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BIRZEIT UNIVERSITY
FACULTY OF COMMERCE & ECONOMICS
ACCOUNTING DEPARTMENT

24 + 3
25

INSTRUCTOR: NASER ABDUL-KAREEM

SECOND SEM. 2002/2003

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SECOND EXAM

161138

ACCT. "335"

(1). Choose the best answer for each of the following questions:

1. The correct order to present current assets is

- a. Cash, accounts receivable, prepaid items, inventories.
- b. Cash, accounts receivable, inventories prepaid items.
- c. Cash, inventories, accounts receivable, prepaid items.
- d. Cash, inventories, prepaid items, accounts receivable.

2. The basis for classifying assets as current or noncurrent is the period of time normally required by the accounting entity to convert cash invested in

- a. Inventory back into cash, or 12 months, whichever is shorter.
- b. Receivable back into cash, or 12 months, whichever is longer.
- c. Tangible fixed assets back into cash, or 12 months, whichever is longer.
- d. Inventory back into cash, or 12 months, whichever is longer.

3. Which item below is not a current liability?

- a. Unearned revenue.
- b. Stock dividends distributable.
- c. The currently maturing portion of long-term debt.
- d. Trade accounts payable.

4. A measure of a company's financial flexibility is the

- a. Cash debt coverage ratio.
- b. Current cash debt coverage ratio.
- c. Free cash flow.
- d. Cash debt coverage ratio and free cash flow.

5. In a statement of cash flows, interest payments to lenders and other creditors should be classified as cash outflows for

- a. Operating activities.
- b. Borrowing activities.
- c. Lending activities.
- d. Financing activities.

Dr
Cr
A/R
A/P
600
600
(500)

2009

25 1/2

97	A/30
98	A/280
99	C/30
96	230
97	230
88	180
95	230
<hr/>	
660	

660
7

21

8.64869

- a) \$21,356.
- b. \$23,909.
- c. \$29,728.
- d. \$23,492.

11. On January 2, 1998, watta corporation wishes to issue \$500,000 (par value) of its 8%, 10-year bonds. The bonds pay interest annually on January 1. The current yield rate on such bonds is 10%. Using the interest factors below, compute the amount that watta will realize from the sale (issuance) of the bonds.

Present value of 1 at 8% for 10 periods.	0.4632	500,000
Present value of 1 at 10% for 10 periods.	0.3855	0.3855
Present value of an ordinary annuity at 8% for 10 periods.	6.7101	
Present value of an ordinary annuity at 10% for 10 periods.	6.1446	192750

- a. \$500,000.
- b) \$438,534.
- c. \$500,004.
- d. \$553,014.

12. On December 30, 1998, Cates. Inc. purchased a machine from Frank Corp. In exchange for a noninterest-bearing note requiring eight payments of \$30,000. The first payment was made on December 30, 1998, and the others are due annually on December 30. At date of issuance, the prevailing rate of interest for this type of note was 11%. Percent value factors are as follows:

السنة
التي

	Present value of ordinary	
Period	Annuity of 1 at 11%	3-
7	4.712	
8	5.146	$1.01 \times 30,000$

On Cate's December 31, 1998 balance sheet, the net note payable to frank is

- a) \$141,360.
- b) \$154,380.
- c. \$156,930.
- d. \$171,360.

13. Which the folowing is considered cash?

- a. Certificates of deposit (CDs).
- b) Money market cheking accounts.
- c. Money market savings certificates.
- d. Postdated checks.

14. Travel advances should be reported as

- a. Supplies.
- b. Cash because they represent the equivalent of money.
- c. Investments.
- d) Accounts Receivable.

Question (2)

On December 31, 1998, Damon corporation sold for \$50,000 an old machine having an original cost of \$70,000 and a book value of \$20,000. the terms of the sale were as follows:

- \$10,000 down payment
- \$20,000 payable on december 31 each of the next two years in form of notes receivable.

50,000
(2)

The agreement of sale made no mention of interest; however, 9% would be a fair rate for this type of transaction. The present value of an ordinary annuity of 1 at 9% for 2 years is 1.75911.

Write the entry to record this sale transaction.

30000
again

~~Cash 10000~~
~~not Receivable 20000~~
~~cash 20000~~
~~machine 20000~~
~~Revenue 35182.2~~
~~cash 10000~~
~~not Receivable 20000~~
~~discount on note 14817.8~~
~~Revenue 35182.2~~
~~machine 20000~~
~~again 3~~

$20000 \times 1.75911 = 35182.2$
 $35182.2 - 20000 = 15182.2$
 $15182.2 \times 0.09 = 1366.4$
 $1366.4 \times 2 = 2732.8$
 $15182.2 + 2732.8 = 17915$

entry

Question (3)

On January 1, 1998, North Co. Exchanged equipment for a \$240,000 zero-interest-bearing note due on January 1, 2001. The prevailing rate of interest for a note of this type at January 1, 1998 was 10%. The present value of \$1 at 10% for three periods is 0.75.

(a) What amount of interest revenue should be included in north's 1999 income statement?

3 = 60000
= 60000
Wscat 18000
Reve 18000

$240000 \times 0.75 = 180000$
~~not Receivable 240000~~
~~discount 60000~~
~~Revenue 180000~~

$180000 \times 0.10 = 18000$
 $180000 + 18000 = 198000$
 $198000 \times 0.10 = 19800$

$180000 \times 0.10 = 18000$
 $180000 + 18000 = 198000$
 $198000 \times 0.10 = 19800$

(b) Write the entry to record the interest revenue accrued on the note, if any, for year 1999.

~~discount on not Receivable 20000~~
~~interest Revenue 20000~~ 19800

19) The following information is available for the Story Company:

Allowance for doubtful accounts at December 31, 1997	→ \$ 8,000
Credit sales during 1998	→ 400,000
Accounts receivable deemed worthless and written off during 1998	<u>9,000</u>

As a result of a review and aging of accounts receivable in early January 1999, however, it has been determined that an allowance for doubtful accounts of \$5,500 is needed at December 31, 1998.

What amount should Story record as "bad debt expense" for the year ended December 31, 1998?

- a. \$4,500
- b. \$5,500
- c. \$6,500
- d. \$13,500

$$8000 + 9000 + \text{Change Bad Debt} = 5500$$

$$- 1000 + \text{change} = 5500$$

$$+ 1000 \quad + 1000$$

$$6500$$

Question Two

Answer the following independent cases:

- (a) BA Company issued bonds in the amount of \$600,000. The bonds are 10 year, 10% bonds that pay interest semiannually. The current market interest rate is 12%. Compute the amount of discount on this bond issue?
- (b) Art Mart Company owns a plot of land on which toxic buried wastes have been discovered. Since it will require several years and a considerable sum of money before the property is fully detoxified and capable of generating revenues, Art Mart wishes to sell the land now. It has located two buyers: Buyer A, who is willing to pay \$240,000 for the land two years from now, and Buyer B, who is willing to make 15 annual payments of \$35,000 each, with the first payment to be made 5 years from today. Assuming an appropriate rate of interest is 8%, to whom should Art Mart sell the land? Show calculations.
- (c) Swanson Company wants to accumulate \$500,000 on December 31, year 10, to retire preferred stock. The company deposits \$125,000 in a savings account on January 1, year 1 which will earn interest at 6% compounded annually. Swanson wants to know what additional amount it has to deposit at the end of each year for 10 year to have \$500,000 available at the end of year 10. The periodic deposits also will earn interest at 6% compounded annually?
- (d) Feras, an accountant contemplating retirement on his sixty five birthday, decides to create a fund on an 11% basis that will enable him to withdraw \$25,000 per year on December 31, beginning 2006, and continuing through 2010. To develop this fund, Feras intends to make equal contributions on December 31 of each of the years 2002-2005. What is each of Feras's contribution to the fund?

Question Three

JFK Company deposits all receipts and makes all payments by check. The following information is available from the cash records:

<u>July 31 Bank Reconciliation</u>	
Balance per bank	\$26,747
Add: deposits in transit	2,100
Less: outstanding checks	(3,800)
Balance per books	<u>\$25,046</u>

<u>Month of August Results</u>		
	<u>Per Bank</u>	<u>Per Books</u>
Balance August 31	\$27,995	\$24,355
— August deposits	10,784	2105 12,889
August checks	11,100	13,080
— August note collected (not included in August deposits)	3,000	1980 -0-
— August bank service charge	35	-0-
— August NSF check of a customer returned by the Bank, (recorded by bank as a charge)	900	-0-

26420

Required:

Prepare a bank reconciliation statement at August 31