

BIRZEIT UNIVERSITY
 FACULTY OF BUSINESS AND ECONOMICS
 ACCOUNTING DEPARTMENT

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INSTRUCTOR: SAMIA SHAMMAS

SECOND SEM. 2012/2013
 SECOND HOUR EXAM

ACCT. "335"

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Question 4

1	f
2	e
3	b
4	b
5	g
6	k
7	j
8	c
9	e
10	b
11	f
12	d
13	b
14	(c)

Multiple Choices

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

18
 10
 8

12

7

1

PV of 250,000 = 250,000 (PVF) = 250,000 x .86384

PV of Int = 25,000 (PVFA) = 25,000 x 2.72325 = 68,081

CU of Note = 284,041

Question 1 (18 points)

Rec.

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%. $5\% \text{ IRR} > 10\% \text{ MIR} \rightarrow \text{premium}$

The following interest factors are provided:

Table Factors For Three Periods	
Future Value of 1	1.33100
Present Value of 1	.86384
Future Value of Ordinary Annuity of 1	3.31000
Present Value of Ordinary Annuity of 1	2.72325

Interest Rate	
5%	10%
1.15763	1.33100
.86384	.75132
3.15250	3.31000
2.72325	2.48685

Required

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

Mazaya Company		Birzeit Company	
Dr. Notes Receivable	250,000	Dr. Service	
Dr. Premium on Notes Receivable	34,041	Dr. Consultation Expense	284,041
Cr. Service Revenue	284,041	Cr. Notes payable	250,000
		Cr. premium on Notes payable	34,041

(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	25,000			284,041
12/31/11	25,000	14,202	10,798	273,243
12/31/12	25,000	13,862	11,338	261,905
12/31/13	25,000	13,095	11,905	250,000

2010-2013

$$\begin{aligned} \text{loss} &= \% \text{ collection} + 5,500 \\ &= 13,500 + 5,500 \\ &= 19,000 \end{aligned}$$

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.

10

Bisan Company		Palestine Commercial Bank	
Dr. Cash	414,000	Dr. (Account) Receivable	450,000
Dr. loss on sale of A/R	19,000	Cr. due to Bisan Company	27,500
Dr. due from Palestine bank	27,500	Cr. finance revenue	13,500
Cr. (Accounts) Receivable	450,000	Cr. Cash	414,000
Cr. recourse liability	5,500		

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

It will be the finance revenue of 13,500

less any returns and allowances to the company

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

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.

- | | |
|---|--|
| <u>f</u> 1. Rental revenues for 3 months collected in advance | <u>j</u> 7. Natural resource—timberlands |
| <u>e</u> 2. Dividends in arrears on preferred stock | <u>c</u> 8. Earnings not distributed to stockholders |
| <u>b</u> 3. Equity securities classified as trading | <u>e</u> 9. Budgeted salaries to employees within next year. |
| <u>h</u> 4. Advances to employees | <u>b</u> 10. Investment in bonds of another company; will be held to 2013 maturity |
| <u>g</u> 5. Unamortized premium on bonds payable due in 2016 | <u>f</u> 11. Current maturity of bonds payable |
| <u>k</u> 6. Bond indenture covenant | <u>d</u> 12. Preferred stock (\$10 par) |
| | <u>b</u> 13. Land held for speculation |
| | <u>(e)</u> 14. Deficit (no net income earned since beginning of company) |

$$\begin{array}{l}
 \text{A} \\
 \text{B} \\
 \text{C} \\
 \text{D}
 \end{array}
 \begin{array}{l}
 \\
 100,000 + \\
 40,000
 \end{array}
 \begin{array}{l}
 \\
 (9.82) \\
 (10.67)(1.08)
 \end{array}
 =
 \begin{array}{l}
 \\
 1,751,700 \\
 460,944 \\
 480,115
 \end{array}
 \begin{array}{l}
 591,000 \\
 \\
 \\
 \end{array}$$

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
Present value of an ordinary annuity of 1 at 8% for 25 periods	10.67

- a. Location D.
 - b. Location C.
 - c. Location A.
 - d. Location B.
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. 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?
- 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

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

$$\begin{array}{r}
 54,200 \\
 + 350 \\
 \hline
 54,550 \\
 + 150 \\
 \hline
 54,700
 \end{array}$$

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

140,000

50,000	X
90,000	

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

Dr. Cash 140,000
~~Dr. Allowance~~ 30,000
 Dr. Cash NIP 1,000,000

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.

Dr. d 99 7
 Cr. Cash 92

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

160,000
 2,000,000
 31136
 771,000

 1,754,136

- e. \$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 105,000.

105,000
Cr. N/R