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BIRZEIT UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS
ACCOUNTING DEPARTMENT

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

ACCT336

Student Name: Abd-aluteef Mari

Student #: 1120017 Section Time: 9:30-11 T/R

ANSWER SHEET

Multiple Choices

1	D
2	B
3	~~C~~ Ad
4	~~B~~
5	A
6	C
7	A
8	~~BB~~ Ad
9	C
10	C

14

Question 3

1	H
2	E
3	F
4	F
5	D
6	B
7	A
8	C
9	H
10	~~BK~~
11	C
12	C

11

11
15.5

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%..

M.R

The following interest factors are provided:

Table Factors For Three Periods	Interest Rate 5%	Interest Rate 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

10 / 12

Required

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

	Atlas Company	Palestine Company
Dr	N/R 250,000	
Cr	Premium on N/R 34,041	
Cr	Consultation services 2	

(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 25,000	Dr	Interest exp 11,508
Cr	Premium on N/R 13,491	Dr	Premium on N/R 13,491
Cr	Interest rev 11,508	Cr	Cash 25,000

Multiple Choices (15points)

1. Sinokrot Corp.'s trial balance reflected the following account balances at December 31, 2013:

Accounts receivable (net)	$24,000
Trading securities	6,000
Accumulated depreciation on equipment and furniture	15,000
Cash	11,000
Inventory	30,000
Equipment	25,000
Patent	4,000
Prepaid expenses	4,000
Land held for future business site	18,000

In Sinokrot's December 31, 2013 balance sheet, the current assets total is

a. $90,000.
b. $82,000.
c. $75,000.
d. $73,000.

fai'

Use the following information for questions 2 -3.

In January 1, 2012 Sahem Development Company sold building having a cash sale price of $120,000 to Ramallah Health Spa, Inc. Sahem Development accepted in exchange a four-year having a maturity value of $213,866 and no stated interest rate. The market rate of interest for a note of similar risk is 8 percent. Prior to sale the building on Sahem's Balance Sheet is reported at cost of $200,000 and, accumulated depreciation in the amount of $50,000. B.V= 150,000

2. Which of the following is the correct journal entry to record the sale of the building on Sahem Company's books?

N/R 21386

Disc

a.

Notes Receivable	120,000	
Accumulated Depreciation	50,000	
Premium on N/R	93,866	
Building		213,866
Gain on Disposal		50,000

b.

Notes Receivable	213,866	
Loss on Disposal	80,000	
Building		200,000
Discount on N/R		93,866

c.

Building	120,000	
Discount on N/P	93,866	
Notes Payable		213,866

d.

Notes Receivable	213,866	
Accumulated Depreciation	50,000	
Loss on Disposal	30,000	
Building		200,000
Discount on N/R		93,866

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

90,000

X

X + 50,000 = 90,0

90,000

PART 1 – ESSAY QUESTIONS

Question 1 (12 points)

Early in 2013, Abdeen Manufacturing Leather Corporation engaged Nabali & Fares Construction Co. to design and construct a complete modernization of Abdeen's manufacturing facility. Construction was begun on March 1, 2013 and was completed on November 30, 2013. Abdeen made the following payments to Nabali & Fares Construction Co. during 2013:

Date	Payment
March 1, 2013	$3,600,000
June 30, 2013	5,400,000
August 31, 2013	4,500,000
November 1, 2013	600,000
November 30, 2013	100,000

In order to help finance the construction, Abdeen issued the following during 2013:

1. $550,000 construction manufacturing facility loan issued on March 1, 2013, 2-year, 12% interest, payable annually on December 31.
2. 1,000,000 shares of no-par common stock, issued at $10 per share on July 1, 2013.

Additional information is provided for other debt outstanding as follows:

1. $100,000 10-year, 10% bond, dated December 31, 2012, interest payable annually. 10,000
2. $50,000, 12% note payable, 5-year, issued October 1, 2013, interest payable annually. 6,000 × 3/12 = 1,500

11/12

Required

Total inter's / Total loan: 11,500 / 150,000 = 7.6%

a) Compute the weighted-average accumulated expenditures qualifying for capitalization of interest cost for 2013, using the following table. (5 points)

Expenditure		Capitalization Period	Weighted-Average Accumulated Expenditures
Date	Amount		
March 1	3,600,000	9/12	$ 2,700,000
June 30	5,400,000	5/12	2,250,000
Aug 31	4,500,000	3/12	1,125,000
Nov 1	600,000	1/12	50,000
Nov 30	100,000	0	0
Total Weighted–Average Accumulated Expenditures			$ 6,125,000

b) Compute the avoidable interest incurred during 2013, using the following table. (3 points)

Weighted–Average Accumulated Expenditures	Interest Rate	Avoidable Interest
550,000	(12%)	$ 66,000
5,575,000	~~10.67%~~ 10.68	~~[illegible]~~ 594,666.67
Total 12/1. 13 [illegible]		$ ~~[illegible]~~ $660,666.67

+.67

c) Compute the total amount of interest cost to be capitalized during 2013. (4 points)

Actual Interest

100,000 * 10% = 10,000

+ 50,000 * 12% * 3/12 = 1,500

+ 550,000 * 12% * 10/12 = 55,000

$66,500 Actual Int

Avoidable interest

~~[illegible]~~

$ 660,666.67

The lower is the Actual interest = 66,500

→ 66,500 interest cost would be capitalized during 2013.

Impairment = 800,000 SYD = 36

Dec 31, 2012 C.V = 1,700,000 B.V = 6,000,000 − 3,500,000 = 2,500,000

8/36 × 6,000,000 = 1,333,333 7/36 = 1,166,666.67 6/36 → 1,000,000

Annual Dep 6,000,000 / 8 = 750,000

Acc. Dep 3,500,000 → 2,500,000 → 800,000

Question 2 (16 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 $6,000,000 and had an estimated useful life of 8 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 $2,000,000 and that the fair value of the equipment is $1,700,000. Rantisi intends to continue using the equipment, but it is estimated that the remaining useful life is 2 years. Rantisi uses Sum-of-the-years'-digits depreciation. The fair value of the equipment at December 31, 2014, is estimated to be $2,400,000.

1,700,000 / 2

1633000

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 $70,000. F.v = 2,330,000

2014 B.V = 1,630,000 / F.V = 2,400,000

3. Siniora Company owned a trade name at December 31, 2008 at a cost of $3,000,000 with indefinite useful life and no salvage value. At December 31, 2013, it is determined that the fair value of the trade name is $2,400,000. Assume that Siniora 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 $70,000. The fair value of the trade name at December 31, 2014 is estimated to be $2,500,000.

fair value test

B.V = 3,000,000 / F.V = 2,400,000 − 70,000 / 2,330,000

4. On June 30, 2013, Bravo Co. paid $15,000,000 to acquire the whole business of Rukab's Ice Cream Co., which became a division of Bravo. Presented below is net asset information reported on Rukab's books at the time of the acquisition:

Cash	$4,000,000
Receivables	1,000,000
Property, plant, and equipment (net)	6,000,000
Patent	4,000,000
Less: Notes payable	(5,000,000)
Net assets	$10,000,000

C.V − goodwill = 3,000,000

It was determined at the date of the purchase that the fair value of the identifiable net assets of Rukab was $12,000,000. Over the next 6 months of operations, the newly purchased division experienced operating losses. In addition, it now appears that it will generate substantial losses for the foreseeable future. At December 31, 2013, net asset information related to Rukab Division of Bravo Co. is shown below:

Rukab Division
Net Assets
As of December 31, 2013

Cash	$4,000,000
Receivables	800,000
Property, plant, and equipment (net)	5,200,000

Patent	4,000,000	4 m
Goodwill	? 3,000,000	3 m
Less: Notes payable	(5,500,000)	(9 200 000)

At December 31, 2013, it is determined that the fair value of Rukab division is $6,500,000. The recorded amounts for Rukab's net assets is the same as fair value, except for property, plant and equipment, which has a fair value of $1,000,000 below carrying value, receivables, which has a fair value of $200,000 above carrying value and notes payable which has a fair value of $3,700,000 above carrying value.

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

① C.V of the division
$11,500,000
F.V $ 6,500,000

- 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.

② F.v goodwill
6,500,000
Net identifiable assets − F.V of net assets
= 6,500,000 − 4,000,000
[2,500,000]

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

C.V of goodwill $ 3,000,000
F.V $ $ $ 2,500,000

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

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	$ 800,000	~~850,000~~ 2/36 × 1700 000	
2.	A + B	870,000	dispose of it	$ 700,000
3.	B	670,000		$ 100,000
4.	C + D	500,000	No Dep	No recovery

F.v of division : 6 500 000
B.v " " : 11 500 000

Question 3 (12 points)

Space Company is involved in a number of projects related to its future success. Some of these projects are considered operational activities while others are considered research and development (R&D) activities. Space must determine the proper accounting treatment in assessing certain expenditures for the year.

From the answer choices listed below, select the proper accounting treatment for each of the expenditures listed below. Each choice may be used once, more than once, or not at all.

Expenditure	Choice
1. Commissions to sales staff marketing new rocket engine.	H
2. Purchase of materials to be used on current and future R&D projects.	E
3. Engineering costs to advance new rocket engine to full production stage.	F
4. Acquisition of R&D equipment for use on new rocket engine project only.	F
5. Construction of long-range research facility for use in current and future projects.	D
6. Legal fees to obtain patent on new rocket.	B
7. Research costs incurred under contract with Magnatic Inc., and billable monthly.	A
8. Replace the cooling system in the company's current facility with a more modern and fuel efficient model.	C
9. Replacing office windows cracked as a result of an explosion at a neighboring manufacturing plant.	H
10. New process costing software - this software will need to be replaced in 6 years. Amortize B	~~B~~ F
11. Cost of a parking lot for new warehouse. C	C
12. 20 new desk-top computers for support personnel.	C

Capital

Answer Choices	
A. Record as receivable	E. Expense as consumed as R&D expense
B. Capitalize and amortize	F. Expense immediately as R&D expense
C. Capitalize and depreciate	G. Expense as manufacturing cost
D. Capitalize and depreciate as R&D expense	H. Expense as operating expense

PART 2 – MULTIPLE CHOICE QUESTIONS (20 points)

1. During 2010, Jericho Corp. installed a production assembly line to manufacture furniture. In 2011, Jericho purchased a new machine and rearranged the assembly line to install this machine. The rearrangement did not increase the estimated useful life of the assembly line, but it did result in significantly more efficient production. The following expenditures were incurred in connection with this project:

Machine	$75,000
Labor to install machine	14,000
Parts added in rearranging the assembly line to provide future benefits	40,000
Labor and overhead to rearrange the assembly line	18,000

What amount of the above expenditures should be capitalized in 2011?

a. $75,000
b. $89,000
c. $107,000
d. $147,000

2. In January, Ramallah Co. purchased a mineral mine for $2,640,000 with removable ore estimated at 1,200,000 tons. After it has extracted all the ore, Ramallah Co. will be required by law to restore the land to its original condition at an estimated cost of $180,000. Ramallah Co. believes it will be able to sell the property afterwards for $300,000. During the year, Ramallah Co. incurred $360,000 of development costs preparing the mine for production and removed and sold 60,000 tons of ore. What amount should Ramallah Co. report as depletion for the year?

a. $135,000
b. $144,000
c. $150,000
d. $159,000

Cost – S.V / estimated
2,880,000
= 2640000 + 180000 + 360000 – 300000 / 1200000

3. On July 1, one of Birzeit Co.'s delivery vans was destroyed in an accident. On that date, the van's carrying amount was $2,500. On July 15, Birzeit Co. received and recorded a $700 invoice for a new engine installed in the van in May, and another $500 invoice for various repairs. In August, Birzeit Co. received $3,500 under its insurance policy on the van, which it plans to use to replace the van. What amount should Birzeit Co. report as gain (loss) on disposal of the van in its year-end income statement?

a. $1,000
b. $300
c. $0
d. $(200)

+500
3700
3500
loss 200
2,500 + 1
(3700)
800
2500
3,700
Dr. Cash 3,500
Cr. 3700

4. On December 31, 2011, Nablus Inc. purchased a machine from Jenin Corp. in exchange for a non interest-bearing note requiring eight payments of $20,000. The first payment was made on December 31, 2011, and the remaining seven payments are due annually on each December 31,

Pr. Madhu

PVA 20,000 (PVSF A) 11% 8 cr. N/P 160,000

beginning in 2012. At the date of the transaction, the prevailing rate of interest for this type of note was 11%. Present value factors are as follows:

Period	Present value of ordinary annuity of 1 at 11%	Present value of an annuity due of 1 at 11%
~~7~~	~~4.712~~	~~5.231~~
8	5.146	5.712

PV of (20,000) 11%, 8

The initial value of the machine is
a. $94,240
b. $102,920
c. $104,620
d. $114,240

Use the following information to answer questions 5 & 6.
Apple is contemplating exchanging a machine used in its operations for a similar machine on May 31. Apple will exchange machines with either Orange Co. or Banana Co. The data relating to the machines are presented below. Assume that the exchange would have no commercial substance.

	Apple	Orange	Banana
Original cost of the machine	$162,500	$180,000	$150,000
Accumulated depreciation thru May 31	98,500	70,000	65,000
Fair value at May 31	80,000	95,000	60,000

B.V $64,000
$16,000 gains

5. If Apple exchanges its used machine and $15,000 cash for Orange's used machine, the gain that Apple should recognize from this transaction for financial reporting purposes would be
a. $0
b. $2,526
c. $15,000
d. $16,000

No cash received

6. If Apple exchanges its used machine for Banana's used machine and also receives $20,000 cash, the gain that Apple should recognize from this transaction for financial reporting purposes would be
a. $0
b. $4,000
c. $16,000
d. $25,000

gain $16,000

Gain recognized = 20,000 / (20000 + 95000) × 16000

= 0.17% × 16000

= 2782

cost & acc. dep. B.V = 64000
FV = 80000
gain 16000

= 20000 / 80000 × 16000

= 0.25 × 16000

7. On December 31, 2010, Bethlehem Co. had capitalized costs for a new computer software product with an economic life of five years. Sales for 2011 were 30 percent of expected total sales of the software. At December 31, 2011, the software had a fair value equal to 90 percent of the capitalized cost. What percentage of the original capitalized cost should be reported as the net amount in Bethlehem's December 31, 2011, balance sheet?

a. 70%
b. 72%
c. 80%
d. 90%

8. Calculate depreciation for year 2 based on the following information:

Historical cost	$40,000
Useful life	5 years
Salvage value	$3,000
Year 1 depreciation	$16,000

$\frac{40000 - 3000}{5} = 7400$

a. $7,000
b. $7,400
c. $8,000
d. $9,600

9. On January 2, 2011, Jerusalem Co. purchased a franchise with a useful life of 10 years for $50,000. An additional franchise fee of 3% of franchise operating revenues also must be paid each year to the franchisor. Revenues during 2011 totaled $400,000. In its December 31, 2011, balance sheet, what net amount should Jerusalem report as an intangible asset-franchise?

a. $33,000
b. $43,800
c. $45,000
d. $50,000

10. Gaza Co. acquired a depreciable asset on January 1, 2009, for $60,000 cash. At that time Gaza estimated the asset would last 10 years and have no salvage value. During 2011, Gaza estimated the remaining life of the asset to be only three more years with a salvage value of $3,000. If Gaza uses straight-line depreciation, what is the depreciation for 2011?

a. $6,000
b. $12,000
c. $15,000
d. $16,000

= Cost − S.V

$= \frac{60000 - 0}{10} = 6000 \times 2$

= 12000

New B.V = cost − acc.dep

= 60000 − 12000

$= \frac{48000 - 3000}{3} = 15000$