Accounting (II)(DOM1030)

Midterm Exam

23 April, 2018

College of Management, National Chiao Tung University

I. Multiple Choice Questions 單選選擇題(20%)

1. The units-of-activity method is generally not suitable for
   a. √ airplanes.
   b. buildings.
   c. delivery equipment.
   d. √ factory machinery.

2. Under the allowance method, writing off an uncollectible account
   a. affects only statement of financial position accounts.
   b. affects both statement of financial position and income statement accounts.
   c. affects only income statement accounts.
   d. is not acceptable practice.

3. When a company determines a particular account to be uncollectible, it charges the loss to Bad Debt Expense under
   a. the allowance method.
   b. the direct writeoff method.
   c. both the allowance method and the direct write–off method.
   d. None of these answer choices are correct.

4. The percentage of sales basis of estimating expected uncollectibles
   a. emphasizes the matching of expenses with revenues.
   b. emphasizes statement of financial position relationships.
   c. emphasizes cash realizable value.
   d. is not generally accepted as a basis for estimating bad debts.

5. A debit balance in the Allowance for Doubtful Accounts
   a. is the normal balance for that account.
   b. indicates that actual bad debt write-offs have exceeded previous provisions for bad debts.
   c. indicates that actual bad debt write-offs have been less than what was estimated.

d. cannot occur if the percentage of sales method of estimating bad debts is used.

6. If a plant asset is retired before it is fully depreciated, and the residual value received is less than the ~~asset's book~~ value,
   a. a gain on disposal occurs.
   b. a loss on disposal occurs.
   c. there is no gain or loss on disposal.
   d. additional depreciation expense must be recorded.

7. Identify the item below where the terms are not related.
   a. Equipment—depreciation
   b. Franchise—depreciation
   c. Copyright—amortization
   d. Oil well—depletion

8. The entry to record patent amortization usually includes a credit to
   a. Amortization Expense.
   b. Accumulated Amortization.
   c. Accumulated Depreciation.
   d. Patent.

9. Sales taxes collected by a retailer are reported as
   a. contingent liabilities.
   b. revenues.
   c. expenses.
   d. current liabilities.

10. The interest rate investors demand for loaning funds is the
   a. market interest rate.
   b. stated rate.
   c. contractural interest rate.
   d. bond interest rate.

4,00000

2. (4%)

Riley Company issued a $4,000,000, 10%, 10-year mortgage note payable to finance the construction of a building at December 31, 2017. The terms provide for annual installment payments of $650,981.

Prepare the entry to record:

(a) the mortgage loan on December 31, 2017. (2%)

(b) the first installment payment. (2%)

650,981
400000
250981

3. (18%)

The following is taken from the Sinjh ASA statement of financial position.

SINJH ASA
Statement of Financial Position (partial)
December 31, 2016

Non-current liabilities	
Bonds payable (face value €2,400,000), 9%, due January 1, 2027	€2,310,000
Current liabilities	
Interest payable (for 12 months from January 1 to December 31)	216,000

$x \times 9\% = 216000$

$216000 \times \frac{100}{9}$

$= 2400000$

Interest is payable annually on January 1. The bonds are callable on any annual interest date. Sinjh uses straight-line amortization for any bond premium or discount. From December 31, 2016, the bonds will be outstanding for an additional 10 years (120 months).

Questions

$2400000 \times \frac{9}{100}$

$\frac{2,400,000}{10}$ $= 240000$

(Round all computations to the nearest euro).

(a) Journalize the payment of bond interest on January 1, 2017. (3%)

(b) Prepare the entry to amortize bond discount and to pay the interest due on December 31, 2018. (3%)

2400000
240000
2160000

(c) Briefly explain the effect of amortizing the bond discount upon "annual profit (net income)" (3%)

(d) Assume that on January 1, 2018, after paying interest, Sinjh calls bonds having a face value of €800,000. The call price is 102. Record the redemption of the bonds. (4%)

98% interest

(e) Prepare the adjusting entry at December 31, 2018, to amortize bond discount and to accrue interest on the remaining bonds. (5%)

2400000
816000
1584000

72000

728000

4. (8%)

Shonrock Co. sold R$800,000, 9%, 10-year bonds on January 1, 2017. The bonds were dated January 1, 2017, and paid interest on January 1. The bonds were sold at 103. In addition, Shonrock Co. uses straight-line method to amortize the premium.

771680

Questions

(a) Prepare the journal entry to record the issuance of the bonds on January 1, 2017. (2%)

(b) At December 31, 2017, please show the statement of financial position presentation of the bond liability at December 31, 2017. (3%)

(c) On January 1, 2019, when the carrying value of the bonds was R$832,000, the company $\boxed{\text{redeemed}}$ the bonds at 106. Record the redemption of the bonds assuming that interest for the period has already been paid. (3%)

5. (12%)

Presented below are selected transactions for Corbin Company for 2017.

$\frac{90,000}{10} = 9000$

Jan. 1 Received $3,000 scrap value on retirement of machinery that was purchased on January 1, 2006. The machine cost $90,000 on that date, and had a useful life of 10 years with no residual value. 2016.

$18,000 \times \frac{4}{12} = 6,000$

√ April 30 Sold a machine for $31,000 that was purchased on January 1, 2014. The machine cost $90,000, and had a useful life of 5 years with no residual value. 2015 2016

$\frac{90,000}{5} = 18,000$

90,000
54,000
36,000
6,000
30,000

√ Dec. 31 Discarded a business automobile that was purchased on April 1, 2013. The car cost $42,000 and was depreciated on a 5-year useful life with a residual value of $2,000. 2014 2015 2016 2017

$\frac{42,000-2,000}{5} = \frac{40,000}{5} = 8,000$

$8,000 \times \frac{3}{12} = 6,000$

42,000
− 6,000
36,000
32,000
4,000

Questions

Journalize all entries required as a result of the above transactions. Corbin Company uses the straight-line method of depreciation and has recorded depreciation through December 31, 2016. (3%, 3%, 3%, 3%)

6. (8%)

Northeast Airlines purchased an aircraft on January 1, 2015, at a cost of $45,000,000. The estimated useful life of the aircraft is 20 years, with an estimated residual value of $5,000,000. On January 1, 2018 the airline revises the total estimated useful life to 13 years with a revised residual value of $4,000,000. ?

692307

Questions

(a) Compute the depreciation and book value at **December 31, 2017** using the

$\frac{45,000,000}{13}$

double-declining-balance method. (4%)

(b) Compute the depreciation and book value at **December 31, 2018** using the double-declining-balance method. (4%)

7. (5%)

Equipment was acquired on January 1, 2013, at a cost of ¥2,000,000. The equipment was originally estimated to have a residual value of ¥100,000 and an estimated life of 10 years. Depreciation has been recorded through December 31, 2016, using the straight-line method. On January 1, 2017, the estimated residual value was revised to ¥140,000 and the useful life was revised to **a total of 8 years**.

Question

Determine the Depreciation Expense for 2017. (5%)

8. (8%)

Scully Company had accounts receivable of €115,000 on January 1, 2014. The only transactions that affected accounts receivable during 2014 were net credit sales of €1,200,000, cash collections of €1,000,000, and accounts written off of €30,000.

Instructions

(a) Compute the ending balance of accounts receivable. (2%)

(b) Compute the accounts receivable turnover ratio for 2014. (3%)

(c) Compute the average collection period in days. (3%)

9. (8%)

Greig Company uses the allowance method for estimating uncollectible accounts.

January	5	Sold merchandise to Jane Harder for €1,000, terms n/15.
April	15	Received €200 from Jane Harder on account.
August	21	Wrote off as uncollectible the balance of the Jane Harder account when she declared bankruptcy.
October	5	Unexpectedly received a check for €300 from Jane Harder.

Prepare journal entries to record the above transactions. (2%, 2%, 2%, 2%)

10. (9%)

Moore Company had a **$700 credit balance in Allowance for Doubtful Accounts** at December 31, 2017, before the current year's provision for uncollectible accounts. An aging of the accounts receivable revealed the following:

700

700

		Estimated Uncollectible percentage	
Current Accounts	$170,000	1%	17000
1–30 days past due	15,000	3%	450
31–60 days past due	12,000	6%	720
61–90 days past due	5,000	12%	600
Over 90 days past due	9,000	30%	2700
Total Accounts Receivable	$211,000		

Question

(a) Prepare the adjusting entry on December 31, 2017, to recognize bad debts expense. (3%)

(b) Assume the same facts as above except that the Allowance for Doubtful Accounts account had a $500 debit balance before the current year's provision for uncollectible accounts. Prepare the adjusting entry for the current year's provision for uncollectible accounts. (3%)

(c) Assume that the company has a policy of providing for bad debts at the rate of 1% of sales, that sales for 2017 were $500,000, and that Allowance for Doubtful Accounts had a $650 credit balance before adjustment. Prepare the adjusting entry for the current year's provision for bad debts. (3%)

$500,000 \times \frac{1}{100} = 5000$

650

~~5650~~

4350

11. (Extra bonus, 3%)

On December 31, 2016, Potter Corporation issued $2,000,000, 6%, 5-year bonds for $1,837,750. The bonds were sold to yield an effective-interest rate of 8%. Interest is paid annually on December 31. The company uses the effective-interest method of amortization.

Prepare the journal entries that Potter Corporation would make on **December 31, 2018** related to the bond issue. (3%)

12. (Extra bonus, 3%)

Please define ROA (return on asset), Asset turnover, respectively. In addition, please explain how ROA relate to asset turnover.

$2000,000 \times \cancel{8}6\% = 120000$

$1,837,750 \times 8\% = 147020$

27020