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44.5 / 60

BIRZEIT UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS
ACCOUNTING DEPARTMENT

INSTRUCTOR: SAMIA SHAMMAS

SECOND SEM. 2012/2013
SECOND HOUR EXAM

ACCT. "335"

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Question 4

1	f	
2	K	
3	~~b~~	H
4	h	
5	~~(d)~~	[illegible]
6	g	
7	j	
8	~~K~~	c
9	e	
10	b	
11	f	
12	d	
13	b	
14	~~(e)~~	(c)

4

Multiple Choices

1	a	
2	b	
3	c	H
4	~~a~~	
5	c	
6	d	
7	a	
8	c	
9	b	
10	c	

11.5
9
8

12

Question 1 (18 points)

On December 31, 2010, Mazaya Company provided consultation services for Birzeit Company and accepted in exchange a promissory note with a face value of $250,000, a due date of December 31, 2013, and a stated rate of 10%, 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 5%.

n = 3
r = .05
PMT = R = ~~250,000~~ 25,000
PV = 68,081
PV = 215,960
= 284,041

The following interest factors are provided:

Table Factors For Three Periods	Interest Rate 5%	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

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Required

(a) prepare the entry for the issuance of the note for both companies. **(6 points)**

consultation

Mazaya Company	Birzeit Company
Dr. Notes receivable ~~284,041~~ 250000 Dr Premium 34041 ~~Cr service revenue 250,000~~ Cr premium on note rec. 34,041 Cr Service Revenue 284041	Dr. Service expense ~~250,000~~ 284041 Cr. premium on N/P 34,041 Cr. Notes payable ~~284,041~~ 250000

(b) Fill in the following Schedule of Note Premium Amortization under the effective interest method. (Round to whole dollars.) **(6 points)**

Schedule of Note Premium Amortization
Effective Interest Method

Date	Cash Received/Paid	Interest Revenue/Expense	Premium Amortized	Carrying Value of Note
12/31/10	—	—	—	$284,041
12/31/11	25,000	14,202	10,798	273,243
12/31/12	25,000	13,662	11,338	261,905
12/31/13	25,000	13,095	11,905	250,000

c) 25,000*

Cash 25000
Interest revenue 14202

Interest exp 14202
Premium on N/P 10798

15.7

(c) Prepare the entry to record interest revenue/expense for both companies at the end of the **first year (December 31, 2011)** using the effective interest method. **(6 points)**

Mazaya Company	Birzeit Company
Dr. Interest ~~receivable~~ 14,204 Cr. Interest revenue 14,204	Dr. Interest expense 14,204 Cr. ~~Interest payable~~ 14,204

Oblig = 5,500
Charge = 13,500
adj = 22,500

Question 2 (10 points)

On June 1, 2012, Bisan Company factored receivables with a carrying amount of $450,000 to Palestine Commercial Bank on a with recourse basis. The bank assesses a finance charge of 3% of the receivables and retains 5% of the receivables for probable adjustments. Relative to this transaction the recourse obligation has a fair value of $5,500.

a) Prepare the journal entry on June 1, for both Bisan Company and Palestine Commercial Bank for receivables sold with recourse.

Bisan Company	Palestine Commercial Bank
Dr. Cash 414,000 Dr. loss on sale of receivable 19,000 Dr. Due from Bank 22,500 Cr. A/R 450,000 Cr. recourse obligation $5,500	Dr. A/R $450,000 Cr. Cash 414,000 Cr. finance revenue 13,500 Cr. Due to Company 22,500

9/10

b) Assume that Bisan factors the receivables on a without recourse basis. What will be the factor's net income under this transaction.

$\boxed{13500}$ less any uncolectable "

~~Dr. cash 414,000~~

~~Dr. Cash 414,000~~
~~Dr. loss on sale of receivable 13,500~~
~~Dr. Due from Bank 22,500~~
~~Cr. A/R 450,000~~

~~Net income difference = (19,000 - 13,5000) = $\boxed{5,500}$~~

~~income will be 5,500 more than in (without recourse method).~~

Question 3 (10 points)

PAL-Vest Company
Comparative Balance Sheet
As of December 31, 2011 & 2010

	2011	2010	
Cash	$1,800	$1,100	700
Accounts Receivable	1,750	1,300	450
Merchandise Inventory	1,600	1,900	(300)
Long-term Investments	1,300	1,470	(170) + 80 = 260
Plant Assets	1,900	1,700	(200)
Accumulated Depreciation	(1,200)	(1,170)	30
Total Assets	**$7,150**	**$6,300**	
Accounts Payable	$1,200	$ 800	400
Accrued Liabilities	200	250	(50)
Bonds Payable	1,400	1,650	(250)
Common Stock	1,900	1,700	200
Retained Earnings	2,450	1,900	810 - 550
Total Liabilities& SHE	**$7,150**	**$6,300**	

2710 = 2450 + x
x = 260

PAL-Vest Company
Income Statement
For the year ended December 31, 2011

Sales Revenue	$6,900
Cost of goods sold	4,700
Gross profit	2,200
Selling and administrative expenses	930
Income from operations	1,270
Other revenues and gains	
Gain on sale of investments	80
Income before tax	1,350
Income tax expense	540
Net Income	**$ 810**

8/10

Additional Information:

- During the year, $70 of common stock was issued in exchange for plant assets. No plant assets were sold in 2011.

170+80

Transaction	Amount	Reporting	Effect
1. Cash dividends paid	($260)	F	CO
2. Depreciation expense	$30	O	~~CI~~ NC
3. Cash proceeds from sale of long-term investment	260 $ ~~170~~	I	CI
4. Issuance of capital stock for cash	130 $ ~~260~~	F	CI
5. Retirement of bonds payable	($250)	F	CO
6. Purchase of plant assets for cash	120 (~~$200~~)	I	CO
7. Non-cash issuance of common stock in exchange for Plant assets	$70	N.S	NC

6, 7

Reporting Choices	Effect Choices
O. Operating I. Investing F. Financing S. Supplementary Information N. Not reported on PAL-Vest 's statement of cash flows	CI. Cash Inflows CO. Cash Outflows NC. Non-Cash item

Question 4 (7 points)

Typical balance sheet classifications are as follows.

a. Intangible Assets
b. Investments
c. Retained Earnings
d. Capital Stock
e. Not Reported on Balance Sheet
f. Current Liabilities
g. Long-Term Liabilities
h. Current Assets
i. Additional Paid-In Capital
j. Plant Assets
k. Notes to Financial Statements
l. Other Assets

(2)

Indicate by use of the above letters how each of the following items would be classified on a balance sheet prepared at December 31, 2010. If a contra account, or any amount that is negative or opposite the normal balance, put parentheses ( ) around the letter selected. A letter may be used more than once or not at all.

f 1. Rental revenues for 3 months collected in advance f

K 2. Dividends in arrears on preferred stock K

b 3. Equity securities classified as trading H

h 4. Advances to employees H

(d) 5. Unamortized premium on bonds payable due in 2016 (g)

g 6. Bond indenture covenant K

j 7. Natural resource—timberlands j

K 8. Earnings not distributed to stockholders c

e 9. Budgeted salaries to employees within next year. e

b 10. Investment in bonds of another company; will be held to 2013 maturity b

f 11. Current maturity of bonds payable f

d 12. Preferred stock ($10 par) d

b 13. Land held for speculation b

(e) 14. Deficit (no net income earned since beginning of company) (c)

Question 5 - Multiple Choice Questions (15 points)

1. Sinokrot Company requires a new manufacturing facility in Nablus. Management found four locations; all of which would provide needed capacity, the only difference is the price. Location A may be purchased for $500,000. Location B may be acquired with a down payment of $100,000 and annual payments at the end of each of the next twenty years of $50,000. Location C requires $40,000 payments at the beginning of each of the next twenty-five years. Location D requires $45,000 payments at the end of each of twenty-five years starting after 5 years. Assuming Sinokrot's borrowing costs are 8% per annum, which option is the least costly to Sinokrot Company?
Information on present value factors is as follows:

Present value of 1 at 8% for 4 periods	0.74
Present value of an ordinary annuity of 1 at 8% for 20 periods	9.82 591 13
Present value of an ordinary annuity of 1 at 8% for 25 periods	10.67

(6)

a. Location D. 446850
b. Location C. 460,944 X
c. Location A. 500,000 X
d. Location B. 591000 X

2. Neely Co. disclosed in the notes to its financial statements that a significant number of its unsecured trade account receivables are with companies that operate in the same industry. This disclosure is required to inform financial statement users of the existence of:
a. Concentration of market risk.
b. Concentration of credit risk.
c. Risk of measurement uncertainty.
d. Off-balance sheet risk of accounting loss.

3. Accounting policies disclosed in the notes to the financial statements typically include all of the following except
A
a. significant inventory purchasing policies
b. the depreciation methods used
c. significant estimates made
d. the cost flow assumption used

4. Which of the following is not a required supplemental disclosure for the balance sheet?
D
a. Contingencies
b. Contractual situations
c. Accounting policies
d. Financial forecasts

5. Hilltop Co.'s monthly bank statement shows a balance of $54,200. Reconciliation of the statement with company books reveals the following information:

Bank service charge	$10
Insufficient funds check	650
Checks outstanding	1,500
Deposits in transit	350

1177

Check deposited by Hilltop and cleared by the bank for $125, but improperly recorded by Hilltop as $152.

+27

What is the net cash balance after the reconciliation?
a. $52,363
b. $53,023
c. $53,050
d. $53,077

6. Marr Co. had the following sales and accounts receivable balances, prior to any adjustments at year end:

Credit sales	$10,000,000
Accounts receivable	3,000,000
Allowance for uncollectible accounts (debit balance)	50,000

Marr uses 3% of accounts receivable to determine its allowance for uncollectible accounts at year end. By what amount should Marr adjust its allowance for uncollectible accounts at year end?
a. $0
b. $40,000
c. $90,000
d. $140,000

30,000

7. Sharek Inc assigns $1,500,000 of its accounts receivables as collateral for a $1 million loan with a bank. The bank assesses a 3% finance fee on loan and charges interest on the note at 6%. What would be the journal entry to record this transaction?
a. Debit Cash for $970,000, debit Finance Charge for $30,000, and credit Notes payable for $1,000,000.
b. Debit Cash for $970,000, debit Finance Charge for $30,000, and credit Accounts Receivable for $1,000,000.
c. Debit Cash for $970,000, debit Finance Charge for $30,000, debit Due from Bank for $500,000, and credit Accounts Receivable for $1,500,000.
d. Debit Cash for $910,000, debit Finance Charge for $90,000, and credit Notes Payable for $1,000,000.

8. If a petty cash fund is established in the amount of $250, and contains $158 in cash and $99 in receipts for disbursements when it is replenished, the journal entry to record replenishment should include credits to the following accounts
a. Petty Cash, $92.
b. Petty Cash, $151.
c. Cash, $92; Cash Over and Short, $7.
d. Cash, $151.

983,136

160,000

9. On January 2, 2010, Wine Corporation wishes to issue $2,000,000 (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 Wine will realize from the sale (issuance) of the bonds.

Present value of 1 at 8% for 10 periods	0.4632
Present value of 1 at 10% for 10 periods	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

a. $1,860,000
b. $1,754,136
c. $2,000,012
d. $2,212,052

10. PAL-Safe has recently acquired notes receivable and decides on December 31, 2012, to use the fair value option for these receivables. The notes receivable have a fair value of $750,000 and a carrying amount of $645,000. At December 31, 2012, PAL-Safe makes an adjusting entry Debit/Credit to:
    a. Dr. Notes Receivable 150,000.
    b. Cr. Unrealized Holding Gain or Loss- Equity 105,000.
    c. Cr. Unrealized Holding Gain or Loss- Income 105,000.
    d. Cr. Notes Receivable 105000.