

$\left(\frac{61}{70}\right) + 2$

11.0  
 14  
 12  
 16.5  
 7

**BIRZEIT UNIVERSITY**  
**FACULTY OF BUSINESS AND ECONOMICS**  
**ACCOUNTING DEPARTMENT**

LECTURERS: MIRABO SHAMMAS  
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FIRST SEM. 2013/2014  
FIRST HOUR EXAM

ACCT336

Student Name: ~~\_\_\_\_\_~~

Student #: ~~\_\_\_\_\_~~ Section Time: S, W, M 12:00 - 1:00

Question 1 (12 points) ✓

On March 1, 2013, Union bank contracted Nabali & Fares Construction Co. to construct a building for \$2,000,000 on land costing \$200,000 purchased from the contractor and included in the first payment.

11.5

Construction was begun on May 1, 2013 and was completed on December 31, 2013. Union bank made the following payments to the construction company during 2013:

<u>Date</u>	<u>Payment</u>
May 1, 2013	\$600,000
September 1, 2013	600,000
December 31, 2013	<u>1,000,000</u>
Total	<u>\$2,200,000</u>

Nabali & Fares completed the building on December 31, 2013. Union Bank had the following debt outstanding at December 31, 2013.

- 1) 15%, 3-year note in the amount of \$500,000, to finance purchase of land and construction of the building, dated May 1, 2013, with interest payable annually on December 31.
- 2) 10%, 5-year note in the amount of \$1,200,000 dated December 31, 2010, with interest payable annually on December 31.

**Required**

- a) Determine the amount of interest to be capitalized in 2013 in relation to the construction of the building.
- b) Prepare the journal entry to record the capitalization of interest and the recognition of interest expense, if any, at December 31, 2013.

Solution

$$\begin{aligned} \text{a) W.A.A.E} &= (600,000 \times \frac{8}{12} + 600,000 \times \frac{4}{12} + 1,000,000 \times 0) \\ &= 400,000 + 200,000 = \$600,000 \end{aligned}$$

Avoidable Interest =

1 - <del>600</del>	500,000 x 15% →	75,000
	100,000 x 10% →	10,000
	avoidable Interest	<u>\$ 85,000</u>

Actual Interest:

500,000 x 15% x $\frac{8}{12}$	=	50,000
1,200,000 x 10%	=	120,000
Actual Interest		<u>\$ 170,000</u>

Interest to be capitalized = lower of Avoidable or Actual  
= Avoidable  
= \$ 85,000

b) Dec 31

Dr. Building (capitalized Interest)	85,000
Dr. Interest Expense	85,000
(170,000 - 85,000)	
Cr. Cash (1,200,000 x 10%)	120,000
Cr. Interest payable (500,000 x 15% x $\frac{8}{12}$ )	50,000

**Question 2 (14 points)**

Use the following table to fill in your answer for each case and company.

Case	Recognized Loss (if any)	Recognized Gain (if any)	Deferred Gain (if any)	FMV of New Asset
Ramallah Co. Case (1)	<del>\$10,000</del> -	\$10,000	-	\$58,000
Birzeit Co. Case (1)	-	\$8,000	<del>\$8,000</del> -	\$70,000
Ramallah Co. Case (2)	<del>\$10,000</del> -	<del>17,171.4</del>	<del>\$1,714</del>	<del>\$58,000</del>
Birzeit Co. Case (2)	-	-	\$8,000	\$62,000
Ramallah Co. Case (3)	-	\$15,000	-	\$45,000
Birzeit Co. Case (3)	\$5,000	-	-	\$75,000
Ramallah Co. Case (1)	-	\$1,714	\$8,286	\$49,714

On March 1, Ramallah Co. exchanged productive assets with Birzeit Co.. Ramallah's asset is referred to below as "Asset A", and Birzeit's is referred to as "Asset B". The following facts pertain to these assets. Assume the exchange has a commercial substance.

Information	Ramallah Company (Asset A)	Birzeit Company (Asset B)
Original cost	\$150,000	\$90,000
Acc. dep. (to date of exchange)	90,000	40,000
Fair value at date of exchange	70,000	58,000
Cash received	12,000	
Cash paid		12,000

$$\begin{array}{r} 10,000 \\ 12,000 \\ \hline 22,000 \\ 22,000 + 58,000 \\ \hline 80,000 \\ 70,000 \\ \hline 10,000 \\ \hline 10,000 \end{array}$$
  

$$\begin{array}{r} 12,000 \\ 70,000 \\ \hline 82,000 \\ 82,000 - 70,000 \\ \hline 12,000 \end{array}$$
  

$$\begin{array}{r} 12,000 \\ 70,000 \\ \hline 82,000 \\ 82,000 - 70,000 \\ \hline 12,000 \end{array}$$
  
 = 12,000  
 70,000  
 12,000  
 82,000  
 82,000 - 70,000  
 12,000  
 gain = 8,000  
 No cash Rec.

Case (2)

Using the same information in case (1) but, assume that the exchange of Assets A and B lacks commercial substance.

Case (3)

Information	Ramallah Company (Asset A)	Birzeit Company (Asset B)
Original cost	\$150,000	\$90,000
Acc. dep. (to date of exchange)	60,000 90,000	40,000 50,000
Fair value at date of exchange	75,000	? 45,000
Cash received	30,000	
Cash paid		30,000

gain 15,000

loss 5,000

Assume that the exchange of Assets A and B lacks commercial substance.

$$\begin{aligned} \text{FMV of B} &= \text{FU of A} - \text{Cash Rec.} \\ &= 75,000 - 30,000 \\ &= 45,000 \end{aligned}$$

$$15,000 \times \frac{30,000}{30,000 + 45,000}$$

$$\frac{30,000}{75,000} = 40\% \text{ all gain}$$

**Question 3 (12 points)**

On July 1, 2012, Maher Co. purchased a manufacturing machine for \$648,000. The machine has a five year estimated useful life and a \$90,000 estimated salvage value. Maher expects to manufacture 1,395,000 units over the life of the machine. During year 2013, Maher manufactured 280,000 units.

For each item, calculate depreciation expense for year 2013 for the manufacturing machine described above using the method listed. Round all amounts to the nearest whole number.

12  
12

Depreciation Method	Amount
1. Units of production	\$ 112,000 ✓
2. Sum-of-the-years'-digits	\$ 167,400 ✓
3. Double-declining-balance	\$ 207,360 ✓
4. Straight-line	\$ 111,600 ✓

Cost 648,000 : S.V 90,000  
 1,395,000 units  
 280,000 units  
 July 2012 →  $\frac{6}{12}$  + 2013  
 S.L.M =  $\frac{648,000 - 90,000}{5} =$

U.L = 5

$$\frac{558,000}{13,95,000} \times 280,000$$

Double : 2012

$$648,000 \times 40\% \times \frac{6}{12} = 129,600 \text{ B.V}$$

$$518,400 \times 40\% = 207,360$$

S.Y.D

$$1 - \frac{5}{15} \times 558,000 = 186,000 \rightarrow \frac{1}{2}$$

$$2 - \frac{4}{15} \times 558,000 = 148,800 \rightarrow \frac{1}{2}$$

2013

$$186,000 \times \frac{6}{12} = 93,000$$

$$148,800 \times \frac{6}{12} = 74,400$$

167,400

Jan 2011 Costs  
 $C.V = 10,000,000 - 3,000,000$   
 $= 7,000,000 < N.F \Rightarrow Imp. 1,500,000$   
 $7,000,000 - 5,500,000$

Question 4 (20 points)

Each of the following situations is independent:

1. Rantisi Company uses special pressing equipment in its pressing olive oil service. The equipment was purchased in January 2011 for \$10,000,000 and had an estimated useful life of 10 years with no salvage value. At December 31, 2013, new technology was introduced that would accelerate the obsolescence of Rantisi's equipment. Rantisi's controller estimated that expected future net cash flows on the equipment will be \$6,500,000 and that the fair value of the equipment is \$5,500,000. Rantisi intends to continue using the equipment, but it is estimated that the remaining useful life is 4 years. Rantisi uses straight line depreciation. The fair value of the equipment at December 31, 2014, is estimated to be \$6,000,000. No

2. Assume that Rantisi intends to dispose of the equipment and that it has not been disposed of as of December 31, 2014. It is expected that the cost of disposal will be \$100,000. Net 5,900,000

1 - C.V  $7,000,000$  Net Realizable  $(5,500,000 - 100,000) = 5,400,000$   $= 1,600,000$

3. Climatic Company purchased a patent in January 2010 for \$2,000,000 and had an estimated useful life of 8 years with salvage value in the amount of \$20,000. At December 31, 2013, Climatic's controller estimated that expected future net cash flows on the patent will be \$900,000 and that fair value of the patent is \$830,000. Climatic intends to continue using the patent, but it is estimated that the remaining useful life is 2 years. Climatic uses straight-line depreciation. The fair value of the patent at December 31, 2014 is estimated to be \$1,500,000.

4. Pinar Company owned a trade name at December 31, 2008 at a cost of \$5,000,000 with indefinite useful life and no salvage value. At December 31, 2013, it is determined that the fair value of the trade name is \$4,000,000. Assume that Pinar intends to dispose of the trade name and that it has not been disposed of as of December 31, 2014. It is expected that the cost of disposal will be \$150,000. The fair value of the trade name at December 31, 2014 is estimated to be \$4,700,000.

5. Bisan Company spent \$6,000,000 developing its new "Bisan" software package. Of this amount, \$2,000,000 was spent before technological feasibility was established for the product, which is to be marketed to third parties. At December 31, 2013, new technology was introduced that would accelerate the obsolescence of the software. Bisan's controller estimated that expected future net cash flows from the software will be \$3,500,000 and that the fair value of the software is \$3,000,000. Bisan intends to continue selling the software. Bisan estimated that the remaining useful life is 4 years for this software with total revenues of \$15,000,000. During 2014 Bisan realized revenues of \$2,500,000. The fair value of the software at December 31, 2014 is estimated to be \$3,500,000.

3 - Patent  $\frac{2,000,000 - 20,000}{8} = \frac{1,980,000}{8} = 247,500$  Amort.  
 R  $\times 4$  Amort.  $= 990,000$   
 2009 5,000,000  
 5 y  
 Cost 4,000,000  
 C.V 1,010,000  
 Imp. - 830,000

6. Presented below is net asset information related to Bravo Division of Asalah Co.

Bravo Division  
Net Assets  
As of December 31, 2013

Cash	\$80,000,000
Receivables	16,000,000
Property, plant, and equipment (net)	60,000,000
Goodwill	4,000,000
Less: Notes payable	<del>(50,000,000)</del>
Net assets	<u>\$100,000,000</u>

At December 31, 2013, Bravo division experienced operating losses. In addition, it now appears that it will generate substantial losses for the foreseeable future. It is determined that the fair value of the Bravo division is \$96,000,000. The recorded amounts for Bravo's net assets (excluding goodwill) is the same as fair value, except for property, plant and equipment, which has a fair value of \$1,000,000 above carrying value, receivables, which has a fair value of \$2,000,000 below carrying value and notes payable, which has a fair value of \$4,000,000 below carrying value.

*96,000,000 < 100,000,000 →*

The following four responses are required for each item (if any).

- Select from the list below the proper impairment test/s code.
- Compute the amount of impairment loss,
- Compute the depreciation/amortization expense
- Compute the recovery of impairment loss.

*FMV of Bus - Idh.  
96,000,000  
(100,000,000)  
- 4,000,000  
+ 100,000,000  
95,000,000  
FMV 1,000,000*

Impairment Test Type	Code
Recoverability test	A ✓
Fair value test	B
Fair value of business unit	C
Fair value of implied Goodwill	D

Use the following table to fill in your answer for each situation.

*FMV 96,000,000  
C.V. of Bus 95,000,000  
FMV of J. 100,000,000*

16.5  
20

Item	Type of Test/s	Impairment Loss at Dec. 31, 2013 (if any)	Depreciation/Amortization Expense for 2014 (if any)	Recovery of Impairment Loss at Dec. 31, 2014 (if any)
1.	A B ✓	\$1,500,000 ✓	\$1,375,000 ✓	✓
2.	A B ✓	\$1,600,000 ✓	— ✓	400,000 \$500,000 ✓
3.	A B ✓	\$180,000 ✓	\$415,000 405,000 ✓	✓
4.	B ✓	\$1,000,000 1,150,000 ✓	— ✓	— 700,000 ✓
5.	A B ✓	\$1,000,000 ✓	\$750,000 ✓	— ✓
6.	C D ✓	\$3,000,000 (on goodwill) No Impairment ✓	— ✓	— ✓