جامعة بيرزيت
BIRZEIT UNIVERSITY

FACULTY OF BUSINESS AND ECONOMICS
ACCOUNTING DEPARTMENT

LECTURERS
ALEX KUTTAB
MIRABO SHAMMAS
SAMIA SHAMMAS

SECOND SEM. 2021/2022
FIRST HOUR EXAM

ACCT432

Student Name: Ruba Mtoor **Student #:** 1183223

Section Time: 10:00 **Days** S, M

Question 3 (a) - Loss Absorption Potential (LAP)	
Nakhleh	117,333
Mohammad	414,333
Saed	309,000

Question 3 (b) - Summary Cash Distribution Plan	
Step #1	First $180,000 pay to creditors
Step #2	Next $16,000 liquidation expense
Step #3	Next $31,600 pay to mohammad
Step #4	Next $57,500 pay to mohammad and 76,667 pay to saed
Step #5	any available cash allocate in accordance with Ratio [N 30 : M 30 : S 40]

Multiple Choices	
1.	d
2.	a
3.	b
4.	c

Part	For Lecturer's Use Only Question	Grade	
1	Question 1	9	9
	Question 2	9	9
	Question 3	5	8
2	Multiple Choice Questions	3	4
Total		26	30

PART ONE - ESSAY QUESTION (26 POINTS)

Question 1 (9 points) 9

Ayman and Zaid sell musical instruments through their partnership. To bring in additional funds and expertise, they decide to admit Oday to the partnership for 25% interest. Ayman's capital is $400,000, Zaid's capital is $200,000, and they share profits and losses in a ratio of 70%, 30% respectively.

Required

a) Calculate the new partnership profit/loss ratios.

FMV
800,000 = 600,000 + 180,000 + GW

GW = 20,000

AZO Partnership Ratio	
Ayman	52.5 %
Zaid	% →22.5%
Oday	25 %

b) Record the entry to admit Oday, if Oday invests $180,000 for 25% interest, and goodwill is recognized for Oday.

Account	DR	CR
Goodwill (oday)	20,000	
Cash	180,000	
Oday capital		~~[illegible]~~ 200,000

c) Assume that Ayman and Zaid agree that some of the inventory is obsolete. The inventory account is decreased by $30,000 before Oday is admitted. Oday invests $190,000 for a 25% interest.

Record the write-down of the inventory, before the admission of Oday.

Account	DR	CR
Ayman capital	21,000	
Zayd Capital	9000	
Inventory		30,000

9

Question 2 (9 points)

Diana, Nicole, and Laila operate a partnership with a profit and loss sharing agreement. The average capital balance for each partner on December 31, 2021 is $300,000 for Diana, $250,000 for Nicole, and $325,000 for Laila. An 8% interest allocation is provided to each partner. Diana and Nicole receive salary allocations of $10,000 and $15,000, respectively. If partnership net income is above $25,000, Laila will receive a bonus of 10% of the original amount of net income. All residual income is allocated in the ratios of 20%, 30%, 50% to Diana, Nicole, and Laila, respectively.

Required

Prepare a schedule to allocate the net loss to the partners, assuming that partnership net loss amounted to $36,000.

	300,000	250,000	325,000	
	Diana	Nicole	Laila	Total
Net loss	20%	30%	50%	($36,000)
Salary allocation	10,000	15,000		(25,000)
Interest allocation (8%)	24,000	20,000	26,000	(70,000)
Bonus to Laila (if applicable)	0	0	0	0
Subtotal	34,000	35,000	26,000	(131,000)
Residual allocation	(26,200)	(39,300)	(65,500)	131,000
Total Distribution	7,800	(4,300)	(39,500)	0

→ there is Net loss → No Bonus.

Question 3 (8 points)

The year-end balance sheet and residual profit and loss sharing percentages for the Nakhleh, Mohammad, and Saed partnership on December 31, 2021, are as follows:

Cash	$90,000	Accounts payable	$180,000
Loan to Nakhleh	20,000	Loan from Mohammad	40,000
Other assets	390,000	Nakhleh, capital (30%)	60,000
		Mohammad, capital (30%)	90,000
		Saed, capital (40%)	130,000
Total assets	$500,000	Total liabilities & equity	$500,000

The partners agree to liquidate the business and distribute cash when it becomes available. The estimated liquidation expenses amount to $16,000.

Required

a) Use the table on the cover page to prepare the Loss Absorption Potential (LAP) for each partner, after settlement of partners' loans receivable and payable to partners' capital accounts.

N, Capital = 60,000 − 20,000 = 40,000
M, capital = 90,000 + 40,000 = 130,000
S, capital = 130,000 = 130,000

LAP → N = $\frac{40,000}{30\%}$ = 133,333.3
→ M = $\frac{130,000}{30\%}$ = 433,333.3
→ S = $\frac{130,000}{40\%}$ = 325,000

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b) Use the table on the cover page to prepare a summary cash distribution plan related to the partnership liquidation.

	N	M	S	N 30%	M 30%	S 40%
Pre liquidation bal.	—	—	—	40,000	130,000	130,000
LAP	133,333	433,333	325,000	—	—	—
highest LAP → LAP		(108,333)			(32,500)	
BAL	133,333	325,000	325,000	40,000	97,500	130,000
LAP → LAP		(191,667)	(191,667)		(57,500)	(76,667)

PART TWO – MULTIPLE CHOICE QUESTIONS (4 POINTS)

1) The partnership of Larry, Moe, and Curly shares profits and losses 60%, 30%, and 10%, respectively. On January 1, 2014, the partners voted to dissolve the partnership, at which time the assets, liabilities, and capital balances were as follows:

Cash

400,000	
840,000	580,000
660,000	

Assets		Liabilities and Capital	
Cash	$ 400,000	Accounts Payable	$ 580,000
Other Assets	1,200,000	Larry, Capital (60%)	440,000
		Moe, Capital (30%)	380,000
		Curly, Capital (10%)	200,000
Total assets	$1,600,000	Total liabilities & capital	$1,600,000

All of the partners are personally insolvent.

360,000 loss

Assume that all noncash assets are sold for $840,000 and all available cash is distributed in final liquidation of the partnership. Cash should be distributed to the partners as follows

a. Larry, $744,000; Moe, $372,000; Curly, $124,000.
b. Larry, $440,000; Moe, $380,000; Curly, $200,000.
c. Larry, $224,000; Moe, $272,000; Curly, $164,000.
d. Larry, $396,000; Moe, $198,000; Curly, $66,000.

2) The partnership of Peter, Paul, and Mary share profits and losses in the ratio of 4:4:2, respectively. The partners voted to dissolve the partnership when its assets, liabilities, and capital were as follows:

Assets			peter	peal	mary
Cash	$ 250,000		250,000	300,000	375,000
Other assets	1,000,000				
	$1,250,000	(400,000)	(160,000)	(160,000)	(80,000)
		BAL	90,000	140,000	295,000

Liabilities and Capital	
Liabilities	$ 200,000
Peter, Capital (40%)	300,000
Paul, Capital (40%)	350,000
Mary, Capital (20%)	400,000
	$1,250,000

The partnership will be liquidated over a prolonged period of time. As cash is available, it will be distributed to the partners. The first sale of noncash assets having a book value of $600,000 realized $475,000. How much cash should be distributed to each partner after this sale?

a. Peter, $90,000; Paul, $140,000; Mary, $295,000
b. Peter, $210,000; Paul, $290,000; Mary, $145,000
c. Peter, $290,000; Paul, $210,000; Mary, $105,000
d. Peter, $150,000; Paul, $175,000; Mary, $200,000

	Cash +	Noncash =	Liabilities +	peter +	peal +	mary
Pre-BAL	250,000	1,000,000	200,000	300,000	350,000	400,000
Sale [loss: 125,000]	475,000	(600,000)		(50,000)	(50,000)	(25,000)
BAL	725,000	400,000	200,000	250,000	300,000	375,000

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3) When Dania and Randa decided to incorporate their partnership, the trial balance was as follows :

	Debit	Credit
Cash	$60,000	
Accounts Receivable (net)	35,000	
Inventory	65,000	
Equipment	130,000	
Accounts Payable		$60,000
Dania, Capital		150,000
Randa, Capital		80,000
Total	$290,000	$290,000

The partnership's books will be closed, and new books will be used for D & R Corporation. The following additional information is available:

1. The estimated fair values of the assets & liabilities are as follows:

	FMV	BV	Gain(loss)
Accounts Receivable	$38,000	> 35,000	3000
Inventory	70,000	> 65,000	5000
Equipment	125,000	< 130,000	(5000)
Accounts Payable	58,000	< 60,000	2000

5000 Gain

2. All assets and liabilities are transferred to the corporation.
3. The common stock is $7 par. Dania and Randa receive a total of 30,000 shares. D : 3,500
4. Dania and Randa share profits and losses in the ratio 7:3.

D&R R : 1,500

The number of shares received by Randa is

a. 9,000
b. 10,404
c. 19,596
d. 21,000

R # of shares

$\frac{81,500}{235,000} \times 30,000$

D, capital = 153,500
R, capital = 81,500
Total 235,000

4) Yousef invests the following building into a new partnership: Building with a current market value of $800,000 originally acquired for $500,000, accumulated depreciation $300,000, mortgage payable $400,000. Using the above information, the amount of Yousef's initial investment amounts to

a. $800,000
b. ($200,000)
c. $400,000
d. $200,000

FMV 800,000
رهن (400,000)

400,000

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MID -TERM EXAM

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Student Name: RUBA MTOOR Student #: 1183223 Section Time: S.W
sec#1

Incomplete Data	
A	14,000
B	112,000
C	32,000
D	330,000
E	330,000
F	110,000
G	306,000
H	330,000
I	29,300
J	194,000

5

Multiple Choices		
1	a	C
2	D	A
3 ¼	C	
4	B	
5	C	
6	B	
7	D	

4

True/False		Correct Answer for False Answers
1	T	—
2	F	split-of
3	F	statutory consolidation

5

For Instructor's Use Only			
Part	Question	Grade	
1	Question 1	6	12
	Question 2	24.5	26
2	A) Incomplete Data	5	10
	B) True/False	5	5
	C) MCQ	4	7
Total		44.5	60

PART ONE - ESSAY QUESTIONS (38 POINTS)

Question 1 (12 points)

On January 1, 2021, Power Corporation acquired 70% of Star Company's voting stock, at underlying book value. The fair value of the noncontrolling interest was equal to 30% of the book value of Star. On Dec.31, 2021, the trial balances of the two companies are as follows:

Item	Power		Star	
	Debit	Credit	Debit	Credit
A Current Assets	$226,000		$120,000	
A Plant Assets	300,000		225,000	
Investment in Star	~~108,500~~			
Depreciation Expense	30,000		25,000	
Other Expenses	100,000		60,000	
Dividends Declared	30,000		~~10,000~~	
contra A Accumulated Depreciation		$120,000		$75,000
Current Liabilities		62,000		25,000
Long-Term Debt		75,000		90,000
Common Stock		100,000		~~75,000~~
APIC		30,000		~~15,000~~
Retained Earnings		90,000		~~50,000~~
~~Sales~~		300,000		110,000
Income from Star		~~17,500~~		
Total	**$794,500**	**$794,500**	**$440,000**	**$440,000**

Required

a) Prepare the consolidated balance sheet as of December 31, 2021, using the table on the next page. **(10 points)**

410,000
(215,000)
195,000

CA
PA
[illegible]
less: Acc dep.

NI

6

Assets	242,200	Liabilities & SHE	
Account	**Amount**	**Account**	**Amount**
Current Asset	~~242,200~~	Current liabilities	87,000
Plant Asset	367,500 ~~525,000~~	long-term debt	165,000
less: Acc. Dep.	136,000 ~~185,000~~		
		Common stock	100,000
		APIC	30,000
		R.E	90,000
Total assets	$ 472,000	**Total Liabilities & SHE**	$ 472,000

b) Determine the following for 2021: **(2 points)**

Non-controlling interest in net income. $ 58,500

Consolidated net income attributable to controlling interest. $ 136,500

24.5

Question 2 (26 points)

Point Company acquired 100 percent of the stock of Slash Corp. on January 1, 2019. The stockholders' equity section of Slash's balance sheet at that date is as follows:

Stockholders' Equity Section	
Common Stock	$300,000
Additional Paid in Capital	500,000
Retained Earnings	400,000
Total Stockholders' Equity	$1,200,000

Point financed the acquisition by using $1,000,000 cash and giving a note payable for $312,500. Book value approximated fair value for all of Slash's assets and liabilities except for:

- Buildings which had a fair value of $40,000 more than its book value and a remaining useful life of 10 years. $\frac{40,000}{10} = 4000$ Dep.
- Land which had a fair value of $20,000 more than its book value. ↑ land 20,000
- Merchandise Inventory which had a fair value of 10,000 more than its book value, and was sold during 2019. → COGS
- Any remaining differential was related to goodwill. Goodwill is deemed to be impaired and worth only $15,000.
- Slash has an account payable to Point in the amount of $20,000. → account receivable

During 2019, Slash had the following:

1. Declared cash dividends	$ 80,000
2. Earned net income	120,000

Required

1) Prepare the **initial investment** entry on the parent's books on January 1, 2019. **(3 points)**

3

Account	DR	CR
Investment in slash corp. stock	1,312,500	~~1,312~~
Cash		1,000,000
Note payable		312,500

2) Prepare the entry to recognize the proportionate share of Slash 's **net income** on the parent's books on December 31, 2019. **(2 points)**

2

Account	DR	CR
Investment in slash corp. stock	120,000	
Income from slash corp.		120,000

3) Prepare the entry to recognize the proportionate share of Slash's **dividends** on the parent's books. **(2 points)**

Cash

1.5

Account	DR	CR
~~Income~~ from slash corp.	80,000	
Investment in slash corp.		80,000

4) Prepare the entry to record the **amortization** (write off) of the **differential** on the parent's books on December 31, 2019. **(2 points)**

2

Account	DR	CR
Income from ~~sla~~ slash corp.	41,500	
Investment in slash corp		41,500

Stak

5) Use the **T-accounts** below to show the changes related to these accounts. **(2 points)**

2

parent

Investment in Slash	
Debit	Credit
I.I 1,312,500	Div 80,000
N.I 120,000	A.D 41,500
1,311,000	

Income from Slash	
Debit	Credit
Div ~~80,000~~	NI 120,000
	40,000

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6) Prepare the elimination entry needed on December 31, 2019. **(15 points)**
Note: Optional entry is not required.

Elimination Entry		
Account	**DR**	**CR**
Common Stock – S	300000	
Retained Earnings – S	400,000	
Additional Paid In capital – S	500,000	
Income From slash corp – P	40,000	
Buildings – S	40,000	
land – S	20,000	
~~Inventory – S~~ C.G.S	10,000	
Goodwill – S	15,000	
Dep. Expenses – S	4,000	
Cost of Good Sold	10,000	
Impairment loss	27,500	
Account payable – S	20,000	
Dividend declared – S		80,000
Account Receivable – P		20,000
Investment in slash corp – P		1,311,000

Acc. Dep. ~~6000~~

PART TWO – OBJECTIVE QUESTIONS (22 POINTS)

A) Incomplete Data (10 points)

On January 1, 2021, Paper Corp. acquired all of Scissors Co.'s assets and liabilities by issuing shares of its $3 par value stock to the owners of Scissors Co. in a business combination. Paper also made a cash payment to Banker Corp. for stock issued costs. Partial balance sheet data for Paper and Scissor, before the cash payment and issuance of shares, and a combined balance sheet following the business combination are as follows:

Item	Paper Corp. Book Value	Scissor Corporation Book Value	Scissor Corporation Fair Value	Combined Entity
Cash	$65,000	$15,000	$15,000	$56,000
Accounts Receivable	105,000	30,000	30,000	135,000
Inventory	210,000	90,000	?	320,000
Buildings& Equipment (net)	400,000	210,000	293,000	693,000
Goodwill				?
Total Assets	$780,000	$345,000	$448,000	$?
Accounts Payable	56,000	22,000	22,000	78,000
Bonds Payable	200,000	120,000	120,000	320,000
Common Stock	96,000	70,000		117,000
APIC	234,000	42,000		553,000
Retained Earnings	194,000	91,000		?
Total Liabilities & S.H.E	$780,000	$345,000	$142,000	$?

Required

Use the table on the cover page to fill your answers to the following questions.

	Statement
A	What number of its $5 par value shares did Scissor has outstanding on January1, 2021?
B	Assuming that all of Scissor's shares were issued when the company was started, what was the price per share received at the time of issue?
C	How many shares of Paper were issued at the date of combination?
D	What amount of cash did Paper pay as stock issue costs?
E	What was the total fair value of Paper's shares issued at the date of combination?
F	What was the fair value of Scissor's inventory at the date of combination?
G	What was the fair value of Scissor's net assets at the date of combination?
H	What amount of goodwill is reported in the combined balance sheet following the combination?
I	If the depreciable assets held by Scissor had an average remaining life of 10 years at the date of acquisition, what amount of depreciation expense will be reported on those assets in 2021?
J	What balance in retained earnings will the combined entity report immediately following the combination?

B) True / False Questions (5 points)

For each of the following statements, indicate whether the statement is true (T) or false (F). If the statement is false, give the correct answer.

	Statement
T	1. The consolidated statement amounts are identical whether the parent uses the cost method or the equity method.
F	2. A spin-off (split) occurs when the subsidiary's shares are exchanged for shares of the parent, thereby leading to a reduction in the outstanding shares of the parent company
	3. In a statutory merger (consolidation), both combining companies are dissolved and the assets and liabilities are transferred to a newly created company.

C) Multiple Choice Questions (7 points)

The following information relates to questions 1 & 2.

Papa Corporation established Son Company as a wholly owned subsidiary. Papa transferred assets and accounts payable to Son in exchange for 8,000 shares of $5 par value stock of Son:

Item	Cost	Book Value	Fair Value
Cash	3,000	3,000	3,000
Account Receivables	16,000	16,000	16,000
Inventory	27,000	27,000	22,000
Land	9,000	9,000	15,000
Buildings & Equipment	130,000	97,000	120,000
Accounts Payable	14,000	14,000	15,000

1. What amount did Papa report as its investment in Son after the transfer of assets and liabilities?
   A. $161,000
   B. $171,000
   C. $138,000
   D. $150,000

2. Which of the following would be included in the journal entry made by son?
   A. Cr. Account Payable 14,000; Cr. Accumulated Depreciation 33,000; Cr. Common Stock 40,000; Cr. APIC 98,000.

   B. Dr. Cash 3,000; Dr. Accounts Receivables 16,000; Dr. Inventory 27,000; Dr. Land 9,000; Dr. Buildings & Equipment 97,000.

   C. Dr. Cash 3,000; Dr. Accounts Receivables 16,000; Dr. Inventory 22,000; Dr. Land 15,000; Dr. Buildings & Equipment 120,000.

   D. Cr. Account Payable 15,000; Cr. Accumulated Depreciation 33,000; Cr. Common Stock 40,000; Cr. APIC 121,000.

Pursuing an inorganic growth strategy, Wilson Company acquired Venus Company's net assets and assigned them to four separate reporting divisions. Wilson assigned total goodwill of $134,000 to the four reporting divisions as given below:

	Alpha	Beta	Gamma	Delta
Carrying Value	$200,000	$320,000	$370,000	$300,000
Goodwill included in carrying value	20,000	34,000	50,000	30,000
Fair Value of Net identifiable assets at year end	150,000	300,000	390,000	280,000
Fair value of reporting unit at year end	180,000	350,000	360,000	295,000
	30,000	50,000	30,000	15,000

3. Based on the preceding information, what would be the total amount of goodwill that Wilson should report at year-end?

A. $0
B. $94,000
C. $79,000
D. $69,000

4. Palm Company acquired the net assets of Sand Company during 2021. The purchase price was $750,000. On the date of the transaction, Sand had no long-term investments in marketable equity securities and $400,000 in liabilities, of which the fair value approximated book value. The fair value of Sand's assets on the acquisition date was as follows:

Current assets	$ 800,000
Noncurrent assets	600,000
	$1,400,000

How should Palm account for the difference between the fair value of the net assets acquired and the acquisition price of $750,000?

A Retained earnings should be reduced by $650,000.
B. $250,000 gain on bargain purchase of business should be recognized.
C. $650,000 gain on bargain purchase of business should be recognized.
D. deferred credit of $250,000 should be set up and subsequently amortized to future net income over a period not to exceed 40 years.

The following information relates to questions 5 & 6.
Purple Corporation and Sky Company merged as of January 1, 2009. To effect the merger, Purple paid finder's fees of $40,000, legal fees of $13,000, audit fees related to the stock issuance of $10,000, stock registration fees of $5,000, and stock listing application fees of $4,000.

5. Based on the preceding information, under the acquisition method, what amount relating to the business combination would be expensed?

A. $72,000
B. $19,000
C. $53,000
D. $63,000

6. Based on the preceding information, under the acquisition method:

A. $72,000 of stock issue costs are treated as goodwill.
B. $19,000 of stock issue costs are treated as a reduction in the additional paid-in capital.
C. $19,000 of stock issue costs are expensed.
D. $72,000 of stock issue costs are expensed.

7. During its inception, Pam Company purchased land for $100,000 and a building for $180,000. After exactly 3 years, it transferred these assets and cash of $50,000 to a newly created subsidiary, Sam Company, in exchange for 15,000 shares of Sam's $10 par value stock. Pam uses straight-line depreciation. Useful life for the building is 30 years, with zero residual value. An appraisal revealed that the building has a fair value of $200,000.

Based on the information provided, at the time of the transfer, Sam Company should record:

A. Building at $180,000 and no accumulated depreciation.
B. Building at $162,000 and no accumulated depreciation.
C. Building at $200,000 and accumulated depreciation of $24,000.
D. Building at $180,000 and accumulated depreciation of $18,000.