Week 2

39/50

BIRZEIT UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS
ACCOUNTING DEPARTMENT

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FIRST SEM. 2012/2013
FIRST HOUR EXAM

ACCT. "336"

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Section: الثلاثاء 9:30
الخميس

Answer Sheet ميرابو شماس

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

16
25
11.5
9

PART 1 (Essay Questions)

Question One

During 2010 and 2011, Sawyer Corporation experienced several transactions involving plant assets. A number of errors were made in recording some of these transactions. For each item listed below, indicate the effect of the error (if any) in the blanks provided by using the following codes:

O = Overstate; U = Understate; NE = No Effect

If no error was made, write NE in each of the four columns.

5/5

	2010		2011	
Transaction	Net Book Value of Plant Assets at 12/31/10	2010 Net Income	Net Book Value of Plant Assets at 12/31/11	2011 Net Income
1. In 2011 clerical workers were trained to use the new computer system at a cost of $15,000, which was erroneously capitalized. The cost is to be written off over the expected life of the new computer system.	NE	NE	O	U
2. A major overhaul of factory machinery in 2010, which extended its useful life by 5 years, was charged to accumulated depreciation in 2010.	U	U	O	O
3. The cost of moving several manufacturing facilities from metropolitan locations to suburban areas in 2010 was capitalized. The cost was written off over a 10-year period beginning in 2010.	O	U ~~NE~~	O	O
4. The cost of installing a new computer system in 2010 was not recorded in 2010. It was charged to expense in 2011.	NE	O	NE	U

Question Two

Early in 2010, Apple Corporation engaged Orange, Inc. to design and construct a complete modernization of Apple's manufacturing facility. Construction was begun on April 1, 2010 and was completed on December 31, 2010. Apple made the following payments to Orange, Inc. during 2010:

Date	Payment
April 1, 2010	\$3,600,000
August 31, 2010	5,400,000
December 31, 2010	4,500,000

In order to help finance the construction, Apple issued the following during 2010:

1. \$3,000,000 of 10-year, 9% bonds payable, issued at par on March 31, 2010, with interest payable annually on March 31.
2. 1,000,000 shares of no-par common stock, issued at \$10 per share on October 1, 2010.

In addition to the 9% bonds payable, the only debt outstanding during 2010 was a \$750,000, 12% note payable dated January 1, 2006 and due January 1, 2016, with interest payable annually on January 1.

Required

Compute the amounts of each of the following (show computations):

1. Weighted-average accumulated expenditures qualifying for capitalization of interest cost.

$$WAAE = 3{,}600{,}000 \times \frac{9}{12} + 5{,}400{,}000 \times \frac{4}{12} + 4{,}500{,}000 \times \frac{0}{12}$$

11.5 / 13

$$= 2{,}700{,}000 + 1{,}800{,}000 + 0$$

$$WAAE = \$4{,}500{,}000$$

2. Avoidable interest incurred during 2010.

$3{,}000{,}000 \times 0.09 = \$270{,}000$

$+ 750{,}000 \times 0.12 = 90{,}000$

~~750,000~~

avoidable interest ~~exp~~ = \$380,000

3. Total amount of interest cost to be capitalized during 2010.

actual interest $= 3{,}000{,}000 \times 0.09 \times \frac{9}{12} + 750{,}000 \times 0.12$

$= 202{,}500 + 90{,}000$

Question Three

On May 31, 2011, Ramallah Company paid $3,300,000 to acquire all of the common stock of Birzeit Corporation, which became a division of Ramallah. Birzeit reported the following balance sheet at the time of the acquisition:

Current assets	$ 900,000	Current liabilities	$ 600,000
Noncurrent assets	2,700,000	Long-term liabilities	500,000
		Stockholders' equity	2,500,000
		Total liabilities and	
Total assets	$3,600,000	stockholders' equity	$3,600,000

It was determined at the date of the purchase that the fair value of the identifiable net assets of Birzeit was $2,800,000. At December 31, 2011, Birzeit reports the following balance sheet information:

Current assets	$ 800,000
Noncurrent assets (including goodwill recognized in purchase)	2,400,000
Current liabilities	(700,000)
Long-term liabilities	(500,000)
Net assets	$2,000,000

It is determined that the fair market value of the Birzeit division is $2,200,000. The recorded amount for Birzeit's net assets (excluding goodwill) is the same as fair value, except for property, plant, and equipment, which has a fair value of $200,000 above the carrying value.

Required

(a) Compute the amount of goodwill recognized, if any, on May 31, 2011.

Fair value Net assest = 3,600,000 − 1,100,00 = $2,500,000

Goodwill = Fair value of ~~[illegible]~~ purchases − Fair value of indentifiable net assest

= 3,300,000 − 2,800,000 = $500,000 ⇒ ~~[illegible]~~ not goodwill

(b) Determine the impairment loss, if any, to be recorded on December 31, 2011.

Faire value of Birzeit division = 2,400,000

Book value of 〃 — = 2,200,000

NO impairment loss

FMV > BV

(c) Assume that the fair value of the Birzeit division is $1,800,000 instead of $2,200,000. Prepare the journal entry to record the impairment loss, if any, on December 31, 2011.

Fair value of Birzeit division = 1800,000 + 200,000 = 2,000,000

Book value 〃 — — = 2,200,000 $

There is impairement loss

impairment loss = ~~FMV (goodwill) − BV goodwill~~

= BV goodwill − FMV goodwill

PART 2 (Multiple Choice Questions)

1. On December 1, Miser Corporation exchanged 2,000 shares of its $25 par value common stock held in treasury for a parcel of land to be held for a future plant site. The treasury shares were acquired by Miser at a cost of $40 per share, and on the exchange date the common shares of Miser had a fair market value of $50 per share. Miser received $6,000 for selling scrap when an existing building on the property was removed from the site. Based on these facts, the land should be capitalized at
   a. $94,000.
   b. $80,000.
   c. $74,000.
   d. $100,000.

2000 × 50 100 000 − 6000

Use the following information for questions 2 through 4.

Two independent companies, Hager Co. and Shaw Co., are in the home building business. Each owns a tract of land held for development, but each would prefer to build on the other's land. They agree to exchange their land. An appraiser was hired, and from her report and the companies' records, the following information was obtained:

	Hager's Land	Shaw's Land
Cost and book value	$192,000	$120,000
Fair value based upon appraisal	240,000	210,000
	recier 30000	pay 30000

The exchange was made, and based on the difference in appraised fair values, Shaw paid $30,000 to Hager. The exchange lacked commercial substance.

2. For financial reporting purposes, Hager should recognize a pre-tax gain on this exchange of
   a. $0.
   b. $48,000.
   c. $30,000.
   d. $6,000.

48 gain

30/240

30/240

240 − 48

3. The new land should be recorded on Hager's books at
   a. $192,000.
   b. $168,000.
   c. $240,000.
   d. $210,000.

gain 90

240

4. The new land should be recorded on Shaw's books at
   a. $210,000.
   b. $120,000.
   c. $150,000.
   d. $240,000.

5. Chase County owned an idle parcel of real estate consisting of land and a factory building. Chase gave title to this realty to Patton Co. as an incentive for Patton to establish manufacturing operations in the County. Patton paid nothing for this realty, which had a fair market value of $250,000 at the date of the grant. Patton should record this nonmonetary transaction as a

land 250 000

20

a. memo entry only.
b. credit to extraordinary income for $250,000.
c. credit to Contribution Revenue for $250,000.
d. credit to Donated Capital for $250,000.

6. On September 10, 2010, Jenks Co. incurred the following costs for one of its printing presses:

Purchase of attachment	$55,000
Installation of attachment	5,000
Replacement parts for renovation of press	18,000
Labor and overhead in connection with renovation of press	7,000

Neither the attachment nor the renovation increased the estimated useful life of the press. However, the renovation resulted in significantly increased productivity. What amount of the costs should be capitalized?

a. $0.
b. $85,000.
c. $78,000.
d. $67,000.

7. On January 2, 2010, York Corp. replaced its boiler with a more efficient one. The following information was available on that date:

Purchase price of new boiler	$150,000
Carrying amount of old boiler	10,000
Fair value of old boiler	4,000
Installation cost of new boiler	20,000

The old boiler was sold for $4,000. What amount should York capitalize as the cost of the new boiler?

a. $160,000.
b. $166,000.
c. $170,000.
d. $150,000.

new
loss 6

8. Hall Co. incurred research and development costs in 2011 as follows:

Materials used in research and development projects	$ 450,000
Equipment acquired that will have alternate future uses in future research and development projects	3,000,000
Depreciation for 2011 on above equipment	300,000
Personnel costs of persons involved in research and development projects	750,000
Consulting fees paid to outsiders for research and development projects	300,000
Indirect costs reasonably allocable to research and development projects	225,000
	$5,025,000

The amount of research and development costs charged to Hall's 2011 income statement should be

a. $2,025,000.
b. $1,900,000.
c. $4,500,000.
d. $1,500,000.

9. Logan Company incurred $3,000,000 ($800,000 in 2009 and $2,200,000 in 2010) to develop a computer software product. $1,000,000 of this amount was expended before technological feasibility was established in early 2010. The product will earn future revenues of $8,000,000 over its 5-year life, as follows: 2010 – $2,000,000; 2011 – $2,000,000; 2012 – $1,600,000; 2013 – $1,600,000; and 2014 – $800,000. What portion of the $3,000,000 computer software costs should be expensed in 2010?

a. $2,200,000.
b. $700,000.
c. $600,000.
d. $500,000.

2000000 ÷ 5000000

200 000 +

10. On May 5, 2011, MacDougal Corp. exchanged 2,000 shares of its $25 par value treasury common stock for a patent owned by Masset Co. The treasury shares were acquired in 2010 for $45,000. At May 5, 2011, MacDougal's common stock was quoted at $34 per share, and the patent had a carrying value of $55,000 on Masset's books. MacDougal should record the patent at

a. $55,000.
b. $68,000.
c. $45,000.
d. $50,000.

11. Alonzo Co. acquires 3 patents from Shaq Corp. for a total of $360,000. The patents were carried on Shaq's books as follows: Patent AA: $5,000; Patent BB: $2,000; and Patent CC: $3,000. When Alonzo acquired the patents their fair market values were: Patent AA: $20,000; Patent BB: $240,000; and Patent CC: $60,000. At what amount should Alonzo record Patent BB?

a. $240,000
b. $120,000
c. $270,000
d. $2,000

12. Capitalized costs incurred while developing computer software to be sold should be amortized using the:

a. lower of the straight-line method or the percent-of-revenue method.
b. higher of the straight-line method or the percent-of-revenue method.
c. lower of the percent-of-revenue method or the percent-of-completion method.
d. higher of the percent-of-revenue-method or the percent-of-completion method.

13. In January, 2006, Findley Corporation purchased a patent for a new consumer product for $720,000. At the time of purchase, the patent was valid for fifteen years. Due to the competitive nature of the product, however, the patent was estimated to have a useful life of only ten years. During 2011 the product was permanently removed from the market under governmental order because of a potential health hazard present in the product. What amount should Findley charge to expense during 2011?

a. $72,000.
b. $48,000.
c. $480,000.
d. $360,000.

14. Malrom Manufacturing Company acquired a patent on a manufacturing process on January 1, 2010 for $5,000,000. It was expected to have a 10 year life and no residual value. Malrom uses straight-line amortization for patents. On December 31, 2011, the expected future cash flows expected from the patent were expected to be $400,000 per year for the next eight years. The present value of these cash flows, discounted at Malrom's market interest rate, is $2,400,000. At what amount should the patent be carried on the December 31, 2011 balance sheet?

a. $2,400,000
b. $4,000,000
c. $3,200,000
d. $5,000,000

15. In January 2010, Fehr Mining Corporation purchased a mineral mine for $4,200,000 with removable ore estimated by geological surveys at 2,500,000 tons. The property has an estimated value of $400,000 after the ore has been extracted. Fehr incurred $1,150,000 of development costs preparing the property for the extraction of ore. During 2010, 340,000 tons were removed and 300,000 tons were sold. For the year ended December 31, 2010, Fehr should include what amount of depletion in its cost of goods sold?

a. $516,800
b. $594,000
c. $673,200
d. $456,000

$\frac{1150000 + 4200000 - 400000}{2500000}$ = → * 300

16. Robertson Inc. bought a machine on January 1, 2000 for $300,000. The machine had an expected life of 20 years and was expected to have a salvage value of $30,000. On July 1, 2010, the company reviewed the potential of the machine and determined that its undiscounted future net cash flows totaled $150,000 and its discounted future net cash flows totaled $105,000. If no active market exists for the machine and the company does not plan to dispose of it, what should Robertson record as an impairment loss on July 1, 2010?

a. $15,000
b. $ 8,250
c. $53,250
d. $ 0

17. Balcom Corporation acquires a coal mine at a cost of $500,000. Intangible development costs total $120,000. After extraction has occurred, Balcom must restore the property (estimated fair value of the obligation is $60,000), after which it can be sold for $170,000. Balcom estimates that 5,000 tons of coal can be extracted. If 900 tons are extracted the first year, which of the following would be included in the journal entry to record depletion?

a. Debit to Inventory for $91,800
b. Debit to Accumulated Depletion for $91,800
c. Credit to Inventory for $90,000
d. Credit to Accumulated Depletion for $153,000

A schedule of machinery owned by Mallon Co. is presented below:

	Total Cost	Estimated Salvage Value	Estimated Life in Years	
Machine A	$320,000	$20,000	12	25 000
Machine C	390,000	30,000	10	36 000
Machine M	225,000	15,000	6	35

Mallon computes depreciation by the composite method.

18. The composite rate of depreciation (in percent) for these assets is

96000

a. 11.67.
b. 10.27.
c. 11.03.
d. 10.72.

19. On April 13, 2010, Neill Co. purchased machinery for $120,000. Salvage value was estimated to be $5,000. The machinery will be depreciated over ten years using the double-declining balance method. If depreciation is computed on the basis of the nearest full month, Neill should record depreciation expense for 2011 on this machinery of

a. $20,800.
b. $20,933.
c. $20,400.
d. $20,550.

$\frac{9}{12} \times 120{,}000 \times 0.2$

6

20. On September 19, 2010, McCoy Co. purchased machinery for $190,000. Salvage value was estimated to be $10,000. The machinery will be depreciated over eight years using the sum-of-the-years'-digits method. If depreciation is computed on the basis of the nearest full month, McCoy should record depreciation expense for 2011 on this machinery of

a. $35,000.
b. $38,845.
c. $40,903.
d. $38,750.

$\frac{8}{12} \times \frac{8}{36} \times 180{,}000 + \frac{4}{12} \times \frac{7}{36} \times 180{,}000$

36,666