

一. SELECT THE BEST ANSWER FOR EACH OF THE FOLLOWING QUESTIONS:
(THREE POINTS FOR EACH QUESTION)

1. When preparing a statement of cash flows, an increase in ending inventory over beginning inventory results in an adjustment to reported net income in computing cash flows from operating activities by the indirect method because
- Cash was increased since inventory is a current asset.
 - The net increase in inventory reduced cost of goods sold but represents an assumed use of cash.
 - Inventory is not an expense deducted in computing net income, but is not a use of cash.
 - All changes in noncash accounts must be disclosed.

2. Newton company with a substantial deficit undertakes a quasi-reorganization. Certain assets will be written down to their present fair market value. Liabilities will remain the same. How would the entries to record the quasi-reorganization affect each of the following?

| | Contributed capital | Retained earnings |
|----|------------------------|----------------------|
| a. | Increase | Decrease |
| b. | Decrease | No effect |
| c. | No effect | Increase |
| d. | Decrease | Increase |

3. Wood company has included in its consolidated financial statements this year a subsidiary acquired several years ago that was appropriately excluded from consolidation last year. This results in

- An accounting change that should be reported prospectively.
- An accounting change that should be reported by restating the financial statements of all prior periods presented.
- Neither an account change nor a correction of an error.
- A correction of an error.

4. During 19X2, Queen company purchased \$20,000 of inventory. The cost of goods sold for 19X2 was \$22,000, and the ending inventory at december 31, 19X2 was \$4,000. What was the inventory turnover for 19X2?

- a. 4.0 b. 4.4 c. 5.5 d. 11.0

5. P company owns 80% of s company's common shares. On 1/1/19X1 p company issued 12%, 10-year bonds with a par value of \$ 100,000 at 102. On 7/1/19X8 S company purchased p company bonds with a par value of \$40,000 at 101. For 19X8 P and S companies reported net income from their own operations of \$60,000 and \$25,000, respectively. What is consolidated net income for 19X8?

- a. \$79,584 b. \$79,904 c. \$79,800 d. \$79,840

二.

1. The records of King company provide the following data at the end of 19X1:

| Liabilities | |
|---|-----------|
| Bonds payable, 5%, convertible (each \$1,000 bond is convertible to 40 shares of common stock) | \$150,000 |
| Stockholders' Equity | |
| Common stock, par \$2, authorized 400,000 shares: | |
| Outstanding 1/1/19X1, 150,000 shares | 300,000 |
| Sold and issued on 10/1/19X1, 20,000 shares | 40,000 |
| Common stock warrants outstanding (all year for 6,000 shares) | 12,000 |
| Preferred stock, 6%, par \$5, nonconvertible, cumulative, authorized 100,000 shares, outstanding during 19X1, 20,000 shares | 100,000 |
| Contributed capital in excess of par, common stock | 375,000 |
| Contributed capital in excess of par, preferred stock | 45,000 |
| Retained earnings | 280,000 |
| Income before extraordinary items | 170,000 |
| Extraordinary loss (net of tax) | (20,000) |
| Net income | 150,000 |

Additional data:

The exercise price of stock warrants is \$3.0 per share; the average market price of common stock during 19X1 is \$3.6 per share; the market price of common stock on 12/31/19X1 is \$6.0 per share. Convertible bonds are issued at par. A bond interest rate at date of issuance of bonds is 9%. Average income tax rate is 30%.

Required:

- a. What kind of EPS presentation is required? Explain.
- b. Prepare the required EPS presentation of 19X1. Show all computation. Disregard the 3% materiality test. (15 points)

2. P company acquires its 90 percent interest in S company on January 1, 19X1. There is only one intercompany transaction between the affiliates in 19X1. Near the end of 19X1, S company sells merchandise to P company for \$10,000, generating a \$3,000 intercompany (gross) profit. All of this merchandise is in P company's 19X1 ending inventory. During 19X2, P company sell these goods to nonaffiliates. The companies file separate income tax returns, and the income tax rate is 40 percent.

Required:

Prepare the working paper elimination entries related to the intercompany sale and unconfirmed inventory profit in 19X1 and the confirmation of profit in 19X2. In addition, the entry related to the unconfirmed inventory profit in 19X1 in P company's record. (10 points)

3. ABC company reports the following taxable income and loss: 19X1, income, \$10,000 (tax rate 20%), and 19X2, \$40,000 loss (tax rate 20%). At the end of 19X2, ABC make the following estimates: 19X3 income, \$4,000 (tax rate, 20%); 19X4 income, \$11,000 (tax rate 20%); and 19X5 income, \$50,000 (tax rate, 30%). On the basis of these estimates, which the company considers to be conservative, ABC elects the carryforward-only option. The actual income is \$6,000 (tax rate 20%) for 19X3, \$13,000 (tax rate 20%) for 19X4, and \$45,000 (tax rate 35%) for 19X5. Disregard income tax allocation.

Required:

- a. Give the income tax entry for 19X1.
- b. Give the income tax entry for 19X2. Explain the basis for your response.
- c. Give the income tax entry for 19X5. (10 points)