American University of Beirut
School of Business
ACCT 210
Final Exam
Fall 2001-2002

Feb 6, 2002

Name:______________________

ID #:______________________

Section:______________________

Instructor:______________________

Time: 2 Hours

The exam contains 6 questions, make sure you answer them all, show all supporting computations!

Good Luck!

Question 1 (25 points, 30 min):

Circle the correct answer for the following:

Use the following data for questions 1 &2.

The financial statements of Traylor, Inc., provide the following information:

	Dec. 31, 2002	Dec 31 2001
Accounts receivable	$ 50,000	$60,000
Inventory	90,000	82,000
Prepaid expenses	4,000	8,000
Accounts payable (for merchandise)	46,000	44,000
Accrued expenses payable	10,000	20,000
Net sales	500,000	
Cost of goods sold	240,000	
Operating expenses (including depreciation of $16,000)	140,000	

1. *Refer to the above data.* Compute the amount of cash received from customers during 2002 in the operating activities section of the cash flow statement.
   - a $60,000.
   - b $500,000.
   - c $510,000.
   - d $490,000.

2. *Refer to the above data.* Compute the amount of Traylor's cash payments for purchases of merchandise customers during 2002 in the operating activities section of the cash flow statement.
   - a $240,000.
   - b $250,000.
   - c $234,000.
   - d $246,000.

3. During the last month of its fiscal year, Hidden Acres Resort received numerous payments in advance from customers. By the end of the month many, but not all of these guests had completed their stays. The entry to record this event is an example of an adjusting entry:
   - a To convert assets to expenses.
   - b To convert liabilities to revenues.
   - c To accrue unpaid expenses.
   - d To accrue uncollected revenue

4. Chelsea Corporation's financial statements for the current year include the following:

Income from continuing operations	$520,000
Cash dividends paid to preferred stockholders	102,000
Gain from discontinued operations (net of taxes)	310,000
Cumulative effect of accounting change (reduction in net income, net of tax benefit)	220,000
Extraordinary loss (net of tax benefit)	85,000

On the basis of this information, net income for the current year is:

a $717,000.
b $513,000.
c $965,000.
d $525,000.

5. Leisure Attire Corporation discontinued Princess Fashions, its entire line of children's clothing, in November of 2001. Prior to the disposal, Princess Fashions generated a loss of $300,000 (net of tax) for the period from January through the sale date. Because of the value of the real estate and machinery, there was a gain of $750,000 (net of tax) on the actual sale. How should this situation be reported in the financial statements of Leisure Attire for 2001?

a $450,000 included in the 2001 income statement as an extraordinary item.
b $300,000 loss included in income from operations and a $750,000 gain reported in the "discontinued operations" section of the income statement.
c $450,000 adjustment to beginning retained earnings in the statement of retained earnings.
d $450,000 gain in the "discontinued operations" section of the income statement.

6. On January 1, 2001, Slim Corporation had 120,000 shares of $2 par value common stock outstanding. On April 1, 2001, Slim issued an additional 10,000 shares in exchange for a building. What is the weighted average number of shares to be used in the computation of basic EPS for the year 2001?

a 120,000.
b 127,500.
c 130,000.
d 130,000 plus the number of shares of convertible preferred stock outstanding.

Question 2: (10 points, 15 min)

The Excalibur Corporation manufactures and sells video games for personal computers. The Unadjusted Trial Balance as at December 31,2002 appears below. December 31 is the Company's fiscal year-end. The company uses a perpetual inventory system.

Account Title	Debits	Credits
Cash	$ 23,300	
Accounts receivable	32,500	
Allowance for doubtful accounts		$ 100
Supplies	2,000	
Prepaid rent	14,000	
Inventory	65,000	
Equipment	80,000	
Accumulated depreciation-Equipment		15,000
Accounts Payable		26,000
Wages Payable		3,000
Notes Payable		30,000
Capital stock		80,000
Retained Earnings		28,550
Sales revenue		180,000
Cost of Goods Sold	107,500	
Wage expense	32,350	
Utility Expense	6,000	
	$ 362,650	$ 362,650

Information necessary to prepare the year-end adjusting entries appear below:

1. The equipment was purchased on Mar 1, 2000 and is being depreciated using the Straight line method over eight years with no salvage value.

2. Accrued wages at year end should be $4,500.

3. The company estimates that 2% of all Accounts Receivable will probably not be collected.

Use the following data for questions 7 &8.

On March 1, year 1, Cornish Corporation issues $30 million of 10%, 20-year bonds payable *at par*. Interest on the bonds is payable semiannually each March 1 and September 1.

7. *Refer to the above data.* The amount of cash paid to bondholders for interest *during year 1,* is:
   a $3,000,000
   b $1,500,000
   c $2,500,000
   d $150,000

8. *Refer to the above data. Interest expense* on this bond issue reported in Cornish's *year 1,* income statement is:
   a $2,500,000
   b $1,500,000
   c $3,000,000
   d $150,000

9. Which of the following represents revenue for the month of *June* for BDPHP Medical Group, Inc.?
   a Performed medical services for a patient in June. Total amount of the invoice was $4,000, but no payment has been received as of the end of June.
   b Collected cash of $2,400 in June on an account receivable. The receivable originated in January from services performed for a patient.
   c During June, new capital stock was issued in exchange for $35,000 cash.
   d Borrowed $5,000 from National Bank on June 15.

10. During a period of steadily *falling prices*, which of the following methods of measuring the cost of goods sold is likely to result in reporting the ***highest gross profit***?
   a Specific identification.
   b Average cost.
   c LIFO.
   d FIFO.

Instructions:

Prepare the closing entries at Dec 31, 2002

General Journal			
Date	Descriptions	Debit	Credit
Dec 31	~~Advertising expense~~		
	Income Summary	$13,500	
	Salaries Expense		$12,000
	Advertising Expense		$1,500

→ We credit all expenses accts, so that they have a balance equal to zero.

By doing that we deduce the Income Summary. (debit)

→ We debit all Revenue accounts, to permit the balance to equal zero. By doing so, we ~~go~~ sum these revenue accounts and get an ~~Sta~~ Income Summary (credit).

~~debit - credit~~ = Credit - debit = Credit Balance ⇒ Net Income (~~Cr~~)

4. The company borrowed $30,000 on September 1,2002. The principal is due to be repaid in 10 years. Interest is payable twice a year on each August31 and February 28 at an annual interest rate of 10%.

5. The company supplies on hand at year-end were $1,200.

Required:

Prepare the necessary adjusting entries at Dec 31,2002

Question 3: (20points,20min)

An analysis of changes in selected balance sheet accounts of Conestoga Corporation shows the following for the current year (Dec 31, 2002) :

Marketable Securities account:	
Debt entries	$ 400,000
Credit entries	700,000
Plant and equipment accounts:	
Debit entries to asset accounts	1,300,000
Credit entries to asset accounts	1,700,000
Debit entries to accumulated depreciation accounts (resulting from sales of plant assets)	500,000
Credit entries to accumulated depreciation accounts (representing depreciation for the current year)	150,000

The income statement for the current year ended Dec 31, 2002 included the following items relating to the transactions summarized above:

Net sales	$2,500,000
Gain on sales of marketable securities	$ 70,000
Loss on sales of plant assets	200,000

All payments and proceeds relating to these transactions were in cash.

Required:
Prepare the Cash Flow from investing activities section for the current year ended Dec 31, 2002. SHOW ALL SUPPORTING COMPUTATIONS

Question 4: (15points, 20 min)

The stockholders' equity section of the balance sheet of McLintock Corporation (with certain details omitted) appears below:

Stockholders' equity:	
6% cumulative preferred stock, $100 par, callable at $110, 200,000 shares authorized, ?? shares issued	$ 12,000,000
Common stock, $10 par, 500,000 shares authorized, ?? shares issued	3,500,000
Additional paid-in capital:	
Preferred stock	196,000
Common stock	14,700,000
Total paid-in capital	$30,396,000
Retained earnings	3,604,000
Total stockholders' equity	$34,000,000

Note : there was one year's dividends in arrears

Required:

1. What is the total amount of legal capital?
2. Determine the number of shares of common stock issued .
3. Determine the number of shares of preferred stock issued
4. What is the total amount of annual preferred stockholders dividends?
5. What is the average issue price of a share of common stock?
6. Calculate the book value per common share.

Question 5: (15points, 15min)

On November 30, 2001, Sterling Transport signed a 5—year installment note in the amount of $50,000 in conjunction with the purchase of a motor coach. This note is payable in equal monthly installments of $1,112, which include interest computed at an *annual* rate of 12%. The first monthly payment is made on December 31, 2001. This note is fully amortizing over 60 months.

Required:

1. Prepare the journal entry on Nov 30, 2001 to record the purchase of the Motor Coach.
2. Prepare an amortization table for the first two payments.
3. Prepare the necessary journal entry to record the payment on Dec 31, 2001.
4. With respect to this note, determine the amount of *interest expense that should be reported in* Sterling's *2001* income statement?
5. Determine the amount of the total liability for this note payable in Sterling's Balance sheet at Dec 31, 2001?
6. Determine the total interest over the life of the loan.

Question 6: (15 points, 20 min)

At December 31, 2001 Mayson Corporation owned the following investments in the capital stock of publicly held corporations (all classified as available for sale securities):

	Cost	Market Value
New Technology, Inc.(4500 shares : Cost $70per share; Market value, $83)	$315,000	$373,500
Bowers, Inc. (2250 shares: cost, $100 per Share; market value, 93)	225,000	209,250
	$540,000	$582,750

The following transactions occurred during 2002:

1. On June 4, 2002 Mayson sold 1000 shares of New Technology at a price of $75 per share.
2. On September 30 2002 Mayson sold 250 shares of Bowers at a price of $94 per share.

The market value per share of New Technology, Inc. and Bowers, Inc. at Dec 31, 2002 was $ 78 & $95 respectively.

Required:

1. Illustrate the presentation of Marketable Securities and the Unrealized Holding Gain or Loss in Mayson's Balance Sheet at Dec 31, 2001.
2. Prepare the journal entries to record the sale of June 4, 2002 and September 30, 2002
3. Prior to Mark to Market adjustment at the end of 2002, determine the unadjusted balance in the marketable securities controlling account and the Unrealized Holding Gain (or Loss) on investment .Assume that no unrealized gains or losses have been recognized since last year.
4. Prepare the Mark to Market adjusting entry at Dec 31, 2002. **Show supporting schedule of Marketable Securities and all computation.**