July Exam 2016

MULTIPLE CHOICE (30%)

Use the following information for questions 1 and 2.

Wilson Co. purchased land as a factory site for $600,000. Wilson paid $60,000 to tear down two buildings on the land. Salvage was sold for $5,400. Legal fees of $3,480 were paid for title investigation and making the purchase. Architect's fees were $31,200. Title insurance cost $2,400, and liability insurance during construction cost $2,600. Excavation cost $10,440. The contractor was paid $2,200,000. An assessment made by the city for pavement was $6,400. Interest costs during construction were $170,000.

1. The cost of the land that should be recorded by Wilson Co. is
   a. $660,480.
   b. $666,880.
   c. $669,880.
   d. $676,280.

2. The cost of the building that should be recorded by Wilson Co. is
   a. $2,403,800.
   b. $2,404,840.
   c. $2,413,200.
   d. $2,414,240.

3. On February 1, 2015, Nelson Corporation purchased a parcel of land as a factory site for $200,000. An old building on the property was demolished, and construction began on a new building which was completed on November 1, 2015. Costs incurred during this period are listed below:

Demolition of old building	$ 20,000
Architect's fees	35,000
Legal fees for title investigation and purchase contract	5,000
Construction costs	1,090,000

   (Salvaged materials resulting from demolition were sold for $10,000.)

   Nelson should record the cost of the land and new building, respectively, as
   a. $225,000 and $1,115,000.
   b. $210,000 and $1,130,000.
   c. $210,000 and $1,125,000.
   d. $215,000 and $1,125,000.

Use the following information for questions 4 and 5.

Blanco Company purchased 200 of the 1,000 outstanding ordinary shares of Darby Company's for $300,000 on January 2, 2016. During 2016, Darby Company declared dividends of $50,000 and reported earnings for the year of $200,000.

4. If Blanco Company used the fair value method of accounting for its investment in Darby Company, its Equity Investments account on December 31, 2016 should be
   a. $290,000.
   b. $330,000.
   c. $300,000.
   d. $340,000.

5. If Blanco Company uses the equity method of accounting for its investment in Darby Company, its Equity Investments account at December 31, 2016 should be
   a. $290,000.
   b. $300,000.
   c. $330,000.
   d. $340,000.

6. If the investor owns 60% of the investee's outstanding ordinary shares, the investor should generally account for this investment under the
   a. cost method.
   b. fair value method.
   c. consolidation equity method.
   d. consolidation method.

7. Green Construction Co. has consistently used the percentage-of-completion method of recognizing revenue. During 2015, Green entered into a fixed-price contract to construct an office building for $24,000,000. Information relating to the contract is as follows:

	At December 31	
	2015	2016
Percentage of completion	15%	45%
Estimated total cost at completion	$18,000,000	$19,200,000
Gross profit recognized (cumulative)	1,200,000	2,880,000

   Contract costs incurred during 2016 were
   a. $5,760,000.
   b. $5,940,000.
   c. $6,300,000.
   d. $8,640,000.

Use the following information for questions 8 through 10.

Bishop Co. began operations on January 1, 2015. Financial statements for 2015 and 2016 con- tained the following errors:

	Dec. 31, 2015	Dec. 31, 2016
Ending inventory	$132,000 too high	$156,000 too low
Depreciation expense	84,000 too high	—
Insurance expense	60,000 too low	60,000 too high
Prepaid insurance	60,000 too high	—

In addition, on December 31, 2016 fully depreciated equipment was sold for $28,800, but the sale was **not** recorded until 2017. **No** corrections have been made for any of the errors. Ignore income tax considerations.

8. The total effect of the errors on Bishop's 2016 net income is
   a. understated by $376,800.
   b. understated by $244,800.
   c. overstated by $115,200.
   d. overstated by $199,200.

9. The total effect of the errors on the balance of Bishop's retained earnings at December 31, 2016 is understated by
   a. $328,800.
   b. $268,800.
   c. $184,800.
   d. $136,800.

10. The total effect of the errors on the amount of Bishop's working capital at December 31, 2016 is understated by
    a. $400,800.
    b. $316,800.
    c. $184,800.
    d. $124,800.

Use the following information for questions 11 and 12.

On January 1, 2014, Bingham Inc. purchased a patent with a cost €2,320,000, a useful life of 5 years. The company uses straight-line depreciation. At December 31, 2015, the company determines that impairment indicators are present. The fair value less costs to sell the patent is estimated to be €1,080,000. The patent's value-in-use is estimated to be €1,130,000. The asset's remaining useful life is estimated to be 2 years.

11. Bingham's 2015 income statement will report Loss on Impairment of
    a. €0.
    b. €262,000.
    c. €312,000.
    d. €1,190,000.

12. The company's 2016 income statement will report amortization expense for the patent of
    a. $377,000.
    b. $464,000.
    c. $565,000.
    d. $1,190,000.

13. Under IFRS, how is the account revaluation surplus reported?
    a. As "other revenues and expenses" on the income statement.
    b. As part of other comprehensive income which can be reported presented in separate statement, combined with income statement, or in changes in stockholders' equity statement.
    c. It is included with Reserves in the stockholders' equity section of the Statement of Financial Position.
    d. The account is not reported in the financial statements.

14. Oslo Corporation has two products in its ending inventory, each accounted for at the lower of cost or net realizable value. Specific data with respect to each product follows:

	Product #1	Product #2
Selling price	$60	$130
Historical cost	40	70
Cost to sell	10	26
Cost to complete	15	40

    In pricing its ending inventory using the lower-of-cost-or-net realizable value, what unit values should Oslo use for products #1 and #2, respectively?

    a. $35 and $64.
    b. $50 and $104.
    c. $40 and $70.
    d. $45 and $90.

Use the following information for questions 15 through 17.

The following data concerning the retail inventory method are taken from the financial records of Welch Company.

	Cost	Retail
Beginning inventory	$ 49,000	$ 70,000
Purchases	224,000	320,000
Freight-in	6,000	—
Net markups	—	20,000
Net markdowns	—	14,000
Sales	—	336,000

15. The ending inventory at retail should be
    a. $74,000.
    b. $60,000.
    c. $64,000.
    d. $42,000.

16. If the ending inventory is to be valued at approximately the lower-of-cost-or-net realizable value, the calculation of the cost to retail ratio should be based on goods available for sale at (1) cost and (2) retail, respectively of
    a. $279,000 and $410,000.
    b. $279,000 and $396,000.
    c. $279,000 and $390,000.
    d. $273,000 and $390,000.

17. If the foregoing figures are verified and a count of the ending inventory reveals that merchandise actually on hand amounts to $54,000 at retail, the business has
    a. realized a windfall gain.
    b. sustained a loss.
    c. no gain or loss as there is close coincidence of the inventories.
    d. None of these choices are correct.

18. Kaniper Company has the following items at year-end:

Cash in bank	€20,000
Petty cash	300
Commercial paper with maturity of 2 months	5,500
Postdated checks	1,400

    Kaniper should report cash and cash equivalents of
    a. €20,000.
    b. €20,300.
    c. €25,800.
    d. €27,200.

19. In preparing its May 31, 2015 bank reconciliation, Catt Co. has the following information available:

Balance per bank statement, 5/31/15	€30,000
Deposit in transit, 5/31/15	5,400
Outstanding checks, 5/31/15	4,900
Note collected by bank in May	1,250

The correct balance of cash at May 31, 2015 is
a. €35,400.
b. €29,250.
c. €30,500.
d. €31,750.

20. Caroline, Inc. had the following transactions during 2015:

Exchanged land for a building	$764,000
Purchased treasury shares	160,000
Paid cash dividend	380,000
Purchased equipment	212,000
Issued ordinary shares	588,000

What is Caroline, Inc.'s net cash provided (used) by investing activities?
a. $212,000 used by investing activities.
b. $552,000 provided by investing activities.
c. $372,000 used by investing activities.
d. $392,000 provided by investing activities.

21. If a company prepares a consolidated income statement, IFRS requires that net income be reported for
a. the majority interest only.
b. the minority interest only.
c. both the majority interest and the minority interest.
d. as a single amount only.

22. Hall Co. incurred research and development costs in 2015 as follows:

Materials used in research and development projects	$ 850,000
Equipment acquired that will have alternate future uses in future research and development projects	3,000,000
Depreciation for 2015 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
	$5,425,000

Assume economic viability has not been achieved.
The amount of research and development costs charged to Hall's 2015 income statement should be

a. $1,900,000.
b. $2,200,000.
c. $2,425,000.
d. $4,900,000.

23. During 2015, Bond Company purchased the net assets of May Corporation for $1,300,000. On the date of the transaction, May had $300,000 of liabilities. The fair value of May's assets when acquired were as follows:

Current assets	$ 540,000
Noncurrent assets	1,260,000
	$1,800,000

How should the $200,000 difference between the fair value of the net assets acquired ($1,500,000) and the cost ($1,300,000) be accounted for by Bond?

a. The $200,000 difference should be credited to retained earnings.
b. The $200,000 difference should be recognized as a gain.
c. The current assets should be recorded at $540,000 and the noncurrent assets should be recorded at $1,060,000.
d. A deferred credit of $200,000 should be set up and then amortized to income over a period not to exceed forty years

24. The general ledger of Vance Corporation as of December 31, 2015, includes the following accounts:

Copyrights	$ 30,000
Deposits with advertising agency (will be used to promote goodwill)	27,000
Bond sinking fund	70,000
Excess of cost over fair value of identifiable net assets of Acquired subsidiary	390,000
Trademarks	120,000

In the preparation of Vance's statement of financial position as of December 31, 2015, what should be reported as total intangible assets?

a. $510,000.
b. $537,000.
c. $540,000.
d. $537,000.

25. Lease A does not contain a bargain purchase option, but the lease term is equal to 90 percent of the estimated economic life of the leased property. Lease B does **not** transfer ownership of the property to the lessee by the end of the lease term, but the lease term is equal to 75 percent of the estimated economic life of the leased property. How should the lessee classify these leases?

	Lease A	Lease B
a.	Operating lease	Finance lease
b.	Operating lease	Operating lease
c.	Finance lease	Finance lease
d.	Finance lease	Operating lease

26. As used in international accounting, a "hedge" is:
    A) a business transaction made to reduce the exposure of foreign exchange risk.
    B) the legal barrier between the various divisions of a multinational company.
    C) the loss in US $ resulting from a decline in the value of the US $ relative to foreign currencies.
    D) one form of foreign direct investment.

27. Provisions are contingent liabilities which are accrued because the likelihood of an unfavorable outcome is
    a. virtually certain.
    b. greater than 50%.
    c. at least 75%.
    d. possible.

28. What condition is necessary to recognize an environmental liability?
    a. Company has an existing legal obligation and can reasonably estimate the amount of the liability.
    b. Company can reasonably estimate the amount of the liability.
    c. Company has an existing legal obligation.
    d. Obligation event has occurred.

29. Alonzo Co. acquires 3 patents from Shaq Corp. for a total of $300,000. The patents were carried on Shaq's books as follows: Patent AA: $5,000; Patent BB: $2,000; and Patent CC: $3,000. When Alonzo acquired the patents their fair values were: Patent AA: $20,000; Patent BB: $240,000; and Patent CC: $60,000. At what amount should Alonzo record Patent BB?
    a. $100,000
    b. $240,000
    c. $2,000
    d. $225,000

30. Caroline, Inc. had the following transactions during 2015:

Exchanged land for a building	$764,000
Purchased treasury shares	160,000
Paid cash dividend	380,000
Purchased equipment	212,000
Issued ordinary shares	588,000

What is Caroline, Inc.'s net cash provided (used) by investing activities?

a. $212,000 used by investing activities.
b. $552,000 provided by investing activities.
c. $372,000 used by investing activities.
d. $392,000 provided by investing activities

CASES (70%)

CASE 1 (10%)

Consider each of the items below. Place the proper letter in the blank space provided to indicate the nature of the account or accounts to be debited when recording each transaction using the preferred accounting treatment. Prepayments should be recorded in balance sheet accounts. Disregard income tax considerations unless instructed otherwise.

a. asset(s) only
b. accumulated depreciation only
c. expense only
d. asset(s) and expense
e. some other account or combination of accounts

_____ 1. A motor in one of North Company's trucks was overhauled at a cost of $600. It is expected that this will extend the life of the truck for two years.

_____ 2. Machinery which had originally cost $130,000 was rearranged at a cost of $450, including installation, in order to improve production.

_____ 3. Orlando Company recently purchased land and two buildings for a total cost of $35,000, and entered the purchase on the books. The $1,200 cost of razing the smaller building, which has an appraisal value of $6,200, is recorded.

_____ 4. Jantzen Company traded its old machine with a net book value of $3,000 plus cash of $7,000 for a new one which had a fair value of $9,000.

_____ 5. Jim Parra and Mary Lawson, maintenance repair workers, spent five days in unloading and setting up a new $6,000 precision machine in the plant. The wages earned in this five-day period, $480, are recorded.

_____ 6. On June 1, the Milton Hotel installed a sprinkler system throughout the building at a cost of $13,000. As a result the insurance rate was decreased by 40%.

_____ 7. An improvement, which extended the life but not the usefulness of the asset, cost $6,000.

_____ 8. The attic of the administration building was finished at a cost of $3,000 to provide an additional office.

_____ 9. In March, the Lyon Theatre bought projection equipment on the installment basis. The contract price was $23,610, payable $5,610 down, and $2,250 a month for the next eight months. The cash price for this equipment was $22,530.

_____ 10. Lambert Company recorded the first year's interest on 6% $100,000 ten-year bonds sold a year ago at 94. The bonds were sold in order to finance the construction of a hydroelectric plant. Six months after the sale of the bonds, the construction of the hydroelectric plant was completed and operations were begun. (Only cash interest, and not discount amortization, is to be considered.)

<u>CASE 2 (5 %)</u>

Santana Corporation has 400,000 ordinary shares outstanding throughout 2016. In addition, the corporation has 5,000, 20-year, 7% bonds issued at par in 2014. Each $1,000 bond is convertible into 20 ordinary shares after 9/23/17. During the year 2016, the corporation earned $600,000 after deducting all expenses. The tax rate was 30%.

Instructions
Compute the proper earnings per share for 2016.

<u>CASE 3 (9%)</u>

Answer each of the following questions.

1. A plant asset purchased for $150,000 has an estimated life of 10 years and a residual value of $12,000. Depreciation for the *second year of use*, determined by the declining-balance method at twice the straight-line rate is $______________.

2. A plant asset purchased for $200,000 at the beginning of the year has an estimated life of 5 years and a residual value of $20,000. Depreciation for the *second year,* determined by the sum-of-the-years'-digits method is $_______________.

3. A plant asset with a cost of $216,000, estimated life of 5 years, and residual value of $36,000, is depreciated by the straight-line method. This asset is sold for $160,000 at

the end of the second year of use. The gain or loss on the disposal (indicate by "G" or "L") is $___________.

CASE 4 (9%)

Benson Plastics Company deposits all receipts and makes all payments by check. The following information is available from the cash records:

MARCH 31 BANK RECONCILIATION

Balance per bank	€26,746
Add: Deposits in transit	2,100
Deduct: Outstanding checks	(3,800)
Balance per books	€25,046

Month of April Results

	Per Bank	Per Books
Balance April 30	€27,995	€28,855
April deposits	10,784	13,889
April checks	11,600	10,080
April note collected (not included in April deposits)	3,000	-0-
April bank service charge	35	-0-
April NSF check of a customer returned by the bank (recorded by bank as a charge)	900	-0-

Instructions

(a) Calculate the amount of the April 30:

1. Deposits in transit
2. Outstanding checks

(b) What is the April 30 adjusted cash balance?

CASE 5 (12 %)

Selected financial statement information and additional data for Stanislaus Co. is presented below. Prepare a statement of cash flows for the year ending December 31, 2016

	December 31	
	2015	2016
Land	€ 63,800	€ 21,000
Equipment	504,000	789,600
Inventory	173,000	201,600
Accounts receivable (net)	84,000	151,200
Cash	32,000	63,000
TOTAL	€856,800	€1,226,400
Share capital–ordinary	€420,000	€ 487,200
Retained earnings	67,200	205,800
Notes payable - Long-term	168,000	302,400
Notes payable - Short-term (trade)	67,200	29,400
Accounts payable	50,400	86,000
Accumulated depreciation	84,000	115,600
TOTAL	€856,800	€1,226,400

Additional data for 2016:

1. Net income was €215,200.
2. Depreciation was €31,600.
3. Land was sold at its original cost.
4. Dividends of €76,600 were paid.
5. Equipment was purchased for €84,000 cash.
6. A long-term note for €201,600 was used to pay for an equipment purchase.
7. Ordinary shares were issued to pay a €67,200 long-term note payable.

CASE 6 (25%)

Patton has one subsidiary undertaking, Slap (its only investment). It acquired 200,000 of Slap's $1 ordinary shares on 1 July 2012 for $388,000. At that date the balance on Slap's retained earnings was $142,000.

Statements of financial position and statement of comprehensive income for the two companies for the year ended 30 June 2016 are given below:

Statements of financial position as at 30 June 2016				
	Patton		***Slap***	
	$	**$**	**$**	**$**
NON–CURRENT ASSETS				
Tangible	786,734			493,287
Investments	388,000			15,000
		1,174,734		508,287
CURRENT ASSETS				
Inventory	327,931		126,329	
Receivables	284,727		147,628	
Cash and Bank	58,123		26,792	
		670,781		300,749
Total Assets		1,845,515		809,036
EQUITY AND LIABILITIES				
Share capital (NV $1)	500,000			250,000
Share premium	125,000			40,000
Retained earnings	799,271			342,645
		1,424,271		632,645
CURRENT LIABILITIES				
Payables		421,244		176,391
Total equity and liabilities		1,845,515		809,036

Statements of comprehensive income for the year ended 30 June 2016				
	Patton		*Slap*	
	$	$	$	$
Revenue		2,397,783		1,427,950
Cost of sales		(1,652,184)		(1,127,550)
Gross profit		745,599		300,400
Administrative expenses		(108,475)		(56,800)
Distribution expenses		(76,328)		(33,700)
Profit before tax		560,796		209,900
Taxation		(179,852)		(64,100)
Profit after tax		380,944		145,800

Additional information

i. Goodwill had not been impaired as at 30 June 2015 but an impairment test was carried out on 30 June 2016 and an impairment loss of $7,000 was found to be necessary. Non-controlling interest is valued at fair value; on acquisition the market price of a share in Slap was $1.92, this value is to be used when calculating fair value of non-controlling interest on acquisition.

ii. During the year Slap sold goods to Patton for $476,383. Slap sells all goods at a mark-up of 25%. At 30 June 2016 Patton inventory included $58,000 of these goods. The group policy is to adjust the unrealised profit through the selling company.

iii. For the purposes of calculating the original amount paid for the shares of Slap, Patton valued Slap's net assets at $450,000. No adjustment was made in Slap's books to reflect this valuation which was due to land (included in tangible non-current assets) being worth more than its carrying amount.

Required:

Prepare for Patton for the year ended 30 June 2016:

a) The consolidated statement of financial position; and

b) The consolidated statement of profit and loss

Notes to the financial statements are not required.