90.5/50 good

BIRZEIT UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS
ACCOUNTING DEPARTMENT

LECTURER: HIND MUHTASEB

SECOND SEM.2012/2013

SECOND HOUR EXAM

ACCT."335"

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MULTIBLE CHOICE

1.	b
2.	~~a~~ c
3.	c
4.	b
5.	c
6.	b
7.	b
8.	a
9.	c
10.	c
11.	d
12.	c
13.	d X
14.	b X
15.	b
16.	c X
17.	c X
18.	c X
19.	b
20.	b X

14/20

Part one: Multiple Choice Questions (20 points)

1. In a statement of cash flows, payments to acquire debt instruments of other entities (other than cash equivalents) should be classified as cash outflows for

   a. operating activities.
   b. investing activities.
   c. financing activities.
   d. lending activities.

2. Presented below are data for Bandkok Corp.

	2010	2011	2012
Assets, January 1	$5,400	$6,480	?
Liabilities, January 1	3,240	?	$3,888
Stockholders' Equity, Jan. 1	2,160 ?	?	4,050
Dividends	1,080	810	918
Common Stock	972	864	920
Stockholders' Equity, Dec. 31	2,092 ?	?	3,078
Net Income	1,080	864	?

Stockholders' Equity at January 1, 2011 is

   a. $1,890.
   b. $1,998.
   c. $3,132.
   d. $3,186.

45,882 (–)

20,000

3. On January 1, 2010, Gore Co. sold to Cey Corp. $400,000 of its 10% bonds for $354,118 to yield 12%. Interest is payable semiannually on January 1 and July 1. What amount should Gore report as interest expense for the six months ended June 30, 2010?

Dr. cash 354,118
disc 45,882
~~on B/P~~

   a. $17,706
   b. $20,000
   c. $21,247
   d. $24,000

4. On July 1, 2010, Ed Wynne signed an agreement to operate as a franchisee of Kwik Foods, Inc., for an initial franchise fee of $180,000. Of this amount, $60,000 was paid when the agreement was signed and the balance is payable in four equal annual payments of $30,000 beginning July 1, 2011. The agreement provides that the down payment is not refundable and no future services are required of the franchisor. Wynne's credit rating indicates that he can borrow money at 14% for a loan of this type. Information on present and future value factors is as follows:

R = 30,000

n = 4

i = 14%

Dr. Franchise

Cr. Cash 60,000
N/P 87,420

Wynne should record the acquisition cost of the franchise on July 1, 2010 at

a. $130,800.
b. $147,300.
c. $180,000.
d. $202,800.

5. On January 1, 2013, the Accounts Receivable balance was $18,500 and the balance in the Allowance for Doubtful Accounts was $1,400. On January 15,2013 a $400 uncollectible account was written-off. The net realizable value of accounts receivable immediately after the write-off is:

a. $18,100.
b. $16,700.
c. $17,100.
d. $17,500.

6. Hailey Medical Supply Co., which had no beginning balance in its Accounts Receivable and Allowance for Doubtful Accounts, earned $80,000 of revenue on account during 2013. During 2013, Hailey collected $64,000 of cash from its receivables accounts. The company estimates that it will be unable to collect 1% of revenue on account. The amount of net realizable value of receivables on the December 31, 2013 balance sheet would be:

a. $15,360.
b. $15,200.
c. $16,000.
d. $15,000.

A/R 80,000

Revenue 80,000 A/R 80,000

Allowance = 800

7. The amortization of the bond discount ________ the carrying value of the bond, while the amortization of the bond premium ________ the carrying value of the bond.

a. decrease, increase
b. increase decrease
c. increases, increases
d. decreases, decreases

8. Sun Inc. factors $2,000,000 of its accounts receivables without recourse for a finance charge of 5%. The finance company retains an amount equal to 10% of the accounts receivable for possible adjustments. Sun estimates the fair value of the recourse liability at $75,000. What would be recorded as a gain (loss) on the transfer of receivables?

a. Loss of $100,000.
b. Gain of $175,000.
c. Loss of $375,000.
d. Loss of $75,000.

Dr Cash
Dr [illegible]
Loss [illegible]
Cr. A/R 2,000,000

Use the following information for the next two questions:

Geary Co. assigned $400,000 of accounts receivable to Kwik Finance Co. as security for a loan of $335,000. Kwik charged a 2% commission on the amount of the loan; the interest rate on the note

Dr. Cash 328,300
Finance charge 6,700
Cr. N/P 335,000

A/R = 400,000
loan = 335,000 → 2% charge
→ interest rate = 10%

Dr Cash 109,620
discount 380
Cr. A/R 110,000

was 10%. During the first month, Geary collected $110,000 on assigned accounts after deducting $380 of discounts. Geary accepted returns worth $1,350 and wrote off assigned accounts totaling $2,980.

Cash 328,300
service charge 6,700
N/P

Dr Allowance 2,980
sales R&A 1350
Cr A/R 4,330

9. The amount of cash Geary received from Kwik at the time of the transfer was

a. $301,500.
b. $327,000.
c. $328,300.
d. $335,000.

Cash 109,620
Sales discount 380
Sales return and all 1,350
allowance 2,980
A/R 114,330

10. Entries during the first month would include a

a. debit to Cash of $110,380.
b. debit to Bad Debt Expense of $2,980.
c. debit to Allowance for Doubtful Accounts of $2,980.
d. debit to Accounts Receivable of $114,710.

11. Why is the statement of cash flows useful to the analyst?

a. It is the only source in financial statements for learning about cash generation.
b. Focusing on net income can be misleading if a company has a healthy profit, but cannot translate the profit into cash.
c. The statement of cash flows reveals why a company was able to generate a profit.
d. Both (a) and (b).

12. The following items would be classified as financing activities on the statement of cash flows:

a. Payments for inventory, payments to lenders, payments for taxes.
b. Loans to others, returns from loans to others, acquisition of land.
c. Proceeds from borrowing, payment of dividends, repayment of debt.
d. Sales of goods, repayment of debt, loans to others.

13. What is implied if the accounts receivable account has increased? out flow → operating

a. ~~Cash flow from operating activities is greater relative to net income.~~
b. Cash flow from operating activities is less relative to net income.
c. The firm's sales have increased relative to the prior year.
d. None of the above.

14. Which item may be of concern when analyzing cash flow from operating activities?

a. Increasing inventories.
b. Decreasing accounts receivable.
c. Repayment of debt.
d. Payments of dividends.

15. In preparing its bank reconciliation for the month of April 2010, Henke, Inc. has available the following information.

Balance per bank statement, 4/30/10	$39,140
NSF check returned with 4/30/10 bank statement	450

Deposits in transit, 4/30/10	+ 5,000
Outstanding checks, 4/30/10	(5,200)
Bank service charges for April	20

What should be the correct balance of cash at April 30, 2010?

a. $39,370
b. $38,940
c. $38,490
d. $38,470

16. If a petty cash fund is established in the amount of $250, and contains $150 in cash and $95 in receipts for disbursements when it is replenished, the journal entry to record replenishment should include credits to the following accounts

a. Petty Cash, $75.
b. Petty Cash, $100.
c. Cash, $95; Cash Over and Short, $5.
d. Cash, $100.

17. Which of the following is *false?*

a. The future value of a deferred annuity is the same as the future value of an annuity not deferred.
b. A deferred annuity is an annuity in which the rents begin after a specified number of periods.
c. To compute the present value of a deferred annuity, we compute the present value of an ordinary annuity of 1 for the entire period and subtract the present value of the rents which were not received during the deferral period.
d. If the first rent is received at the end of the sixth period, it means the ordinary annuity is deferred for six periods.

18. The following information is from Megabux, Inc.'s, annual report, for the years ended December 31:

	2009	2008	2007
Sales	$120,000	$110,000	$100,000
Cost of goods sold	58,000	52,000	46,000
Operating expenses	48,000	44,000	42,000
Interest expense	12,000	9,000	6,000
Net income	$ 2,000	$ 5,000	$ 6,000

Which of the following explains the change in the gross profit ratio over the three-year period?

a. Foreign competition has made it difficult to sell as many products as Megabux sold in the past.
b. Megabux has raised its selling price per unit.
c. Suppliers may have raised the prices that Megabux must pay for the goods that it sells, but Megabux has not passed the higher costs on to its customers with higher selling prices.
d. This is a trick question. The gross profit ratio has not changed over the three-year period.

a. ~~Par~~ value

b. Current cost of replacement

c. Amount payable when due, less unamortized discount or plus unamortized premium

d. Amount payable when due

e. Market value at balance sheet date

f. Net realizable value

g. Lower of cost or market

h. Original cost less accumulated amortization

i. ~~Original cost less accumulated~~ depletion

j. ~~Original cost~~ less accumulated depreciation

k. Historical cost

l. ~~Unexpired or unconsumed cost~~

Dr. N/R 400,000

Cr. Sales

Part three: Amortization of discount on note. (11points)

On December 31, 2010, Green Company finished consultation services and accepted in exchange a promissory note with a face value of $400,000, a due date of December 31, 2013, and a stated rate of 5%, with interest receivable at the end of each year. The fair value of the services is not readily determinable and the note is not readily marketable. Under the circumstances, the note is considered to have an appropriate imputed rate of interest of 10%.

n = 3

PV = 300,528 + 49,737

The following interest factors are provided:

Table Factors For Three Periods	Interest Rate 5%	Interest Rate 10%
Future Value of 1	1.15763	1.33100
Present Value of 1	.86384	.75132
Future Value of Ordinary Annuity of 1	3.15250	3.31000
Present Value of Ordinary Annuity of 1	2.72325	2.48685

Instructions

(a) Determine the present value of the note.

N/R = 400,000

n = 3

market rate = 10%

PV of note = 350,263

discount = 49,737

PVFAo of interest = 20,000 (PVFAo 3, 10%)

= 20,000 (2.48685)

= 49,737

PVF of principal = 400,000 (PVF 3, 10%)

300,528

~~PV of note = 336,602~~ ~~discount = 63,398~~

discount amortization

(b) Prepare a Schedule of Note Discount Amortization for Green Company under the effective interest method. (Round to whole dollars.)

Date	Cash Interest (5%)	Effective Interest (10%)	Discount Amortized	Unamortized Discount Balance	Present Value of Note
12/31/10	0	0	0	49,737	350,263
12/31/11	20,000	35,026.3	15,026.3	34,710.7	365,289.3
12/31/12	20,000	36,528.93	16,528.93	18,181.77	381,818.23
12/31/13	20,000	38,181.823	18,181.823	zero	400,000

A/R | 12,600

Allowance | 1,000

Part Four: Accounts Receivable (6 points)

At December 31, 2008 a company's accounts receivable balance was $12,600 and its allowance for doubtful accounts was $1,000, a credit amount.

Show the effect of the following events on the accounting equation, including both account titles and amounts:

والقيمة

allowance AR		Assets	Liabilities	Retained Earnings
2.	During 2009, $900 of specific receivables was written off as uncollectible.	no effect	no effect	no effect
3.	During 2009, $119,000 of receivables was collected.	decreased by 119,000	no effect	~~no effect~~ ~~increased by 106,400~~
4.	At Dec. 31, 2009, the company estimates that 5% of its accounts receivable will be uncollectible.	decreased by 630	no effect	decreased by 630

Bad debt exp.

Allow

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