October 1, 2016

MULTIPLE CHOICES (44%)

1. Changing the method of inventory valuation should be reported in the financial statements under what qualitative characteristic of accounting information?
   a. Consistency.
   b. Verifiability.
   c. Timeliness.
   d. Comparability.

2. The basic assumptions of accounting used by the International Accounting Standards Board (IASB) include all of the following **except**:
   a. Going concern.
   b. Periodicity.
   c. Accrual basis.
   d. Materiality.

3. When is revenue generally recognized?
   a. When cash is received.
   b. When the warranty expires.
   c. When production is completed.
   d. When the company satisfies the performance obligation.

4. Which of the following earnings per share figures must be disclosed on the face of the income statement?
   a. EPS for income before taxes.
   b. The effect on EPS from unusual items.
   c. EPS for gross profit.
   d. EPS for income from continuing operations.

5. For Rondelli Company, the following information is available:

Cost of goods sold	$270,000
Sales returns and allowances	12,000
Income tax expense	27,000
Operating expenses	105,000
Sales revenue	450,000

   In Rondelli's income statement, gross profit
   a. should not be reported.
   b. should be reported at $36,000.
   c. should be reported at $168,000.
   d. should be reported at $180,000.

6. Benedict Corporation reports the following information:

Net income	$500,000
Dividends on ordinary shares	140,000
Dividends on preference shares	60,000
Weighted average ordinary shares outstanding	125,000

Benedict should report earnings per share of
a. $2.40.
b. $2.88.
c. $3.52.
d. $4.00.

7. Franchise fees should be recognized
a. on the date the contract was signed.
b. on the date the franchise is opened for business.
c. on the date the franchise fee is paid to franchisor.
d. when performance obligations are satisfied.

8. Revenue for sales-based royalty payments should be recognized
a. when the amount of sales can be determined.
b. on the date payment is received by the franchisor.
c. on the date the performance obligation is satisfied.
d. on the date the contract was signed.

9. Arizona Communications contracted to set up a call center for the City of Phoenix. Under the terms of the contract, Arizona Communications will design and set-up a call center with the following costs:

Design of call center	$10,000
Computers, servers, telephone equipment	$275,000
Software	$85,000
Installation and testing of equipment	$15,000
Selling commission	$25,000
Annual service contract	$50,000

In addition, Arizona Communications will maintain and service the equipment and software to ensure smooth operations of the call center for an annual fee of $90,000. Ownership of equipment installed remains with the City of Phoenix. The contract costs that should be capitalized is
a. $460,000
b. $410,000
c. $360,000
d. $370,000

Use the following information for questions 10-13:
Seasons Construction is constructing an office building under contract for Cannon Company. The contract calls for progress billings and payments of $1,240,000 each quarter. The total contract price is $14,880,000 and Seasons estimates total costs of $14,200,000. Seasons estimates that the building will take 3 years to complete, and commences construction on January 2, 2015.

10. At December 31, 2015, Seasons estimates that it is 30% complete with the construction, based on costs incurred. What is the total amount of Revenue from Long-Term Contracts recognized for 2015 and what is the balance in the Accounts Receivable account assuming Cannon Company has not yet made its last quarterly payment?

	Revenue	Accounts Receivable
a.	$ 4,960,000	$ 4,960,000
b.	$ 4,260,000	$ 1,240,000
c.	$ 4,464,000	$ 1,240,000
d.	$ 4,260,000	$ 4,960,000

11. At December 31, 2015, Seasons Construction estimates that it is 75% complete with the building; however, the estimate of total costs to be incurred has risen to $14,400,000 due to unanticipated price increases. At December 31, 2014, Seasons estimated it was 30% complete. What is the total amount of Construction Expenses that Seasons will recognize for the year ended December 31, 2015?
    a. $10,800,000
    b. $6,300,000
    c. $6,390,000
    d. $6,540,000

12. At December 31, 2015, Seasons Construction estimates that it is 75% complete with the building; however, the estimate of total costs to be incurred has risen to $14,400,000 due to unanticipated price increases. What is reported in the balance sheet at December 31, 2015 for Seasons as the difference between the Construction in Process and the Billings on Construction in Process accounts, and is it a debit or a credit?

	Difference between the accounts	Debit/Credit
a.	$3,380,000	Credit
b.	$1,240,000	Debit
c.	$880,000	Debit
d.	$1,240,000	Credit

13. Seasons Construction completes the remaining 25% of the building construction on December 31, 2016, as scheduled. At that time the total costs of construction are $15,000,000. At December 31, 2015, the estimates were 75% complete and total costs of $14,400,000. What is the total amount of Revenue from Long-Term Contracts and Construction Expenses that Seasons will recognize for the year ended December 31, 2016?

	Revenue	Expenses
a.	$14,880,000	$15,000,000
b.	$3,720,000	$ 3,750,000
c.	$3,720,000	$ 4,200,000
d.	$3,750,000	$ 3,750,000

14. Monroe Construction Company uses the percentage-of-completion method of accounting. In 2015, Monroe began work on a contract it had received which provided for a contract price of $25,000,000. Other details follow:

	2015
Costs incurred during the year	$12,000,000
Estimated costs to complete as of December 31	8,000,000
Billings during the year	11,000,000
Collections during the year	6,500,000

What should be the gross profit recognized in 2015?

a. $1,000,000
b. $13,000,000
c. $3,000,000
d. $5,000,000

15. Morgan Manufacturing Company has the following account balances at year end:

Supplies	$ 4,000
Raw materials	27,000
Work-in-process	59,000
Finished goods	72,000
Prepaid insurance	6,000

What amount should Morgan report as inventories in its statement of financial position?

a. $72,000.
b. $76,000.
c. $158,000.
d. $162,000.

16. Risers Inc. reported total assets of $1,200,000 and net income of $135,000 for the current year. Risers determined that inventory was overstated by $10,000 at the beginning of the year (this was not corrected). What is the corrected amount for total assets and net income for the year?

a. $1,200,000 and $135,000.
b. $1,200,000 and $145,000.
c. $1,190,000 and $125,000.
d. $1,210,000 and $145,000.

Use the following information for questions 17 and 18.

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.

17. 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.

18. 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.

Use the following information for questions 19 and 20.
A machine cost $120,000, has annual depreciation of $20,000, and has accumulated depreciation of $90,000 on December 31, 2015. On April 1, 2016, when the machine has a fair value of $27,500, it is exchanged for a machine with a fair value of $135,000 and the proper amount of cash is paid. The exchange has commercial substance.

19. The gain to be recorded on the exchange is
    a. $0.
    b. $2,500.
    c. $5,000.
    d. $15,000.

20. The new machine should be recorded at
    a. $107,500.
    b. $122,500.
    c. $132,500.
    d. $135,000.

21. Gardner Corporation purchased a truck at the beginning of 2015 for $75,000. The truck is estimated to have a residual value of $3,000 and a useful life of 120,000 miles. It was driven 18,000 miles in 2015 and 32,000 miles in 2016. What is the depreciation expense for 2016?
    a. $20,000
    b. $53,333
    c. $19,200
    d. $32,000

22. Holcomb Corporation owns machinery with a book value of $190,000. The machinery's fair value less costs to sell is $175,000, and its value-in-use is $200,000. Holcomb should recognize a loss on impairment of
    a. $ -0-.
    b. $10,000.
    c. $15,000.
    d. $25,000.

23. Thompson Company incurred research and development costs of $100,000 and legal fees of $50,000 to acquire a patent. The patent has a legal life of 20 years and a useful life of 10 years. What amount should Thompson record as Patent Amortization Expense in the first year?
    a. $0.
    b. $ 5,000.
    c. $ 7,500.
    d. $15,000.

24. Collier borrowed $175,000 on October 1 and is required to pay $180,000 on March 1. What amount is the note payable recorded at on October 1 and how much interest is recognized from October 1 to December 31?
    a. $175,000 and $0.
    b. $175,000 and $3,000.
    c. $180,000 and $0.
    d. $175,000 and $5,000.

25. Vista newspapers sold 4,000 of annual subscriptions at $125 each on September 1. How much unearned revenue will exist as of December 31?
    a. $0.
    b. $333,333.
    c. $166,667.
    d. $500,000.

Use the following information for questions 26 and 27.

Presented below is information related to Hale Corporation:

Share Capital—Ordinary, $1 par	$4,300,000
Share premium—Ordinary	550,000
Share Capital—Preference 8 1/2%, $50 par	2,000,000
Share premium—Preference	400,000
Retained Earnings	1,500,000
Treasury Shares—Ordinary (at cost)	150,000

26. The total equity of Hale Corporation is
    a. $8,600,000.
    b. $8,750,000.

c. $7,100,000.
d. $7,250,000.

27. The total contributed capital related to the ordinary shares is
    a. $4,300,000.
    b. $4,850,000.
    c. $5,250,000.
    d. $4,700,000.

28. On January 1, 2016, Dodd, Inc., declared a 10% ordinary share dividend when the fair value of the ordinary shares was $20 per share. Equity before the share dividend was declared consisted of:

Share capital—ordinary, $10 par value, authorized 200,000 shares;	
issued and outstanding 120,000 shares	$1,200,000
Share premium—ordinary	150,000
Retained earnings	700,000
Total equity	$2,050,000

What was the effect on Dodd's retained earnings as a result of the above transaction?
    a. $120,000 decrease
    b. $240,000 decrease
    c. $400,000 decrease
    d. $200,000 decrease

29. Ziegler Corporation purchased 25,000 ordinary shares of Sherman Corporation for $40 per share on January 2, 2015. Sherman Corporation had 100,000 ordinary shares outstanding during 2016, paid cash dividends of $60,000 during 2016, and reported net income of $200,000 for 2016. Ziegler Corporation should report revenue from investment for 2016 in the amount of
    a. $15,000.
    b. $35,000.
    c. $50,000.
    d. $55,000.

Use the following information for questions 30 and 31.
Harrison Co. owns 20,000 of the 50,000 outstanding ordinary shares of Taylor, Inc. During 2015, Taylor earns $800,000 and pays cash dividends of $640,000.

30. If the beginning balance in the investment account was $500,000, the balance at December 31, 2015 should be
    a. $820,000.
    b. $660,000.
    c. $564,000.
    d. $500,000.

31. Harrison should report investment revenue for 2015 of
    a. $320,000.
    b. $256,000.
    c. $64,000.
    d. $0.

32. Presented below are four segments that have been identified by Haley Productions:

Segments	Total Revenue (Unaffiliated)	Operating Profit (Loss)	Identifiable Assets
A	$255,000	$30,000	$900,000
B	600,000	(55,000)	800,000
C	225,000	6,000	450,000
D	90,000	4,000	225,000

For which of the segments would information have to be disclosed in accordance with professional pronouncements?
    a. Segments A, B, C, and D
    b. Segments A, B, and C
    c. Segments A and B
    d. Segments A and D

33. In January 2015, Post, Inc. estimated that its year-end bonus to executives would be $720,000 for 2015. The actual amount paid for the year-end bonus for 2014 was $660,000. The estimate for 2015 is subject to year-end adjustment. What amount, if any, of expense should be reflected in Post's quarterly income statement for the three months ended March 31, 2015?
    a. $ -0-.
    b. $165,000.
    c. $180,000.
    d. $720,000.

34. An inventory loss from market decline of $1,600,000 occurred in May 2015, after its March 31, 2015 quarterly report was issued. None of this loss was recovered by the end of the year. How should this loss be reflected in the company's quarterly income statements?

	Three Months Ended			
	3/31/15	6/30/15	9/30/15	12/31/15
a.	$ -0-	$ -0-	$ -0-	$1,600,000
b.	$ -0-	$533,333	$533,333	$533,333
c.	$ -0-	$1,600,000	$ -0-	$ -0-
d.	$400,000	$400,000	$400,000	$400,000

35. Which of the following costs of goodwill should be amortized over their estimated useful lives?

	Costs of goodwill from a business Combination	Costs of developing goodwill internally
a	No	No
b	No	Yes
c	Yes	Yes
d	Yes	No

TRUE OR FALSE (10 %)

1. When a company sells a product but gives the buyer the right to return it, revenue should not be recognized until the sale is collected.
2. The accrual basis recognizes revenue when earned and expenses in the period when cash is paid.
3. Land held for speculation is reported in the property, plant, and equipment section of the statement of financial position
4. Under IFRS non-cash activities are reported as either investing or financing activities in the body of the statement of cash flows
5. Abnormal freight costs are not included on the statement of financial position as part of the cost of inventory
6. Under International Financial Reporting Standards (IFRS), a company who recorded a loss on a purchase commitment in 2015 cannot record a recovery of that loss in 2016 if prices improve.
7. The fair value of an asset acquired through a government grant can be recorded as deferred revenue and recognized as income over the life of the asset.
8. Companies account for the exchange of non-monetary assets on the basis of the fair value of the asset given up or the fair value of the asset received.
9. The major objection to the straight-line method is that it assumes the asset’s economic usefulness and repair expense are the same each year.
10. When bonds are issued at a discount, the bonds payable account is credited for the proceeds from the issue.

EXERCISES (24 %)

Exercise I (13 %)

Listed below are several qualitative characteristics, accounting principles and assumptions. Match the letter of each with the appropriate phrase that states its application. (Items *a* through *k* may be used more than once or not at all.)

a. Economic entity assumption
b. Going concern assumption
c. Monetary unit assumption
d. Periodicity assumption
e. Historical cost principle
f. Revenue recognition principle
g. Expense recognition principle
h. Full disclosure principle
i. Relevance
j. Faithful representation
k. Comparability

___ 1. Stable-dollar assumption (do not use historical cost principle).

___ 2. Key factor is when the performance obligation is satisfied.

___ 3. Presentation of error-free information.

___ 4. Yearly financial reports.

___ 5. Recording annual depreciation.

___ 6. Useful standard measuring unit for business transactions.

___ 7. Notes as part of necessary information to a fair presentation.

___ 8. Affairs of the business distinguished from those of its owners.

___ 9. Business enterprise assumed to have a long life.

___ 10. Valuing assets at amounts originally paid for them.

___ 11. Application of the same accounting principles as in the preceding year.

___ 12. Summarizing significant accounting policies.

___ 13. Presentation of timely information with predictive and feedback value.

Exercise II (11 %)

Seaton had the following draft statement of comprehensive income for the year ended March 31, 2017

	000 $
Profit before tax	5,695
Taxation	(2,645)
Profit after tax	3,050
Profit attributable to:	2,897
Owners of the parent	153
Non-Controlling Interest	3,050

On 1 April 2016 the issued share capital of Seaton was:

A- 5 million 8% preference shares of $1 each .

And

B- 12 million ordinary shares of $1 each.

Required:

Calculate the earnings per share in respect of the year ended 31 March 2017 for each of the following circumstances. (Each of the circumstances (a) and (b) are to be dealt with separately)

(a) There were no changes in the issued share capital of the company during the year ended 31 March 2017.

(b) The company issued 4,000,000 ordinary shares on 1 July 2016 at the market value of $1.75 per share.

CASE (22 %)

The draft statements of financial position of three companies as at 30 September 2016 are as follows:

	Alpha USD	Beta USD	Gamma USD
Assets			
Non-current assets			
Tangible assets	697,210	648,010	349,400
Investments:			
- 160,000 shares in Beta	562,000	-	-
- 80,000 shares in Gamma	184,000	-	-
	1,443,210	648,010	349,400
Current assets			
Cash at bank and in hand	101,274	95,010	80,331
Trade receivables	385,717	320,540	251,065
Inventory	495,165	388,619	286,925
	982,156	804,169	618,321
Total assets	2,425,366	1,452,179	967,721
Equity and liabilities			
Equity			
Share capital ($1 share)	600,000	200,000	200,000
Retained earning	1,050,000	850,000	478,000
	1,650,000	1,050,000	678,000
Long term liabilities			
Loan notes	400,000	150,000	100,000
Current liabilities			
Trade payables	375,366	252,179	189,721
Total equity and liabilities	2,425,366	1,452,179	967,721

You are given the following additional information:

1. Alpha purchased the shares in Beta on 13 October 2011 when the balance on retained earnings was $500,000.

2. The shares in Gamma were acquired on 11 May 2011 when retained earnings stood at $242,000.

3. The following dividends have been declared but not accounted for before the year-end.

	$000
Alpha	65
Beta	30
Gamma	15

4. Included in the inventory figure for Gamma is inventory valued at $20,000 which had been purchased from Alpha at cost plus 25%.

5. Goodwill in respect to the acquisition of Beta, has been fully impaired at 30 September 2015. The recoverable amount of the investment in Gamma exceeds its carrying value at 30 September 2016. Non-controlling interest is valued at the proportionate share of the identifiable net assets.

6. On 30 September 2016, Beta made a bonus issue of one equity share for every share held. This had not been reflected in the statement of financial position.

7. Included in the current liabilities figure of Alpha is $18,000 payable to Gamma, the amount receivable being recorded in the receivables figure of Gamma.

<u>Required:</u>

Prepare the consolidated statement of financial position for Alpha as at 30 September 2016.