| Course No: ACNE 3306
Course Title: Accounting Theory
Date: ---/05/2017
No. of Questions: (6)
Time: 2 hour
Using Calculator (yes) | **University of Palestine**

UP

Final Exam
2nd Semester 2016/2017
Total Grade: 50 | **Instructor Name: Dr. Khaled Eissa**
Student No.: _____
Student Name: _____
College Name: Business Administration
Dep. / Specialist: Accounting
Using Dictionary (No) |

Question 1: Multiple Choices: (15 marks)

1. The net realizable value of receivables is calculated as the face value of the receivables less adjustments for
    a) Bad debts already written off.
    b) Estimated uncollectible accounts
    c) Credit sales
    d) Actual uncollected amounts adjusted for purchase discounts.

2. An item is considered material if
    a) It doesn't cost a lot of money.
    b) The cost of reporting the item is greater than its benefits
    c) It is of a tangible good.
    d) It is likely to influence the decision of an investor or creditor.

3. The accounts receivable turnover and inventory turnover ratios are used to analyze
    a) Long-term solvency
    b) Leverage
    c) Profitability
    d) Liquidity

4. The disposal of a significant component of a business is called
    a) A change in accounting principle
    b) Discontinued operation
    c) An extraordinary item
    d) An other expense

5. The statement, net income should reflect all items that affected the net increase or decrease in stockholders' equity during the period is consistent with which of the following concepts of income?
    a) Current operating performance
    b) Money
    c) Economic
    d) All inclusive

6. The term revenue recognition conventionally refers to
    a) The process of measuring and relating revenue and expenses of an enterprise for an accounting period.
    b) The earning process that gives rise to revenue realization.
    c) The process of identifying transactions to be recorded as revenue in an accounting period.
    d) The process of identifying those transactions that result in an inflow of assets from customers.

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7. The valuation basis used in conventional financial statements is
   a) Replacement cost
   b) Market value
   c) Original cost
   d) A mixture of costs and values

8. Under Statement of Financial Accounting Concepts No. 8, the ability through consensus of measures to ensure that information represents what it purports to represent is an example of the concept of
   a) Faithful representation
   b) Feedback value
   c) Relevance
   d) Verifiability

9. What is meant by comparability when discussing financial accounting information?
   a) Information that is measured and reported in a similar fashion across companies.
   b) Information has predictive or confirmatory value.
   c) Information is reasonably free from error.
   d) Information is timely.

10. Which of the following bodies has the responsibility to issue international financial reporting standards (IFRS)
    a) The IASC Foundation
    b) The International Accounting Standards Board
    c) The International Financial Reporting Interpretations Committee
    d) The International Standards Advisory Council

11. Which of the following is an argument against using historical cost in accounting?
    a) Historical costs are based on an exchange transaction.
    b) Historical costs are reliable.
    c) Fair values are more relevant.
    d) Fair values are subjective

12. Which of the following is not a component of equity?
    a) Retained earnings
    b) Unearned revenue
    c) Common stock
    d) Treasury stock

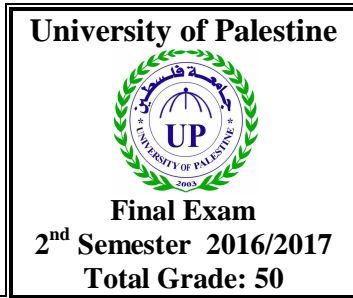| Course No: ACNE 3306
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13.   Which of the following is not viewed as a cost to the principal in an agency relationship?
   a)   Monitoring expenditures by the principal
   b)   The residual loss
   c)   Monitoring expenditures by the agent
   d)   Bonding expenditures by the agent

14.   Which of the following outcomes of providing accounting information is based on the supply and demand model
   a)   Agency theory
   b)   Efficient markets
   c)   Fundamental analysis
   d)   Capital asset pricing model

15.   Which of the following research approaches is based on the concept of utility or usefulness?
   a)   Inductive
   b)   Pragmatic
   c)   Deductive
   d)   Behavioral

Question 2:   **(7 marks)**

On January 1, The Company had 100,000 common shares outstanding. On April 1, the company issued 30,000 additional shares. On August 1, the company performed a 2 for 1 stock split. The company also had 10,000 shares of 8%, $50 par preferred stock outstanding throughout the year. The company declared the required preferred dividend during the year. Net income for the year was $300,000.

Required:

Compute basic earnings per share.

Question 3:   **(7 marks)**

On January 1, 2016, management of Micro Storage Inc. determined that a revision in the estimates associated with the depreciation of storage facilities was appropriate. These facilities, purchased on January 5, 2014 for $600,000, had been depreciated using straight line method with an estimated salvage value of $60,000 and an estimated useful life of 20 years. Management has determined that the storage facilities' expected remaining useful life is 10 years and that they have an estimated salvage value of $80,000.

Required:
   a)   How much depreciation was recognized by Micro storage in 2014 and 2015?
   b)   How much depreciation will be recognized by Micro Storage in 2016 as a result of the changes in estimates?
   c)   What journal entry is required to account for the changes in estimates at the beginning of 2016?

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Question 4: (7 marks)

a) During the year, the company sold equipment that originally cost $61,000. Accumulated depreciation associated with the equipment was $17,500. A gain of $8,500 on the sale of the equipment was recognized. How much cash was received from the sale?

b) In 2016, Heart Corporation had year-end assets of $1,200,000, sales of $1,650,000, net income of $140,000, net cash flows from operating activities of $195,000, dividends of $60,000, purchases of plant assets of $250,000, and sales of plant assets of $45,000. In 2010, year-end assets were $1,050,000. Calculate free cash flow.

Question 5: (7 marks)

Financial Information relating to two different companies follows:

	Company A	Company B
Net sales	$60,000	$21,000
Net income	9,600	360
Total assets	155,400	3,200
Total equity	61,000	1,690

Required:
1. Compute the following ratios:
   a) Profit margin ratio
   b) Asset turnover
   c) Assets-to-equity ratio
   d) Return on assets
   e) Return on equity
2. Assume that the two companies are (a) a large grocery store, and (b) a large utility. Based on the above information, identify each company.

Question 6: (7 marks)

Inventory and receivables balances and gross profit data for Mountain Electric follow:

	2016	2015	2014
Balance sheet data:			
Inventory, December 31	$230,000	$180,000	$140,000
Accounts receivable, December 31	120,000	95,000	60,000
Income statement data:			
Net sales	$620,000	$560,000	$510,000
Cost of goods sold	325,000	290,000	265,000
Gross profit	$295,000	$270,000	$245,000

Required: Compute the following ratios for 2016 and 2015
1. Accounts receivable turnover
2. Average collection period
3. Inventory turnover
4. Number of day's sales in inventory

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