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BIRZEIT UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS
ACCOUNTING DEPARTMENT

LECTURERS: Dr. ZEYAD MUNAWER
SAMIA SHAMMAS

SECOND SEM. 2013/2014
SECOND HOUR EXAM

ACCT335

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Section Time: 12-12:30

Multiple Choices

1	c
2	d
3	~~d~~
4	c
5	b
6	d
7	c
8	c
9	d
10	a
11	c
12	~~b~~
13	~~a~~
14	a
15	d

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Question 1 (10 points)

PAL-Vest Company
Comparative Balance Sheet
As of December 31, 2013& 2012

	2013		2012
Cash	$1,800		$1,100
Accounts Receivable	1,750		1,300
Merchandise Inventory	1,600		1,900
Long-term Investments	1,300		1,470
Plant Assets	1,900	200	1,700
Accumulated Depreciation	(1,200)		(1,170)
Total Assets	**$7,150**		**$6,300**
Accounts Payable	$1,200		$ 800
Accrued Liabilities	200		250
Bonds Payable	1,400		1,650
Common Stock	1,900	200	1,700
Retained Earnings	2,450		1,900
Total Liabilities& SHE	**$7,150**		**$6,300**

End = beg + NI − Div
2450 = 1900 + 810 − X

PAL-Vest Company
Income Statement
For the year ended December 31, 2013

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**

Additional Information:

- During the year, $70 of common stock was issued in exchange for plant assets. No plant assets were sold in 2013.

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Required
Use the following table to fill-in your answers.

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

Reporting Choices	Effect
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**

PV of principle = FV(PV)$_{n\ 5\%}$
= 250000 × .86384
= 215960
+ PV-OA intrest = 25000 × (PV - OA)$_{5\%}$
= 25000 × 2.72325
= 68081

PV = 284041.2

Question 1 (12 points)

On December 31, 2010, Atlas Company finished consultation services for Palestine 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%.

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

Required

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

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Atlas Company	Palestine Company
Dr. N R 250000	Dr ~~Cash~~ Com expense 284041
Dr ~~Premium~~ Premium on NR 34041.25	Cr ~~Discount~~ Premium on ~~NR~~ NP 34041.25
Cr ~~consaltation~~ Cash Rev consaltation servs 284041.25	Cr N/P 250000

(b) Prepare the entry to record interest revenue/expense for both companies at the end of the **second year (December 31, 2012)** using the effective interest method. **(6 points)**

Atlas Company	Palestine Company
Dr Cash ~~paid~~ 25000	Dr premium on NP 11337.9
Cr interest Rev 13662.1	Dr. Interest exp 13662.1
Cr P ~~KR~~ premium on NR 11337.9	Cr Cash ~~paid~~ 25000

date	~~Interest~~ cash paid	interest exp	Premium amortization	CV
91	25000	14202	10798	284041.25
	25000	13662.1	11337.9	273242.25
				261904...

3. Which of the following is the correct journal entry to record the interest revenue at the end of the December 31, 2013 using the effective interest method?

a. Cash	10,600	
Discount on N/R	400	
Interest Revenue		11,000
b. Discount on N/R	10,368	
Interest Revenue		10,368
c. Premium on N/R	9,600	
Interest Revenue		9,600
d. Discount on N/R	9,600	
Interest Revenue		9,600

Use the following information for questions 4 -7.

On November 1, 2014, Injaz Company factored receivables with a carrying amount of $300,000 to a factor Company. The factor assesses a finance charge of 4% of the receivables and retains 5% of the receivables.

Relative to this transaction, determine the amount of loss on sale to be reported in the income statement of Injaz Company for November.

4. Assume that Injaz factors the receivables on a without recourse basis. The loss to be reported is
   a. $0.
   b. $15,000.
   c. $12,000.
   d. $27,000.

5. Assume that Injaz factors the receivables on a with recourse basis. The recourse obligation has a fair value of $2,000. The loss to be reported is
   a. $12,000.
   b. $14,000.
   c. $15,000.
   d. $29,000.

Relative to this transaction, calculate the factor's net income under this transaction.

6. Assume that Injaz factors the receivables on a without recourse basis. The net income is
   a. $15,000, .
   b. $15,000, less any uncollectible amounts.
   c. $12,000.
   d. $12,000, less any uncollectible amounts.

7. Assume that Injaz factors the receivables on a with recourse basis. The net income is

a. $15,000 .
b. $15,000, less any uncollectible amounts.
c. $12,000.
d. $12,000, less any uncollectible amounts.

8. 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

What is the net cash balance after the reconciliation?

a. $52,363
b. $53,023
c. $53,050
d. $53,077

9. 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

10. 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.

11. 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.

12. Marrawi 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 Marrawi's borrowing costs are 8% per annum, which option is the least costly to Marrawi 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.

13. Al-Pinar 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 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.

14. 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

15. 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