※考生請注意：本試題可使用計算機。請於答案卷(卡)作答，於本試題紙上作答者，不予計分。

A. CHOICE (48%, Each 2%)

1. Direct costs incurred to sell shares such as underwriting costs should be accounted for as
   (i) a reduction of share premium.
   (ii) an expense of the period in which the shares are issued.
   (iii) an intangible asset.
   a. (i)
   b. (ii)
   c. (iii)
   d. (i) or (iii)

2. According to IFRS, redeemable preference shares should be
   a. included with ordinary shares.
   b. included as a liability.
   c. excluded from the statement of financial position.
   d. included as a contra item in shareholders' equity.

3. During 2012, Gordon Company issued at 104 three hundred, $1,000 bonds due in ten years. One detachable share warrant entitling the holder to purchase 15 shares of Gordon's ordinary shares was attached to each bond. At the date of issuance, the market value of the bonds, without the share warrants, was quoted at 96. The fair value of each detachable warrant was quoted at $40. What amount, if any, of the proceeds from the issuance should be accounted for as part of Gordon's equity?
   a. $0
   b. $12,000
   c. $24,000
   d. $12,480

4. Vernon Corporation offered detachable 5-year warrants to buy one ordinary share (par value $5) at $20 (at a time when the shares were selling for $32). The price paid for 2,000, $1,000 bonds with the warrants attached was $205,000. The market price of the Vernon bonds without the warrants was $180,000, and the market price of the warrants without the bonds was $20,000. What amount should be allocated to the warrants?
   a. $20,000
   b. $25,000
   c. $24,000
   d. $20,500

5. On July 1, 2012, Wenn Co. purchased 600 of the $1,000 face value, 8% bonds of Loy, Inc., for $630,000 (a 7% effective interest rate). The bonds, which mature on July 1, 2017, pay interest semiannually on January 1 and July 1. Wenn used the effective interest method of amortization and appropriately recorded the bonds as non-trading.

On Wenn's December 31, 2012 statement of financial position, the carrying value of the bonds is

a. $630,000.
b. $625,800.
c. $626,100.
d. $628,050.

6. If a company cannot estimate reliably the outcome of a transaction involving the providing of a service, it should recognize revenue.

a. Straight-line over the period of the service contract.
b. By using the percentage-of-completion method based on costs incurred compared to total estimated costs.
c. By recording an equal amount of revenue for each service performed.
d. Only to the extent of the expenses recoverable.

7. A franchise agreement grants the franchisor an option to purchase the franchisee's business. It is probable that the option will be exercised. When recording the initial franchise fee, the franchisor should

a. record the entire initial franchise fee as a deferred credit which will reduce the franchisor's investment in the purchased outlet when the option is exercised.
b. record the entire initial franchise fee as unearned revenue which will reduce the amount of cash paid when the option is exercised.
c. record the portion of the initial franchise fee which is attributable to the bargain purchase option as a reduction of the future amounts receivable from the franchisee.
d. None of these.

Use the following information for questions 8 and 9.

Kiner, Inc. began work in 2010 on a contract for $8,400,000. Other data are as follows:

	2010	2011
Costs incurred to date	$3,600,000	$5,600,000
Estimated costs to complete	2,400,000	—
Billings to date	2,800,000	8,400,000
Collections to date	2,000,000	7,200,000

8. If Kiner uses the percentage-of-completion method, the gross profit to be recognized in 2010 is

a. $1,440,000.
b. $1,600,000.
c. $2,160,000.
d. $2,400,000.

9. If Kiner uses the cost-recovery method, the gross profit to be recognized in 2011 is

a. $1,360,000.

b. $2,800,000.
c. $1,400,000.
d. $5,600,000.

10. Link Sink Manufacturing has a deferred tax asset account with a balance of $300,000 at the end of 2012 due to a single cumulative temporary difference of $750,000. At the end of 2013, this same temporary difference has increased to a cumulative amount of $1,000,000. Taxable income for 2013 is $1,700,000. The tax rate is 40% for 2013, but enacted tax rates for all future years are 35%. Assuming it's probable that 70% of the deferred tax asset will be realized, what amount will be reported on Link Sink's statement of financial position for the deferred tax asset at December 31, 2013?
    a. $262,500.
    b. $280,000.
    c. $245,000.
    d. $595,000.

<u>Use the following information for questions 11–13.</u>
At the beginning of 2010; Elephant, Inc. had a deferred tax asset of $4,000 and a deferred tax liability of $6,000. Pre-tax accounting income for 2010 was $300,000 and the enacted tax rate is 40%. The following items are included in Elephant's pre-tax income:

Interest income from government obligations	$24,000
Accrued warranty costs, estimated to be paid in 2011	$52,000
Operating loss carryforward	$38,000
Installment sales revenue, will be collected in 2011	$26,000
Prepaid rent expense, will be used in 2011	$12,000

11. What is Elephant, Inc.'s taxable income for 2010?
    a. $300,000
    b. $252,000
    c. $348,000
    d. $452,000

12. Which of the following is required to adjust Elephant, Inc.'s deferred tax asset to its correct balance at December 31, 2010?
    a. A debit of $20,800
    b. A credit of $15,200
    c. A debit of $15,200
    d. A debit of $16,800

13. The ending balance in Elephant, Inc's deferred tax liability at December 31, 2010 is

a. $9,200
b. $15,200
c. $10,400
d. $31,200

14. The following information is related to the pension plan of Long, Inc. for 2011.

Actual return on plan assets	$200,000
Amortization of net gain	82,500
Amortization of past service cost due to increase in benefits	150,000
Expected return on plan assets	230,000
Interest on defined benefit obligation	362,500
Service cost	800,000

Pension expense for 2011 is
a. $1,195,000.
b. $1,165,000.
c. $1,030,000.
d. $1,000,000.

15. Ohlman, Inc. maintains a defined-benefit pension plan for its employees. As of December 31, 2011, the fair value of the plan assets is less than the vested benefit obligation. The defined benefit obligation exceeds the vested benefit obligation. In its balance sheet as of December 31, 2011, Ohlman should report a liability in the amount of the
a. excess of the defined benefit obligation over the fair value of the plan assets.
b. excess of the vested benefit obligation over the fair value of the plan assets.
c. defined benefit obligation.
d. vested benefit obligation.

16. A lessor with a sales-type lease involving an unguaranteed residual value available to the lessor at the end of the lease term will report sales revenue in the period of inception of the lease at which of the following amounts?
a. The minimum lease payments plus the unguaranteed residual value.
b. The present value of the minimum lease payments.
c. The cost of the asset to the lessor, less the present value of any unguaranteed residual value.
d. The present value of the minimum lease payments plus the present value of the unguaranteed residual value.

17. Torrey Co. manufactures equipment that is sold or leased. On December 31, 2011, Torrey leased equipment to Dalton for a five-year period ending December 31, 2016, at which date ownership of the leased asset will be transferred to Dalton. Equal payments under the lease are $220,000 (including $20,000 executory costs) and are

due on December 31 of each year. The first payment was made on December 31, 2011. The normal sales price of the equipment is $770,000, and cost is $600,000. For the year ended December 31, 2011, what amount of income should Torrey realize from the lease transaction?

a. $170,000
b. $220,000
c. $230,000
d. $330,000

18. Assume that on January 1, 2012, Hsu Co sells a computer system to Larson Finance Co. for ¥510,000 and immediately leases the computer system back. The relevant information is as follows.

1. The computer was carried on Hsu's books at a value of ¥450,000
2. The term of the non-cancelable lease is 10 years; title will transfer to Hsu.
3. The lease agreement requires equal rental payments of ¥83,000.11 at the end of each year.
4. The incremental borrowing rate for Hsu is 12%. Hsu is aware that Larson Finance Co. set the annual rental to ensure a rate of return of 10%.
5. The computer has a fair value of ¥510,000 on January 1, 2011, and an estimated economic life of 10 years.
6. Hsu plays executory costs of ¥9,000 per year

Based on this information, which of the following would be recorded by Hsu on December 31, 2012?

a. a debit to Interest Revenue for ¥51,000
b. a credit to Interest Revenue for ¥51,000
c. a debit to Lease Receivable for ¥510,000
d. a debit to Lease Receivable¥83,000.11

19. DetmerConstuction Company decided at the beginning of 2012 to change from the cost-recovery method to the percentage-of-completion method for financial reporting purposes. The company will continue to use the cost-recovery method for tax purposes. For years prior to 2012, pretax income under the two methods was as follows: percentage-of-completion £144,000, and cost-recovery £114,000. The tax rate is 35%. Detmer has a profit-sharing plan, which pays all employees a bonus at year-end based on 1.5% of pretax income. What is the amount of the indirect effect of Detmer's change in accounting policy that will be reported in the 2012 income statement, assuming that the profit-sharing contract explicitly requires adjustment for changes in income numbers?

a. £2,160
b. £1,710
c. £450
d. £954

20. Yee Construction Co. had follwed the practice of expensing all materials assigned to a construction job without recognizing any residual inventory. On December31, 2012, it was determained that residual inventory should be

valued at ¥56,000. Of this amount,¥23,000 arose during the current year. Based on this information, all of the following statements is true regarding the affect on the financial statements to be prepared at the end of 2012 except:

a. ¥23,000 should be reported in the 2012 statements as a reduction of materials cost.
b. ¥33,000 should be reported as an adjustment to the beginning balance of retained earnings in the 2012 financial statements.
c. This change should be handled as a correction of an error.
d. This change should be handled as a change in accounting estimate.

21. Nagel Co.'s prepaid insurance was $90,000 at December 31, 2011 and $45,000 at December 31, 2010. Insurance expense was $36,000 for 2011 and $27,000 for 2010. What amount of cash disbursements for insurance would be reported in Nagel's 2011 net cash provided by operating activities presented on a direct basis?

a. $99,000.
b. $81,000.
c. $54,000.
d. $36,000.

22. The net income for the year ended December 31, 2011, for Oliva Company was $1,200,000. Additional information is as follows:

Depreciation on plant assets	$600,000
Amortization of leasehold improvements	340,000
Provision for doubtful accounts on short-term receivables	120,000
Provision for doubtful accounts on long-term receivables	100,000
Interest paid on short-term borrowings	80,000
Interest paid on long-term borrowings	60,000

Based solely on the information given above, what should be the net cash provided by operating activities in the statement of cash flows for the year ended December 31, 2011?

a. $2,260,000.
b. $2,360,000.
c. $2,340,000.
d. $2,500,000.

23. Jarvis, Inc. reported net income of $34,000 for the year ended December 31, 2011. Included in net income was a gain on early extinguishment of debt of $60,000 related to bonds payable with a book value of $1,200,000. Each of the following accounts increased during 2011:

Notes receivable	$45,000
Deferred tax liability	$10,000
Treasury shares	$90,000

What is the amount of cash used by financing activities for Jarvis, Inc. for the year ended December 31, 2011?

a. $1,230,000
b. $1,240,000
c. $160,000
d. $195,000

24. In March 2011, an explosion occurred at Kirk Co.'s plant, causing damage to area properties. By May 2011, no claims had yet been asserted against Kirk. However, Kirk's management and legal counsel concluded that it was possible but not probable that Kirk would be held responsible for negligence, and that $4,000,000 would be a reasonable estimate of the damages. Kirk's $5,000,000 comprehensive public liability policy contains a $400,000 deductible clause. In Kirk's December 31, 2010 financial statements, for which the auditor's fieldwork was completed in April 2011, how should this casualty be reported?

a. As a note disclosing a possible liability of $4,000,000.
b. As an accrued liability of $400,000.
c. As a note disclosing a possible liability of $400,000.
d. No note disclosure of accrual is required for 2010 because the event occurred in 2011.

B. CALCULATION (52%)

1. Freeze Corporation is having financial difficulty and therefore has asked Manhattan National Bank to restructure its $3 million note outstanding. The present note has 3 years remaining and pays a current rate of interest of 10%. The present market rate for a loan of this nature is 12%. The note was issued at its face value.

Instructions

Prepare below are three independent situations. Prepare the journal entry that Halvor would make for each of these restructurings.

(a) Manhattan National Bank agrees to take an equity interest in Halvor by accepting ordinary shares valued at $2,200,000 in exchange for relinquishment its claim on this note. The ordinary shares have a par value of $1,000,000. (6%)
(b) Manhattan National Bank agrees to accept land in exchange for relinquishing its claim on this note. The land has a book value of $1,950,000 and a fair value of $2,400,000. (6%)
(c) Manhattan National Bank agrees to modify the terms of the note, indicating that Halvor does not have to pay interest on the note over the3-year period. (6%)

2. Quigley Co. bought a machine on January 1, 2009 for $875,000. It had a $75,000 estimated residual value and a ten-year life. An expense account was debited on the purchase date. Quigley uses straight-line depreciation. This was discovered in 2011.

Instructions

Prepare the entry or entries related to the machine for 2011. (10%)

3. The following differences enter into the reconciliation of financial income and taxable income of Abbott Company for the year ended December 31, 2010, its first year of operations. The enacted income tax rate is 30% for all years.

Pretax accounting income	\$700,000
Excess tax depreciation	(320,000)
Litigation accrual	70,000
Unearned rent revenue deferred on the books but appropriately recognized in taxable income	50,000
Interest received on government obligations	(20,000)
Taxable income	\$480,000

a. Excess tax depreciation will reverse equally over a four-year period, 2011-2014.
b. It is estimated that the litigation liability will be paid in 2014.
c. Rent revenue will be recognized during the last year of the lease, 2014.
d. Interest received on government obligations is expected to be \$20,000 each year until their maturity at the end of 2014.

Instructions

(a) Prepare a schedule of future taxable and (deductible) amounts. (6%)
(b) Prepare a schedule of the deferred tax (asset) and liability. (6%)
(c) Since this is the first year of operations, there is no beginning deferred tax asset or liability. Compute the net deferred tax expense (benefit). (6%)
(d) Prepare the journal entry to record income tax expense, deferred taxes, and the income taxes payable for 2010. (6%)