BIRZEIT UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS
ACCOUNTING DEPARTMENT

49/46

LECTURER: MIRABO SHAMMAS

SECOND SEM. 2014/2015
MID-TERM EXAM

ACCT336

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Student #: 1121523 **Section Time:** 11

Answer Sheet
Multiple Choices

1	C
2	B
3	B
4	C
5	B
6	B
7	B
8	A
9	C
10	C

12
12
10

6+2

PART 1 – ESSAY QUESTIONS

Question 1 (12 points)

On January 2, 2011, Marawi Co. began construction a new manufacturing facility for its own use. The building was completed in 2012. The company borrowed $1,500,000 at 8% on January 1 to help finance the construction. In addition to the construction loan, Marawi had the following debt outstanding throughout 2011:

- $5,000,000 12% bonds
- $3,000,000 8% long-term note

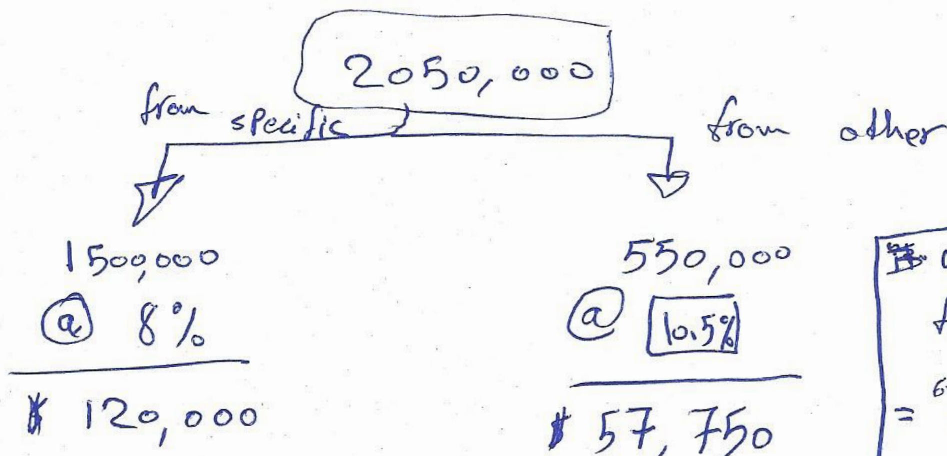
Construction expenditures incurred during 2011 were as follows:

Date	Payment
January 1	$600,000
March 31	1,200,000
June 30	800,000
September 30	600,000
December 31	400,000

Required

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

1. Avoidable interest.



2. Total interest to be capitalized during 2011.

total Avoidable = 177,750

Total Actual Interest = 120,000 + 600,000 + 240,000 = 960,000

Avoidable Interest $<$ Actual Interes

177,750 960,000

then, the Interest should be capitlize = $177,750

3. The amount of interest expense that will be reported in the income statement for 2011.

Interest exp. in these case = Totale Actuale Interest − Total Avoidabm Interest

= 960,000 − 177 750 = $ 782,25

that show in Income statment As:

Interest exp.	960,000
less capitalize Interest	(177,750)
Total Interest exp	782,250

Question 2 (12 points)

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

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Case	Recognized Loss (if any)	Recognized Gain (if any)	Deferred Gain (if any)	FMV of New Asset
Ramallah Co. Case (1)	—	5,625	24,375	40,625
Birzeit Co. Case (1)	—	—	20,000	69,000
Ramallah Co. Case (2)	—	25000	—	37 500
Birzeit Co. Case (2)	7500	—	—	50,000

Case (1)

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 lacks commercial substance.

Information	Ramallah Company (Asset A)	Birzeit Company (Asset B)
Original cost	$150,000	$100,000
Acc. dep. (to date of exchange)	100,000 (50,000)	55,000 (45000)
Fair value at date of exchange	80,000	? 65,000
Cash received	15,000	
Cash paid		15,000

Case (2)

Assume the exchange lacks commercial substance.

Information	Ramallah Company (Asset A)	Birzeit Company (Asset B)
Original cost	$250,000	$165,000
Acc. dep. (to date of exchange)	225,000 (25,000)	120,000 45,000
Fair value at date of exchange	50,000	? 37,500
Cash received	12,500	
Cash paid		12,500

Question 3 (16 points)

Question 3 (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 2010 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 $1,500,000 and that the fair value of the equipment is $1,200,000. 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.

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 $50,000.

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 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 $50,000. The fair value of the trade name at December 31, 2014 is estimated to be $2,500,000.

4. On July 31, 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 book 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

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 5 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.

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

Bravo 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
Goodwill	?
Less: Notes payable	(5,500,000)

Net assets

At December 31, 2013, it is determined that the fair value of the Rukab division is $6,700,000. 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 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.

6,700,000
(4,000,000)
2,700,000
new Goodwill

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.

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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

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

Item	Type of Test/s	Impairment Loss Amount at Dec. 31, 2013 (if any)	Depreciation/Amortization Expense Amount for 2014 (if any)	Recovery of Impairment Loss Amount at Dec. 31, 2014 (if any)
1.	A B	466,667	800,000	—
2.	A B	516,667	—	516,667
3.	B	600,000 650,000	—	50,000 100,000
4.	C D	300,000	—	—

ما بنفع رفعه ويصير كثر من قبل!

PART 2 – MULTIPLE CHOICE QUESTIONS (10 points)

1. Feller Company issues $20,000,000 of 10-year, 9% bonds on March 1, 2010 at 97 plus accrued interest. The bonds are dated January 1, 2010, and pay interest on June 30 and December 31. What is the total cash received on the issue date?

   a. $19,400,000
   b. $20,450,000
   c. $19,700,000
   d. $19,100,000

2. On January 1, 2010, Huber Co. sold 12% bonds with a face value of $600,000. The bonds mature in five years, and interest is paid semiannually on June 30 and December 31. The bonds were sold for $646,200 to yield 10%. Using the effective-interest method of amortization, interest expense for 2010 is

   a. $60,000.
   b. $64,436.
   c. $64,620.
   d. $72,000.

3. On January 1, Martinez Inc. issued $3,000,000, 11% bonds for $3,195,000. The market rate of interest for these bonds is 10%. Interest is payable annually on December 31. Martinez uses the effective-interest method of amortizing bond premium. At the end of the first year, Martinez should report unamortized bond premium of:

   a. $185,130
   b. $184,500
   c. $173,550
   d. $165,000

4. At December 31, 2010 the following balances existed on the books of Rentro Corporation:

Bonds Payable	$1,500,000
Discount on Bonds Payable	120,000
Interest Payable	37,000
Unamortized Bond Issue Costs	90,000

   If the bonds are retired on January 1, 2011, at 102, what will Rentro report as a loss on redemption?

   a. $150,000
   b. $202,500
   c. $240,000
   d. $277,500

5. On January 1, 2010, Crown Company sold property to Leary Company. There was no established exchange price for the property, and Leary gave Crown a $2,000,000 zero-interest-bearing note payable in 5 equal annual installments of $400,000, with the first payment due December 31, 2010. The prevailing rate of interest for a note of this type is 9%. The present value of the note at 9% was $1,442,000 at January 1, 2010. What should be the balance of the Discount on Notes Payable account on the books of Leary at December 31, 2010 after adjusting entries are made, assuming that the effective-interest method is used?

a. $0
b. $428,220
c. $446,400
d. $558,000

6. Manning Company issued 10,000 shares of its $5 par value common stock having a market value of $25 per share and 15,000 shares of its $15 par value preferred stock having a market value of $20 per share for a lump sum of $480,000. How much of the proceeds would be allocated to the common stock?

a. $50,000
b. $218,182
c. $250,000
d. $255,000

7. Gannon Company acquired 6,000 shares of its own common stock at $20 per share on February 5, 2010, and sold 3,000 of these shares at $27 per share on August 9, 2011. The market value of Gannon's common stock was $24 per share at December 31, 2010, and $25 per share at December 31, 2011. The cost method is used to record treasury stock transactions. What account(s) should Gannon credit in 2011 to record the sale of 3,000 shares?

a. Treasury Stock for $81,000.
b. Treasury Stock for $60,000 and Paid-in Capital from Treasury Stock for $21,000.
c. Treasury Stock for $60,000 and Retained Earnings for $21,000.
d. Treasury Stock for $72,000 and Retained Earnings for $9,000.

8. Direct costs incurred to sell stock such as underwriting costs should be accounted for as

1. a reduction of additional paid-in capital.
2. an expense of the period in which the stock is issued.
3. an intangible asset.

a. 1
b. 2
c. 3
d. 1 or 3

9. Jackson Company is a publicly held corporation whose $1 par value stock is actively traded at $64 per share. The company issued 3,000 shares of stock to acquire land recently advertised at $200,000. When recording this transaction Barton Company will

   a. debit Land for $200,000.
   b. credit Common Stock for $192,000.
   c. debit Land for $192,000.
   d. credit Paid-In Capital in Excess of Par for $196,000.

10. The printing costs and legal fees associated with the issuance of bonds should

   a. be expensed when incurred.
   b. be reported as a deduction from the face amount of bonds payable.
   c. be accumulated in a deferred charge account and amortized over the life of the bonds.
   d. not be reported as an expense until the period the bonds mature or are retired.