

Course No: BUS 1306  
Course Title: Accounting Principles (II)  
Date: 06 /01/ 2014  
No. of Questions: 4  
Time: 120 Minutes  
Using Calculator :(Yes)

University of Palestine



Final Exam  
First Semester  
2013/2014  
Total Grade: 60

Instructor Name: Mr. Tareq Abu Al-Ajeen  
Student No.: \_\_\_\_\_  
Student Name: \_\_\_\_\_  
College Name: \_\_\_\_\_  
Dep. / Specialist: \_\_\_\_\_  
Using Dictionary (No)

• Answer all Questions

**First Question:** True or false

**No. of Branches (9)**  
*Answer (8) questions only*

( /08) (8-10 Minutes)

- 1- The cost of land includes closing costs such as title and attorney's fees (.....)
- 2- Notes Payable due for payment within one year of the balance sheet date are usually classified as current liabilities (.....)
- 3- Accounts receivable are the result of cash and credit sales (.....)
- 4- A note receivable is a written promise by the maker to the payee to pay a specified amount of money at a definite time (.....)
- 5- Under the double-declining-balance method, the depreciation rate used each year remains constant (.....)
- 6- The fair market value of a plant asset is always the same as its book value (.....)
- 7- A characteristic of capital expenditures is that the expenditures occur frequently during the period of ownership (.....)
- 8- The payment of interest on bonds payable is classified as a cash outflow from operating activities (.....)
- 9- A loss on sale of equipment is added to net income in determining cash provided by operations under the indirect method (.....)

**Second Question:** Multiple Choice

**No. of Branches (10)**  
*Answer (8) questions only*

( /16) (25-30 Minutes)

**1- Working capital is**

- A. Current assets plus current liabilities.
  - B. Current assets minus current liabilities.
  - C. Current assets divided by current liabilities.
  - D. Current assets multiplied by current liabilities.
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2- Lane Company uses the percentage of sales method for recording bad debts expense. For the year, cash sales are \$500,000 and credit sales are \$2,500,000. Management estimates that 1% is the sales percentage to use. **What adjusting entry will Lane Company make to record the bad debts expense?**

- A. Bad Debts Expense                      25,000  
    Allowance for Doubtful Accounts      25,000
- B. Bad Debts Expense                      20,000  
    Allowance for Doubtful Accounts      20,000
- C. Bad Debts Expense                      20,000  
    Accounts Receivable                      20,000
- D. Bad Debts Expense                      30,000  
    Allowance for Doubtful Accounts      30,000

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3. To be classified as a current liability, a debt must be expected to be paid:
- A. Out of existing current assets.
  - B. By creating other current liabilities.
  - C. Within 2 years.
  - D. Both (a) and (b).

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4. Canady Company borrows \$90,000 on May. 31, 2012, from Sandwich State Bank by signing a \$90,000, 10%, one-year note. **What is the accrued interest at Oct. 30, 2012?**
- A. \$9,000.
  - B. \$3,750.
  - C. \$4,425.
  - D. Some other amount.

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- 5- The book value of an asset is equal to the
- A. asset's market value less its historical cost.
  - B. blue book value relied on by secondary markets.
  - C. replacement cost of the asset.
  - D. asset's cost less accumulated depreciation.

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6- A truck was purchased for \$60,000 and it was estimated to have a \$12,000 salvage value at the end of its useful life. Monthly depreciation expense of \$2,000 was recorded using the straight-line method. **The annual depreciation rate is:**

- A. 20%.
- B. 2%.
- C. 50%.
- D. 25%.

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7- Mary's Boutique has total receipts for the month of \$16,170 including sales taxes. If the sales tax rate is 5%, **what are Mary's sales for the month?**

- A. \$15,362.
- B. \$15,400.
- C. \$16,170.
- D. cannot be determined.

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8- A company purchased land for \$80,000 cash. Real estate brokers' commission was \$5,000 and \$7,000 was spent for demolishing an old building on the land before construction of a new building could start. Under the cost principle, **the cost of land would be recorded at**

- A. \$87,000.
- B. \$80,000.
- C. \$85,000.
- D. \$92,000.

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9- A 90-day note dated May 11 has a maturity date of

- A. August 11.
- B. August 9.
- C. August 10.
- D. August 12.

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10- A coal company invests \$15 million in a mine estimated to have 20 million tons of coal and no salvage value. It is expected that the mine will be in operation for 5 years. In the first year, 3,000,000 tons of coal are extracted and sold. **What is the depletion expense for the first year?**

- A. \$2,250,000.
- B. \$900,000.
- C. \$225,000.
- D. Cannot be determined from the information provided.

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<b>The Third Question</b>	<b>No. of Branches (2)</b>	<b>( /15)</b>
<b><u>Q3 B1</u></b>		<b>( /06) (8-10 Minutes)</b>

Tamer Company decides to exchange its old delivery equipment plus cash of \$3,000 for new delivery equipment. The cost of \$40,000 and the accumulated depreciation of \$28,000, and the fair market value of the old equipment is \$19,000.

**Instructions:**

***1-Prepare the journal entry to record the exchange.***

**The Answer:**

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**Q3 B2**

**( /09) (15-20 Minutes)**

The December 31, 2011 balance sheet of Quayle Company had Accounts Receivable of \$500,000 and a credit balance in Allowance for Doubtful Accounts of \$33,000. During 2012, the following transactions occurred: **sales on account \$1,400,000; sales returns and allowances, \$50,000; collections from customers, \$1,250,000; accounts written off \$35,000; previously written off accounts of \$4,000 were collected.**

**Instructions**

***1- Journalize the 2012 transactions.***

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**The Fourth Question**

**No. of Branches (1)**

**( /21) (25-30 Minutes)**

**Reynolds Company**  
 Comparative Balance Sheets  
 December 31

<u>Assets</u>	<u>2012</u>	<u>2011</u>	<u>Change Increase/Decrease</u>
Cash	\$ 54,000	\$ 37,000	\$ 17,000 Increase
Accounts receivable	68,000	26,000	42,000 Increase
Inventory	54,000	–0–	54,000 Increase
Prepaid expenses	4,000	6,000	2,000 Decrease
Land	45,000	70,000	25,000 Decrease
Buildings	200,000	200,000	–0–
Accumulated depreciation— buildings	(21,000)	(11,000)	10,000 Increase
Equipment	193,000	68,000	125,000 Increase
Accumulated depreciation— equipment	(28,000)	(10,000)	18,000 Increase
Totals	<u>\$569,000</u>	<u>\$386,000</u>	
<b><u>Liabilities and Stockholders' Equity</u></b>			
Accounts payable	\$ 23,000	\$ 40,000	\$ 17,000 Decrease
Accrued expenses payable	10,000	–0–	10,000 Increase
Bonds payable	110,000	150,000	40,000 Decrease
Common stock (\$1 par)	220,000	60,000	160,000 Increase
Retained earnings	206,000	136,000	70,000 Increase
Totals	<u>\$569,000</u>	<u>\$386,000</u>	

**Reynolds Company**  
 Income Statement  
 For the Year Ended December 31, 2012

Sales revenue		\$890,000
Cost of goods sold	\$465,000	
Operating expenses	221,000	
Interest expense	12,000	
Loss on sale of equipment	<u>2,000</u>	<u>700,000</u>
Income before income taxes		190,000
Income tax expense		<u>65,000</u>
Net income		<u>\$125,000</u>

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**Additional information:**

1. Operating expenses include depreciation expense of \$33,000 and charges from prepaid expenses of \$2,000.
2. Land was sold at its book value for cash.
3. Cash dividends of \$55,000 were declared and paid in 2012.
4. Interest expense of \$12,000 was paid in cash.
5. Equipment with a cost of \$166,000 was purchased for cash. Equipment with a cost of \$41,000 and a book value of \$36,000 was sold for \$34,000 cash.
6. Bonds of \$10,000 were redeemed at their face value for cash. Bonds of \$30,000 were converted into common stock.
7. Common stock of \$130,000 was issued for cash.
8. Accounts payable pertain to merchandise suppliers.

**Instructions**

- (a) Prepare a statement of cash flows for 2012 using the indirect method.*
- (b) Compute free cash flow*

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**The Answer:**



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**Continue the Answer:**

**End of Questions**  
***Good Luck***