

BIRZEIT UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS
ACCOUNTING DEPARTMENT

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FIRST SEM. 2014/2015

MID-TERM EXAM

ACCT335

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Section Time: T, R 2 - 3:30

Matching Question "1"

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

1 - 9
2 - 11
3 - 5
4 - 19

44

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 & U 2. Hewlett-Packard Corporation ^Udepreciates machinery and equipment over their useful lives in a rational and systematic manner _A
- 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.
- T 9. David is the human resource manager of Kinglee Co. 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>	243,000	
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	⇒ (5,000)
Prepaid insurance	0	2,000	⇒ 2,000
Supplies	1,000	1,500	⇒ 500
Accrued liabilities (for miscellaneous expenses)	2,400	3,400	⇒ (1,000)

Additional information

- The bank loan was dated September 30, 2013, with principal and interest at 6% due in one year. 3 months (1,500)
- Depreciation on the x-ray machine is \$10,000 for the year. -(10,000)
- Estimated bad debt on dental services provided on credit to patients is \$4,000 for the year. -(4,000)
- Amortization on patent is \$2,000 for the year. (2,000)

Required

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

Solution

ADC Comp.

Income Statement

from Jan to Dec. 2013

Net operating Cash flow	\$ 77,000
less: dec. in Acc. Rec. (5000)	
Inc. in Accrued Liab. (1000)	
Add: inc. in Prepaid insurance 2000	
inc. in supplies 500	(3500)

from Additional Information

less

Exp : Interest exp.	(1500)
Dep. exp.	(10,000)
Bad debt on dental ser.	(4000)
Amortization exp. on Patent (2000)	(17,500)

Net Income \$ 56,000

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
3.	Dr. Unearned Rental Revenue..... 900 Cr. Rental Revenue..... 900 <i>Cash unearned</i>	No
4.	Dr. Insurance Expense..... 1,600 Cr. Prepaid Insurance..... 1,600 <i>Prepaid</i>	No

Cash unearned
Rev.

- 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
Not applicable	unearned fee, Rev. 8,800 fee's Rev. 8,800
Rev. 88000 unearned Rev. 88000	Cash

for earned 6700 → *unearned Rev. 6700*
Rev. 6700 5

Question4 (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.

b, CO, 80,000

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.

F, CO, (2000)

8000

3 Years

2000 / 3 = 667 ?

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%.

f, CO, (7000)

3. 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.

C, RE, +575

11250 + 13500

2250

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

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.

a, BC,

(150,000)

250,000

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.~~

130,000

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.

	^{old} <u>S.LM</u>	^{new} <u>DDB</u>	
Depreciation in 2013	\$40,000	\$70,000	
Accumulated Dep. as of 1/1/2013	120,000	190,000	(70,000)

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	CO	\$ 80,000 ✓
2.	F	CO	(1667) (2,000) ✓
3.	f	CO	(7000) ✓
4.	C	RE	\$1350 1375 ✓
5.	a	BC	\$ (150,000) ✓
6.	b b	CO RE ✓	130,000 130,000 ✓
7.	d	RE	(420,000) ✓

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