue 90,000

10,800 net income

cash 9000
 revenue 5000

8. March Company received \$9,000 on August 1, 2013 for one year's rent in advance and recorded the transaction with a credit to a nominal account. The December 31, 2013 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.

Dec 31 Dr Rent Revenue 5,250
 Cr Unearned Rent 5,250

9. Which of the following is an acceptable way of displaying the components of other comprehensive income under the new accounting standard?

- a. Combined statement of retained earnings
- b. Second balance sheet
- c. Combined statement of comprehensive income
- d. As part of the statement of stockholders' equity

C.I

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

C.I

11. The following information is available for Olive Company for 2013:

الدفءة
 Disbursements for purchases
 Increase in trade accounts payable
 Decrease in merchandise inventory

\$1,050,000
 75,000
 30,000

Costs of goods sold for 2013 was

- a. \$1,005,000.
- b. \$1,095,000.
- c. \$1,155,000.
- d. \$945,000.

A/R
Unearned Rev

13eg
50,000

End
70,000
10,000
13

12. Dr. Mohannad, keeps his accounting records on the cash basis. During 2013, Dr. Mohannad collected \$360,000 from his patients. At December 31, 2013, Dr. Mohannad had accounts receivable of \$50,000. At December 31, 2013, Dr. Mohannad had accounts receivable of \$70,000 and unearned revenue of \$10,000. On the accrual basis, how much was Dr. Mohannad's patient service revenue for 2013?

- a. \$310,000.
- b. \$380,000.
- c. \$370,000.
- d. \$390,000.

Cash Receipts 360,000
 (less: Beg A/R 50,000)
 Add: End A/R 70,000
 less: End UR (10,000)

13. At the end of 2013, Raya Company made seven adjusting entries for the following items:

- 1. Depreciation expense, \$25,000. <
- 2. Expired insurance, \$2,200 (originally recorded as prepaid insurance.) <
- 3. Interest payable, \$6,000. ✓
- 4. Rental revenue receivable, \$10,000. ✓
- 5. Revenue earned, \$4,000 (originally recorded as unearned revenue) ✓
- 6. Supplies on hand, \$1,000 (originally recorded as supplies expense) ✓
- 7. Bad debt expense, \$3,000. <

In the normal situation, to facilitate subsequent entries, the adjusting entry or entries that may be reversed is (are)

- a. Entry No. 1, No. 2, No. 5, and No. 7. <
- b. Entry No. 3, No. 4, and No. 6.
- c. Entry No. 3, No. 4, No. 6, and No. 7. <
- d. Entry No. 2, No. 5, and No. 6. <

Initial
 April 1 Dr Rent exp 9000
 cr Cash 9000

14. Limon Company paid \$9,000 on April 1, 2013 for two year's rent in advance and recorded the transaction with a debit to a nominal account. The December 31, 2013 adjusting entry is

- a. debit Prepaid Rent and credit Rent Expense, \$3,375.
- b. debit Rent Expense and Prepaid Rent, \$3,375.
- c. debit Rent Expense and credit Prepaid Rent, \$5,625.
- d. debit Prepaid Rent and credit Rent Expense, \$5,625.

Prepaid Rent
 9000
 3375
 5625
 5625
 3375

15. Almond Company purchased material supplies of \$4,800 on June 1, 2013 and recorded the entire amount with a debit to a nominal account. On December 31, 2013 supplies count reveals materials on hand \$3,400, the adjusting entry is

- a. debit Supplies and credit Supplies Expense, \$3,400.
- b. debit Supplies Expense and credit Supplies, \$3,400.
- c. debit Supplies and credit Supplies Expense, \$1,400.
- d. debit Supplies Expense and credit Supplies, \$3,400.

Supplies exp 4800
 3400
 4800

June 1 Dr supplies exp 4,800
 cr cash 4,800

16. For the year ended December 31, 2013, Rawabi Inc. reported the following:

Net income	\$ 100,000
Preferred dividends declared	5,000
Common dividends declared	20,000
Unrealized holding loss on available-for-sale securities	3,000
Retained earnings	88,000
Common stock	60,000
Accumulated other comprehensive income, beginning balance	15,000
Income tax rate	30%

What would Rawabi report as its ending balance of Accumulated Other Comprehensive Income?

- a. \$12,900
- b. \$12,000
- c. \$17,100
- d. \$18,000

17. For the year ended December 31, 2013, Al-Rehan Inc. reported the following:

Net income	\$ 60,000	+	
Preferred dividends declared	10,000	-	
Common dividend declared	2,000	-	
Unrealized holding loss from foreign currency translation	2,000	-	(2000 x .7)
Retained earnings, beginning balance	80,000	+	
Common stock	40,000	+	
Accumulated Other Comprehensive Income, Beginning Balance	5,000	+	80,000
Income tax rate	30%		+ 60,000
			- 12,000

What would Al-Rehan report as total stockholders' equity?

- a. \$171,000
- b. \$171,600
- c. \$175,000
- d. \$174,400

163

R-S-S 128,000

18. Birzeit Co. changed from the cash basis of accounting to the accrual basis accounting during the year. The cumulative effect of this change should be reported in Birzeit's financial statements as a

- a. Change in accounting principle ? x
- b. Component of income after extraordinary item <
- c. Correction of an error
- d. Component of income before extraordinary item -

Cash basis
not GAAP