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BIRZEIT UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS
ACCOUNTING DEPARTMENT

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SECOND SEM. 2014/2015
DATE: 22/3/2015

MID-TERM EXAM: ACCT335

Student Name: ~~XXXXXXXXXXXXXXXXXXXX~~

Student #: ~~XXXXXXXXXX~~ Section Time: T-R : 11:00

Multiple Choices

1	X
2	B
3	C
4	B
5	X
6	C
7	C
8	D
9	X
10	C
11	D
12	X

	The mark
Q1	8
Q2	5.5
Q3	8
Q4	13



Question 1 (12 points)

For each of the following situations mentioned below indicate which fundamental qualities, ingredients or enhancing qualities which has been violated.

Presented below is the table of the qualitative characteristics. Select the item/s that is/are most applicable in the following situations. Use the following letter code for your selections.

A. Relevance	G. Free from error	
B. Timeliness	H. Neutrality	
C. Completeness	I. Confirmatory value	
D. Representational faithfulness	J. Materiality	
E. Consistency	K. Predictive value	
F. Verifiability	L. Understandability	M. Comparability

5.5
↓

	Situation	Fundamental Qualities	Ingredients	Enhancing Qualities
1.	Commercial Palestine bank switches from % of credit sales method to % of receivable method over the last 3 years.	(E)		
2.	Unipal 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.	(F)	✓	
3.	Marawi Co. is involved in a major lawsuit involving injuries sustained by some of its employees in the manufacturing plant. The company is being sued for \$2,000,000 and is not insured. The suit was not disclosed in the most recent financial statements because it would adversely affect the company's reputation.	(D)	✓	
4.	Birzeit University is the only university in Palestine to depreciate its plant assets on double declining method.	(I)		

5.	Nabali & Fares Construction Co. does not issue its first-quarter report until after the second quarter's results are reported.	(B)	✓	→
6.	Pinar Dairy Food Co. income statement reports sales of \$500,000 when it had sales of only \$460,000.	(D)	✓	
7.	Jawwal issued three-month's report that shows interim earnings have declined significantly. Some users, upon reading the report, decide to buy new shares.		NA	✓ (L)
8.	Sahem Co. purchased for its main entrance a rug at a cost of \$25. Sahem recorded this purchase as an asset to be expensed equally over the four-year useful life	(J)	✓	→
9.	When the balance sheet of Pal trade co. was prepared, the preparer reported the cash in the amount of \$450,000 under the current assets. However, \$150,000 of this amount was restricted by management for plant expansion after 3 years. Therefore, no information about cash restrictions was available.	(A) (C)	✓	→

Question 2 (12 points)

When the accounts of Co. were examined, the adjusting data listed below were uncovered on December 31, 2013 the end of an annual fiscal period.

1. Interest of \$2,500 was earned on notes receivable. Int
2. On August 1, Rental Revenue was credited for \$60,000, representing revenue from a sub-rental for a 12-month period beginning on that date. Dr. Re
Cr. unrec
3. Purchase of packaging materials for \$5000 during the year was recorded in the Packaging Material account. A physical count revealed that on December 31, packaging materials of \$2,900 are on hand.
4. On Dec 31, reasonably estimate bad debt expense based on % of receivable in the amount of \$2000.
5. The prepaid insurance expense account shows a debit of \$72,000, representing the cost of a 3-year fire insurance policy dated April 1 of the current year. Dr. Prep ins
Cr. prep-Ins
6. On March 1, Service Revenue was credited for \$48,000, representing services to be performed within 2-year period beginning on that date. An analysis reveals that \$20,000 of these services was earned during the current year. Dr. SR
Cr. unrec

Required

Use the following table below to prepare the reversing entry for each item where appropriate.

Item	Reversing Entry (if appropriate)
1.	Dr. Intrest Revenue 2,500 Cr. Interest Recivable 2,500
2.	Dr. unearned service Revenue 35,000 (rent) Cr. Rent Revenue. 35,000
3.	no Entry ⇒ it's a B.S approach.
4.	no Entry.
5.	Dr. prepaid insurance Expens 6,000 Cr. Prepaid insurance. 6,000
6.	Dr. unearned service Revenue 20,000 Cr. Servic Revenue 20,000

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 income tax rate of 40%**.
- 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

13
16
↓

Item	Amount	Category
1. During the year, Jala <u>discontinuance</u> of all production in Beit-Jala at a loss in the amount of \$40,000 pre-tax. The manufacturing operations were <u>relocated</u> to Ramallah. Compute the amount of gain/(loss) and select the proper category.	\$ (40,000)	A B C D E F G H
2. During the year obsolete cotton clothing inventory was <u>written off</u> by Jala Co. at a loss in the amount of \$33,000 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.	\$ (33,000)	B
3. During the year Jala disposed of a manufacturing shoes segment, the segment had revenues of \$300,000 and expenses of \$500,000; the gain from the disposal of the manufacturing	Loss: 200,000 Net of Loss (120,000) gain = 50,000 net of gain = 30,000	C

Loss
→ \$ (90,000)

$$\frac{50,000 \times 40}{100} = 20,000$$

$$50,000 - 20,000 = 30,000$$

<p>shoes segment was \$50,000 pre-tax. Compute the total amount of gain/(loss) from the results of operations and disposal of the manufacturing shoes segment and select the proper category.</p>	<p>\$70,000</p> <p>←</p>	<p>E</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="0" style="width: 100%;"> <thead> <tr> <th></th> <th style="text-align: center;">Old Method</th> <th style="text-align: center;">New Method</th> </tr> </thead> <tbody> <tr> <td>Bad debt expense 2011</td> <td style="text-align: right;">\$90,000</td> <td style="text-align: right;">\$50,000</td> </tr> <tr> <td>Bad debt expense 2012</td> <td style="text-align: right;">120,000</td> <td style="text-align: right;">80,000</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	\$90,000	\$50,000	Bad debt expense 2012	120,000	80,000	<p>BB₂₀₁₃ 80,000</p> <p>Accumulated Δ = 80,000</p> <p>80,000</p> <p>Less = 32,000</p> <p>=</p> <p>(32,000)</p> <p>Decrease.</p>	<p>F</p>
	Old Method	New Method									
Bad debt expense 2011	\$90,000	\$50,000									
Bad debt expense 2012	120,000	80,000									
<p>5. In January 2013, Jala determined that the <u>10-year</u> estimated useful life of a machine purchased for \$55,000 with a salvage value \$5,000 in January 2007 should be extended by 4 years and with a salvage value \$3,000. 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>14 ⑥</p> <p>D.E = 5,000</p> <p>$5,000 \times 4 = 20,000$</p> <p>New Dep E =</p> <p>$\frac{20,000 - 3,000}{10 - 9}$</p> <p>=</p> <p>\$ 4,375</p>	<p>H</p>									
<p>6. During the previous year's physical count, Jala Co. erroneously counted goods held on consignment in the amount of \$24,000. Compute the amount of the adjustment and state the direction increase/(decrease) and select the proper category.</p>	<p>$24,000 \times \frac{60}{100}$</p> <p>=</p> <p>\$(14,400)</p>	<p>G</p>									
<p>7. During 2013, Jala earned a foreign currency transaction gain \$38,000 pre-tax on a purchase of equipment from a German Co. Compute the amount gain/(loss) and select the proper category.</p>	<p>\$ 38,000</p>	<p>B</p>									
<p>8. During 2013 Jala had an unrealized holding gain of \$75,000 pre-tax on available for sale securities in Palvest Co. Compute the amount gain/(loss) and select the proper category.</p>	<p>\$ 45,000</p>	<p>E</p>									

$$\frac{10 - 4}{6}$$

$$\frac{5,000 \times 4}{20,000}$$

$$35,000$$

Question 4: Multiple Choice (24 points)

1. General-purpose financial statements are the product of
 - a) financial accounting.
 - b) managerial accounting.
 - c) both financial and managerial accounting.
 - d) neither financial nor managerial accounting.

2. Accrual accounting is used because
 - a) cash flows are considered less important.
 - b) it provides a better indication of a company's ability to generate cash flows than the cash basis.
 - c) it recognizes revenues when cash is received and expenses when cash is paid.
 - d) None of the answer choices are correct.

3. Which of the following is a requirement for an accounting principle to be called "generally accepted"? ←
 - a) An authoritative accounting rule-making body has established it in an official pronouncement.
 - b) The principle has been accepted as appropriate because of its universal application.
 - c) An authoritative accounting rule-making body has established it and it has been accepted because of its universal application.
 - d) None of the answer choices are correct.

4. 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) requires that all accountants must receive a copy of financial standards.

5. What would be an advantage of having all countries adopt and follow the same accounting standards?
 - a) Agreement.
 - b) Comparability.
 - c) Lower preparation costs.
 - d) Comparability and lower preparation costs.

Use the following to answer questions 6-7:

Olsen Company paid or collected during 2010 the following items:

Insurance premiums paid		\$ 10,400
Interest collected	33,900	33,900
Salaries paid		120,200

The following balances have been excerpted from Olsen's balance sheets:

	December 31, 2010	December 31, 2009
Prepaid insurance	\$ 1,200	\$ 1,500
Interest receivable	3,700	2,900
Salaries payable	12,300	10,600

6. The interest revenue on the income statement for 2010 was:
 a) \$27,300 b) \$33,100. **c) \$34,700.** d) \$40,500

7. The insurance expense on the income statement for 2010 was
 a) \$7,700. b) \$10,100. **c) \$10,700.** d) \$13,100.

8. The following information was extracted from the accounts of Essex Corporation at December 31, 2014:

	CR(DR)
Total reported income since incorporation	\$3,200,000
Total cash dividends paid	(1,600,000)
Unrealized holding loss on available-for-sale securities	(240,000)
Total stock dividends distributed	(400,000)
Prior period adjustment, recorded January 1, 2014	150,000
What should be the balance of retained earnings at December 31, 2014?	
a) \$1,110,000. b) \$1,200,000. c) \$1,960,000. d) \$1,350,000.	

9. Korte Company reported the following information for 2014:

Sales revenue	\$1,500,000
Cost of goods sold	1,050,000
Operating expenses	165,000
Unrealized holding gain on available-for-sale securities	50,000
Cash dividends received on the securities	6,000

For 2014, Korte would report comprehensive income of
 a) \$341,000. **b) \$335,000.** c) \$291,000. d) \$50,000.

NI
+OH

10. For the year ended December 31, 2014, Transformers Inc. reported the following:

Net income	\$180,000
Preferred dividends declared	30,000
Common dividend declared	6,000
Unrealized holding loss, net of tax	3,000
Retained earnings	240,000
Common stock	120,000
Accumulated Other Comprehensive Income, Beginning Balance	15,000

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

- a) \$18,000 b) \$15,000 **c) \$12,000** d) \$3,000

15,000

$$\frac{1,000,000}{500,000} = 2$$

11. In 2014, Linz Corporation reported an extraordinary loss of \$1,000,000, net of tax. It declared and paid preferred stock dividends of \$100,000 and common stock dividends of \$300,000. During 2014, Linz had a weighted average of 500,000 common shares outstanding. As a result of the extraordinary loss, net of tax, the earnings per share would decrease by

- a) \$1.20 b) \$1.40 c) \$1.80 **d) \$2.00**

12. Palomo Corp has a tax rate of 30 percent and income before non-operating items of \$1,071,000. It also has the following items (gross amounts).

→ Unusual gain	\$ 69,000
→ Loss from discontinued operations	549,000
→ Dividend revenue	18,000
→ Income increasing prior period adjustment	222,000

What is the amount of income tax expense Palomo would report on its income statement?

- a) \$347,400 b) \$182,700 **c) \$249,300** d) \$326,700

10,020,000

$$\begin{array}{r} 321,300 \\ (161,700) \\ \hline 66,600 \\ \hline 223,200 \end{array}$$

$$\begin{array}{r} 300,600 \\ (161,700) \\ \hline 135,900 \end{array}$$