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BIRZEIT UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS
ACCOUNTING DEPARTMENT

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FIRST SEM. 2014/2015

MID-TERM EXAM

ACCT335

Student Name: ~~XXXXXXXXXX~~

Student #: ~~0850808~~ Section Time: 14⁰⁰-15²⁰ 1

Matching Question "1"

1	P
2	A
3	J
4	G
5	U
6	F
7	L
8	Q
9	N
10	S

Q1-10 } -1
Q2-10 } -1
Q3-7 } -3
Q4-18 } -5

45

Question 1 (10 points)

Phase A of the joint FASB and IASB conceptual framework project stipulated the desired fundamental and enhancing qualitative characteristics of accounting information. Several constraints impede achieving these desired characteristics. Answer each of the following questions related to these characteristics and constraints. Use the following letter code for your selections

??

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

- P 1. Josef Masson is the sole owner of Masson's Appliances. Josef borrowed \$100,000 to buy a new home to be used as his personal residence. This liability was not recorded in the records of Masson's Appliances.
- A 2. Hewlett-Packard Corporation depreciates machinery and equipment over their useful lives in a rational and systematic manner.
- J 3. Crosby Company lists land on its balance sheet at \$120,000, its original purchase price, even though the land has a current fair value of \$200,000.
- G 4. Honeywell Corporation record revenue only after products have been shipped, even though customers pay Honeywell 50% of the sales price in advance. ✓
- U 5. Liquidation values are not normally reported in financial statements even though many companies do go out of business. ✓
- F 6. IBM Corporation, a multibillion dollar company, purchased some tools at a cost of \$1000. Even though the tools will be used for a number of years, the company recorded the purchase as an expense. ✓
- L 7. Ace Appliance Company is involved in a large gain this year because of the possibility that it may gain a pending patent infringement lawsuit. The possibility of gain is considered probable by its attorneys. The suit was not disclosed in the most recent financial statements.
- Q 8. Hawaii Tropical Inc. reports its agricultural crops of pineapples, mango & cactus at fair market value.
- N 9. David is the human resource manager of Kinglee Co. ^{اقترح} proposed the idea to install an abnormally expensive system to track employees, their health, and their pension status. David argues that this system is necessary to appropriately account for the pension liability complying with accounting guidelines, but Kinglee 's CFO refused the idea.
- S 10. In preparation of its financial statements, Softbyte Co. provided information about its accounting methods used.

Question 2 (11 points)

Arab Dental Center "ADC" provides dental services and maintains its books on a cash basis. However the company recently borrowed \$100,000 from a Palestine bank and the bank requires ADC to provide annual financial statements prepared on an accrual basis. During 2013, the following cash flows were recorded:

Cash collected from patients		\$320,000	
Cash paid for:			
Salaries	\$180,000		
Supplies	25,000		
Rent	12,000		
Insurance	6,000		
Miscellaneous	<u>20,000</u>	<u>243,000</u>	
Net operating cash flow			<u>\$77,000</u>

You are able to determine the following information about accounts receivable, prepaid expenses, and accrued liabilities:

Accounts	January 1, 2013	December 31, 2013	
Accounts receivable	\$32,000	\$27,000	-5000
Prepaid insurance	0	2,000	2000
Supplies	1,000	1,500	
Accrued liabilities (for miscellaneous expenses)	2,400	3,400	

Additional information

- The bank loan was dated September 30, 2013, with principal and interest at 6% due in one year. *3 month 15000*
- Depreciation on the x-ray machine is \$10,000 for the year.
- Estimated bad debt on dental services provided on credit to patients is \$4,000 for the year.
- Amortization on patent is \$2,000 for the year.

Required

Prepare an accrual basis income statement for the year ended December 31, 2013. (Ignore income taxes).

Solution

Arab Dental Center
Income Statement
for the year ended Dec. 31, 2013

Revenue
Service Revenue

315000 \$

Expenses:

Salary expense 180000 \$

Supplies expense 24500

Rent expense 12000

Insurance expense 4000

Miscellaneous expense 21000

Depreciation expense 10000

Bad debt expense 4000

Amortization expense 2000

Interest expense

15000 ⇒ 1500 (1.0)

Total expense

272500 ⇒ 56000 (1.0)

net income

42500 \$

Question 3 (8 points)

Answer each part of this question independently:

- a) The following represent adjusting entries prepared for the Bent Tree Company at December 31, 2012 (end of the accounting period). The company has the policy of using reversing entries when appropriate. For each adjusting entry below, indicate if it would be appropriate to reverse it at the beginning of 2013. Your answer should be "yes" or "no" for each adjusting entry:

Adjusting Entries		Yes/No
1.	Dr. Deferred Advertising Expense 4,500 Cr. Advertising Expense 4,500	Yes
2.	Dr. Interest Receivable..... 690 Cr. Interest Revenue 690	Yes No
3.	Dr. Unearned Rental Revenue..... 900 Cr. Rental Revenue..... 900	No
4.	Dr. Insurance Expense..... 1,600 Cr. Prepaid Insurance..... 1,600	No

- b) On December 31, 2013, Yacht Management Co. prepared an adjusting entry for \$6,700 of earned but unrecorded management fees earned. On January 16 2014, Ace received \$15,500 of management fees which included fees earned in 2013. Assuming the company uses reversing entries, prepare the reversing entry (if applicable) and the January 16, 2014 subsequent entry.

Reversing Entry "if applicable"	Subsequent Entry
1. Jan 16 Dr. Service Revenue 6700 Cr. Account receivable 6700	Jan 16 Dr. Cash 15500 Cr. Service Revenue 15500

adjusting entry
Account receivable 6700
Service Revenue 6700

Question 4 (21 points)

For each of the items (independent situations) listed below:

1. Identify the appropriate reporting treatment from the irregular item list below (consider each event to be material):

- a. As an extraordinary item.
- b. As an unusual gain or loss.
- c. As a correction of errors.
- d. As a change in accounting principle.
- e. As a discontinued operation.
- f. As a change in accounting estimate.

2. Indicate whether each situation would be included in the income statement in continuing operations (CO) or below continuing operations (BC), or if it would appear as an adjustment to retained earnings (RE).

3. Determine the amount for each of the following situations, assume tax rate of 40%.

The following events occurred during 2013 for various audit clients of Price Water House Coopers "PWC" firm. Consider each event to be independent and the effect of each event to be material.

1. A cosmetics company named Beauty Care decided to discontinue the manufacture of a line of women's lipstick. Other cosmetic lines will be continued. Cash in the amount of \$740,000 was received on the discontinued of the lipstick product line, while the book value of the assets related to the lipstick product line was \$660,000. The operations of the discontinued line cannot be distinguished from the rest of the cosmetics business.

2. In January 2011, Studio Manar purchased a digital camera which had a 7 year estimated useful life and a salvage value of \$1,000 for \$8,000. The digital camera has been depreciated using the straight-line method. During 2013, and due to new technology that would accelerate the obsolescence of digital cameras, Studio Manar decided to decrease the useful life of the digital camera by 2 years.

3. During 2013, Sbitani Co. applied improved collection procedures that helped to collect credit sales which were in the amount of \$700,000. Due to the improved collection procedures, Sbitani changed the percentage of credit sales used to determine bad debt expense from 3% to 1%.

4. On January 1, 2012, Rawaj Co. purchased a machine for \$50,000 with a 4 years useful life and \$5,000 salvage value. The machine was depreciated using the Straight-line method. On June 30, 2013, Rawaj discovered that depreciation on the machine for 2012 had been calculated using 30% rate.

5. Jaber gas and oil station company received \$ 1000,000 from its insurance company to cover losses suffered during volcano. This was the first volcano ever to strike in Jaber's area. The

$$1000000 - \frac{(200000 + 350000 + 70000)}{5}$$

Cost 8000
SV 1000
Wl = 7
us: 5-2
SV 1000
Cost 6000

Fr. right
 $\frac{45000}{4}$
 $= 11250$
W/m
15000

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$$1,000,000 - \frac{(200,000 + 350,000 + 70,000)}{6}$$

cost 8000
SV 1000
UL = 7
us: 5-2
SV 1000
By cost 6000

Fr. right
 $\frac{45000}{4}$
= 11250
wrong
15000

volcano destroyed a warehouse with a carrying amount \$200,000, gas and oil mine with a carrying amount of \$700,000, containing inventory with a carrying amount of \$350,000 and a fair value of \$500,000.

6. The Palvest Holding Company has several operating divisions. During the year management decided to sell one of its divisions that qualifies as a separate component. For the year, the division reported revenues of \$800,000, and expenses of \$670,000. On December 31, 2013, the end of the company's fiscal year, the division had not been sold.

7. During January 2013, Wassel Co. decided to change from the straight-line method of depreciation to the double-declining-balance depreciation method. Data related to this change is presented below.

	S.L.M	DDB
Depreciation in 2013	\$40,000	\$70,000
Accumulated Dep. as of 1/1/2013	120,000	190,000

Use the format shown below to answer requirement 1, 2 and 3. Place the answer codes in the shaded boxes next to each item. In addition, determine the amount.

Situation	Treatment (a-f)	Financial Statement Presentation (CO, BC, or RE)	Amount
1.	B A E	CO BC RE	gain 80000 exp 67000 net 13000 42000
2.	F	CO	exp for 2013 1667
3.	F	CO	bal debt exp for 2013 7000
4.	C	RE (net of tax)	13500 - 11250 = 2250
5.	A	BC (net of tax)	(150000)
6.	E	BC (net of tax)	78000
7.	D	RE (net of tax)	(42000)

$$4 \rightarrow 15000 - 11250 = 3750$$

$$4) (45000 \times 3\%) - (45000 \times .25)$$

$$(13500 - 11250) \times .6 = 1350$$

