2

56.5/70

BIRZEIT UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS
ACCOUNTING DEPARTMENT

LECTURERS: MIRABO SHAMMAS
SAMIA SHAMMAS

FIRST SEM. 2014/2015
MID-TERM EXAM

ACCT336

Student Name: Yassir Kali 9:30

Student #: 111428

Multiple Choices

30
14.5
12

2

1	C
2	B
3	A
4	B
5	D
6	B
7	C
8	C
9	D
10	D
11	C
12	A
13	B
14	A
15	C
16	C
17	A
18	D
19	C
20	B
21	B
22	A
23	D
24	C
25	A
26	B

PART 1 - Essay Questions

Question 1 (15 points)

14.5
15

Early in 2013, Al- Pinar Manufacturing Dairy products Co. engaged Nabali & Fares Construction Co. to design and construct a complete modernization of Pinar's manufacturing facility. Construction was begun on February 1, 2014 and was completed on November 30, 2014. Pinar made the following payments to Nabali & Fares Construction Co. during 2014:

Date	Payment	
February 1, 2014	$360,000	360,000 X 10/12
July 30, 2014	540,000	540,000 X 4/12
August 31, 2014	450,000	450,000 X 3/12
October 1, 2014	450,000	450,000 X 2/12
November 1, 2014	600,000	600,000 X 1/12
November 30, 2014	100,000	0

In order to help finance the construction, Pinar issued the following during 2014:
$650,000 Construction manufacturing facility loan issued on February 1, 2014, 2-year,12% interest, payable annually December31.

Additional information is provided for other debt outstanding as follows:

1. $100,000, 10-year, 10% bond, December 31, 2013, interest payable annually. 10,000
2. $50,000, 12% note payable, 5-year, issued January 1, 2014, interest payable annually. 6,000

78,000 + 7,200

85,200

Required

a) Compute the weighted-average accumulated expenditures qualifying for capitalization of interest cost for 2014, using the following table. (6 points)

Expenditures		Capitalization Period	Weighted -Average Accumulated Expenditures
Date	**Amount**		
Feb. 1	**$360,000**	10/12	300,000
July30	**540,000**	4/12	180,000
Aug. 31	**450,000**	3/12	112,500
Oct. 1	**450,000**	2/12	75,000
Nov. 1	**600,000**	1/12	50,000
Nov. 30	**100,000**	0/12	0
Total Weighted –Average Accumulated Expenditures $			717,500

6/6

b) Compute the avoidable interest incurred during 2010, using the following table. **(3 points)**

Weighted –Average Accumulated Expenditures	Interest Rate	Avoidable Interest
650,000	12%	78,000
67,500	10.66%	~~7200~~ 719
Total avoidable interest		85,200

21750

Actual interest

$650{,}000 \times 12\% \frac{11}{12} = 71{,}500$

$100{,}000 \times 10\% = 10{,}000$

$50{,}000 \times 12\% = 6000$

Total Actual interest 87,500

avoidable interest < Actual

c) Prepare the journal entry to record the capitalization of interest and the recognition of interest expense, if any, at December 31, 2014. **(6 points)**

Dec 31, 2014

Dr. Construct/building (capitalize interest) 85,200 198

Dr. Interest expenses 2300

Cr. Interest ~~expenses~~ payable 87,500

* Jan, 1, 2015

Dr. Interest ~~exp~~ payable 87,500

Question 2 (16 points)

On December 31, 2013, Bravo Co. paid $$520,000 to acquire the whole business of Rukab's Ice Cream Co., which became a division of Bravo.

Rukab reported the following balance sheet at the time of the acquisition, and in the last column the related FMV amounts to each account.

Assets	Cost	FMV
Cash	$100,000	$100,000
Receivables	60,000	60,000
Merchandise Inventory	80,000	100,000
Land	100,000	250,000
Equipment (net)	70,000	30,000
Patent	--------------	25,000
Total Assets	$410,000	565,000
Liabilities & S.H.E	Cost	FMV
Payables	50,000	50,000
Mortgage payable	90,000	70,000
Bonds payable	100,000	110,000
Common Stock	70,000	230,000
Retained Earnings	100,000	
Total Liabilities & S.H.E	410,000	net 335,000

goodwill 185,000

Over the first year of operations, the newly purchased division experienced operating losses. In addition, it now appears that it will generate substantial losses for the foreseeable future. Presented below is net assets information related to Rukab Division of Bravo Co. on December 31, 2014.

Rukab Division
Net Assets
December 31, 2014

Cash	$50,000	50,000
Receivables	40,000	30,000
Merchandise Inventory	60,000	60,000
Land	250,000	300,000
Equipment (net)	25,000	28,000
Patent	20,000	20,000
Goodwill	185,000 ?	120,000
Payables	(40,000)	(40,000)
Mortgage payables	(135,000)	(180,000)
Bonds payable	(155,000)	170,000
	300,000	120,000

It is determined that the fair value of Rukab Division is $250,000. The recorded amounts for Bravo's net assets (excluding goodwill) is the same as fair value, except for land which has a fair

12/16

value of $50,000 above carrying value, equipment which has a fair value of $5,000 below carrying value, receivables which has a fair value of $10,000 below carrying value, mortgage payable, which has a fair value of $25,000 above carrying value and bonds payable which has a fair value of $15,000 above carrying value.

Required

a) Compute the amount of goodwill for Bravo Corporation on the purchase of Rukab's Ice Cream Company (if any) on December 31, 2013. **(6 points)**

FV of Rukab = 335,000

Bravo Paid $ 20,000

185,000 is good will

Dr. loss on Impairment ~~50,000~~

Cr. good will ~~55,000~~

b) Prepare the journal entry (if any) to record impairment of goodwill at December 31, 2014. **(8points)**

Test (1)

Net identifiably Asset on Dec. 31, 2014 = 300,000

Fair vale Dec 31, 2014 250,000 There is impairment

Test (2)

~~185,000 - 50,000 = 135,000 → new good with~~

250,000 - 120,000 = 130,000 goodwill impairment

c) At December 31, 2015, it is estimated that the division's fair value increased to $100,000. Prepare the journal (if any) to record this increase in fair value. **(2 points)**

* no entry because not recovery on Impairment loss of goodwill

Se couse not will be

Good will = 140,000

M.R

then, Impairment = 185 - 140

loss $45,000

PART 2 - Multiple Choice Questions (39 points)

1. On December 1, Nablus 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 Nablus at a cost of $40 per share, and on the exchange date the common shares of Nablus had a fair market value of $50 per share. Nablus 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. $74,000.
   b. $80,000.
   c. $94,000.
   d. $100,000.

Land 100,000

Use the following information to answer questions 2 - 3.

Two independent companies, Ramallah Co. and Birzeit 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:

	Ramallah's Land	Birzeit's Land
Cost and book value	$192,000	$120,000
Fair value based upon appraisal	240,000	210,000

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

2. For financial reporting purposes, Ramallah should recognize a pre-tax gain on this exchange of

   a. $0.
   b. $6,000.
   c. $30,000.
   d. $48,000.

3. The new land should be recorded on each company's books at

	Ramallah's books	Birzeit's books
a.	$168,000.	$150,000.
b.	$192,000.	$120,000.
c.	$210,000.	$210,000.
d.	$240,000.	$240,000.

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

Land 250,000
contribution Revenue

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

5. On August 18, 2014, Rantisi Co. incurred the following costs for one of its printing presses:

Purchase of attachment	$55,000 60,000
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. $67,000.
c. $78,000.
d. $85,000.

6. On March 20, 2014, Climatic Co. replaced its boiler with a more efficient one. The following information was available on that date:

loss 6000

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

170,000

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

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

7. Birzeit Pharmaceutical Co. incurred research and development costs in 2014 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 2014 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
Total	$5,025,000

The amount of research and development costs charged to Birzeit's 2014 income statement should be

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

500,000 2,000,000 400,000 2,900,000

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

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

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

68,000 Patent 68,000

10. Al-Bireh 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. Al-Bireh uses straight-line amortization for patents. On December 31, 2011, the future cash flows 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 Al-Bireh's market interest rate, is $2,400,000. At what amount should the patent be carried on the December 31, 2011 balance sheet?

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

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

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

$ 141,750

+ 135,000

12. Gaza Co. 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 Gaza record as an impairment loss on July 1, 2010?

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

13. Jaber Gaz and Oil Co. acquires a coal mine at a cost of $500,000. Intangible development costs total $120,000. After extraction has occurred, Jaber must restore the property (estimated fair value of the obligation is $60,000), after which it can be sold for $170,000. Jaber 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 Accumulated Depletion for $91,800
b. Debit to Inventory for $91,800
c. Credit to Inventory for $90,000
d. Credit to Accumulated Depletion for $153,000

14. On April 13, 2010, Almonds 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, Almonds should record depreciation expense for 2011 on this machinery of

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

15. On September 19, 2010, Olive 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, Olive should record depreciation expense for 2011 on this machinery of

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

190,000
10,000

16. Under U.S. GAAP, restorations of carrying value for long-lived assets are permitted if an asset's fair value increases subsequent to recording an impairment loss for which of the following?

	Held for use	Held for disposal
a.	Yes	Yes
b.	Yes	No
c.	No	Yes
d.	No	No

17. Palvest Company issues $10,000,000, 6%, 5-year bonds dated January 1, 2014 on January 1, 2010. The bonds pay interest semiannually on June 30 and December 31. The bonds are issued to yield 5%. What are the proceeds from the bond issue?

	2.5%	3.0%	5.0%	6.0%
Present value of a single sum for 5 periods	.88385	.86261	.78353	.74726
Present value of a single sum for 10 periods	.78120	.74409	.61391	.55839
Present value of an annuity for 5 periods	4.64583	4.57971	4.32948	4.21236
Present value of an annuity for 10 periods	8.75206	8.53020	7.72173	7.36009

a. $10,000,000
b. $10,432,988
c. $10,437,618
d. $10,434,616

7812000

18. Al-Bazzar Company issues $10,000,000 of 10-year, 9% bonds on March 1, 2014 at 97 plus accrued interest. The bonds are dated January 1, 2014, and pay interest on June 30 and December 31. What is the total cash received on the issue date?

a. $9,700,000
b. $10,225,000
c. $9,550,000
d. $9,850,000

9700000

19. Three year 8% bonds of $100,000 issued on January 1, 2011, are recalled at 102 on December 31, 2012. Expenses of recall are $2,000. On December 31, 2012, the unamortized discount balance is $1,817, and the unamortized bond issue cost is $400.

The Journal entry to be recorded by National Company on December 31, 2012 is:

a. Bonds payable	100,000	
Loss on extinguishment	5,817	
Cash		104,000
Discount on bonds payable		1,817
b. Bonds payable	100,000	
Loss on extinguishment	3,817	
Cash		102,000
Discount on bonds payable		1,817

$PVOA = PMT \times \frac{1-(1+r)^{-n}}{r}$

$(1+2.5\%)^{-10}$

Cash

face.

c. Bonds payable 100,000
Loss on extinguishment 6,217
Cash 104,000
Discount on bonds payable 1,817
Unamortized bond issue cost 400

d. Bonds payable 100,000
Loss on extinguishment 4,217
Cash 102,000
Discount on bonds payable 1,817
Unamortized bond issue cost 400

20. On January 1, 2010, Sakakiny Co. issued its 10% bonds in the face amount of $3,000,000, which mature on January 1, 2020. The bonds were issued for $3,405,000 to yield 7%. Interest is payable annually on December 31. At December 31, 2010, Sakakiny's unamortized bond premium under the two methods shown below would be:

	Effective-Interest Method	Straight-Line Method
a.	$405,000	$405,000
b.	$343,350	$364,500
c.	$377,400	$364,500
d.	$304,500	$304,500

21. In 2010, Hidmi Corp. acquired 9,000 shares of its own $1 par value common stock at $18 per share. In 2011, Hidmi issued 4,000 of these shares at $25 per share. Hidmi uses the cost method to account for its treasury stock transactions. What accounts and what amounts should Hidmi credit in 2011 to record the issuance of the 4,000 shares?

	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Common Stock
a.	$72,000		$70,000	
b.	$72,000	$28,000		
c.		$96,000		$4,000
d.		$68,000	$28,000	$4,000

Use the following information to answer questions 22 - 24.

Jawwal Company's ledger shows the following balances on Dec 31, 2013.

6% Preferred stock-$100 par value, outstanding 10,000 shares	$1,000,000
Common stock-$100 par value, issued 40,000 shares	4,000,000
Retained earnings	1,000,000
Treasury stock (10,000 shares)	150,000

Assume the directors decide to declare total dividends in the amount of $600,000. 2 years dividends are in arrears on preferred stock. Assume that the preferred stock is cumulative and participating up to 8%.

22. Determine how much each class of stock should receive.

	Preferred Stockholders	Common Stockholders
a.	$200,000	$400,000
b.	$300,000	$300,000
c.	$150,000	$450,000
d.	$250,000	$350,000

Assume the directors decide to declare total dividends in the amount of $600,000. 2 year dividends are in arrears on preferred stock. Assume that the preferred stock is cumulative and is fully participating.

23. Determine how much each class of stock should receive.

	Preferred Stockholders	Common Stockholders
a.	$200,000	$400,000
b.	$300,000	$300,000
c.	$216,000	$384,000
d.	$240,000	$360,000

Assume the directors decide to declare total dividends in the amount of $600,000. Assume that the preferred stock is non cumulative and participating in distributions in excess of a 8% dividend rate on the common stock.

24. Determine how much each class of stock should receive.

	Preferred Stockholders	Common Stockholders
a.	$200,000	$400,000
b.	$300,000	$300,000
c.	$135,000	$465,000
d.	$165,000	$435,000

60,000 240,000
25,000

25. For the year ended December 31, 2013, Al-Rehan Inc. reported the following:

Net income	$ 60,000
Preferred dividends declared	10,000
Common dividend declared	2,000
Unrealized holding loss from foreign currency translation	2,000
Unrealized holding gain from available for sale securities	3,000
Retained earnings, beginning balance	80,000
Common stock	40,000
Accumulated Other Comprehensive Income, Beginning Balance	5,000
Income tax rate	30%

equity

80,000
+60,000
-12,000

5000

128,000

What would Al-Rehan report as total stockholders' equity?

a. $173,000
b. $171,600
c. $174,000
d. $173,700

26. For the year ended December 31, 2013, Bravo Inc. reported the following:

Net income	$250,000
Correction of understatement of fees revenues in prior year after tax	20,000
Stock dividends	70,000
Unrealized holding loss, on available for sale securities	1,000
Retained earnings, beginning balance	180,000
Retained earnings, ending balance	300,000
Common stock	40,000
Accumulated Other Comprehensive Income, Beginning Balance	5,000

What is the total amount of cash dividends distributed by Bravo Corporation for the year ended December 31, 2013?

a. $0
b. $80,000
c. $40,000
d. $31,000

250
120
+ 180

300