

Choose the best answer for the following questions (40%)

1. The quality of information that gives assurance that it is reasonably free of error and bias and is a faithful representation is
  - a. relevance.
  - b. reliability.
  - c. verifiability.
  - d. neutrality.
2. What accounting concept justifies the usage of accruals and deferrals?
  - a. Going concern assumption
  - b. Materiality constraint
  - c. Consistency characteristic
  - d. Monetary unit assumption

3. Poe, Inc. had the following bank reconciliation at March 31, 1993:

Balance per bank statement, 3/31/93	\$46,500
Add: Deposit in transit	10,300
	-----
Less: Outstanding checks	56,800
	12,600
	-----
Balance per books, 3/31/93	\$44,200
	=====

Data per bank for the month of April 1993 follow:

Deposits	\$58,400
Disbursements	49,700

All reconciling items at March 31, 1993 cleared the bank in April. Outstanding checks at April 30, 1993 totaled \$7,000. There were no deposits in transit at April 30, 1993. What is the cash balance per books at April 30, 1993?

- a. \$48,200.
  - b. \$52,900.
  - c. \$55,200.
  - d. \$58,500.
4. The December 31, 1992 balance sheet of Fern Co. includes the following:

8% bonds payable due December 31, 2000	\$800,000
Unamortized discount on bonds payable	25,600

The bonds were issued on December 31, 1990, with interest payable on June 30 and December 31 of each year. Fern uses straight-line amortization.

On April 1, 1993, Fern retired \$200,000 of these bonds at 98 plus accrued interest. The extraordinary loss on retirement, ignoring taxes, is

- a. \$2,200
- b. \$2,400.
- c. \$4,200.
- d. \$4,400.

5. In preparing its bank reconciliation for the month of April 1994, World Travel, Inc. has available the following information.

Balance per bank statement, 4/30/94	\$48,925
NSF check returned with 4/30/94 bank statement	450
Deposits in transit, 4/30/94	5,000
Outstanding checks, 4/30/94	6,500
Bank service charges for April	20

What should be the correct balance of cash at April 30, 1994?

- \$47,855.
- \$47,425.
- \$46,975.
- \$46,955.

Transactions for the month of June were:

Purchases		Sales	
June 1 (balance)	400 @ \$3.20	June 2	300 @ \$5.50
3	1,100 @ 3.10	6	800 @ 5.50
7	600 @ 3.30	9	500 @ 5.50
15	900 @ 3.40	10	200 @ 6.00
22	250 @ 3.50	18	700 @ 6.00
		25	150 @ 6.00

6. Assuming that perpetual inventory records are kept in units only, the ending inventory on a LIFO basis is
- \$1,900.
  - \$1,920.
  - \$1,970.
  - \$2,065.

7. Electra Corporation adopted the dollar-value LIFO method of inventory valuation on December 31, 1991. Its inventory at that date was \$200,000 and the relevant price index was 100. Information regarding inventory for subsequent years is as follows:

Date	Inventory at Current Prices	Current Price Index
December 31, 1992	\$256,800	107
December 31, 1993	290,000	125
December 31, 1994	338,000	130

- What is the cost of the ending inventory at December 31, 1994 under dollar-value LIFO?
- \$270,640.
  - \$269,240.
  - \$260,000.
  - \$276,400.

8. Worth Co. uses the retail inventory method. The following information is available for the current year.

	Cost	Retail
Beginning inventory	-----	-----
Purchases	\$ 62,000	\$ 98,000
Freight-in	245,000	345,000
Employee discounts	5,000	---
Net markups	---	3,000
Net Markdowns	---	15,000
Sales	---	20,000
		325,000

Assuming that the LIFO inventory method is used, that the beginning inventory is the base inventory when the index was 100, and that the index at year end is 110, the ending inventory at dollar-value LIFO retail cost is

- \$63,651.
- \$71,702.
- \$74,910.
- \$80,850.

(USE THE FOLLOWING INFORMATION FOR 9 & 10)

Peace Co. purchased land as a factory site for \$350,000. Peace paid \$36,000 to tear down two buildings on the land. Salvage was sold for \$2,700. Legal fees of \$1,740 were paid for title investigation and making the purchase. Surveying before construction cost \$520. Architect's fees were \$15,600. Title insurance cost \$1,200, and liability insurance during construction cost \$1,300. Excavation cost \$4,700. The contractor was paid \$1,280,000. An assessment made by the city for pavement was \$3,200. Interest costs during construction were \$93,000.

- The cost of the land that should be recorded by Peace Co. is
  - \$386,240.
  - \$389,440.
  - \$390,940.
  - \$394,140.
- The cost of the building that should be recorded by Peace Co. is
  - \$1,389,900.
  - \$1,390,420.
  - \$1,394,600.
  - \$1,395,120.
- The Olson Corporation purchased factory equipment that was installed and put into service January 2, 1992, at a total cost of \$48,000. Salvage value was estimated at \$3,000. The equipment is being depreciated over four years using the double-declining-balance method. For the year 1993, Olson should record depreciation expense on this equipment of
  - \$11,250.
  - \$12,000.
  - \$22,500.
  - \$24,000.

12. When the equipment was sold, the Buildings and Equipment account received a credit of
- \$12,000.
  - \$26,000.
  - \$20,000.
  - \$14,000.
13. The book value of the buildings and equipment at December 31, 1993 was
- \$127,000.
  - \$130,000.
  - \$178,000.
  - \$147,000.
14. The accounts payable at December 31, 1993 were
- \$11,000.
  - \$27,000.
  - \$8,000.
  - \$37,000.
15. The balance in the Retained Earnings account at December 31, 1993 was
- \$45,000.
  - \$110,000.
  - \$95,000.
  - \$125,000.
16. Capital stock (plus any additional paid-in capital) at December 31, 1993 was
- \$100,000.
  - \$115,000.
  - \$65,000.
  - \$155,000.

(USE THE FOLLOWING INFORMATION FOR 17-18)

Blaze, Inc. began work under contract #3814, which provided for a contract price of \$4,500,000. Other details follow:

	1993	1994
Costs incurred during the year	\$ 800,000	\$2,425,000
Estimated costs to complete, as of December 31	2,400,000	0
Billings during the year	900,000	3,600,000
Collections during the year	600,000	3,900,000

17. Assume that Blaze uses the percentage-of-completion method of accounting. The portion of the total gross profit to be recognized as income in 1993 is
- \$225,000.
  - \$325,000.
  - \$1,125,000.
  - \$1,300,000.
18. Assume that Blaze uses the completed contract method of accounting. The portion of the total gross profit to be recognized as income in 1994 is
- \$600,000.
  - \$300,000.
  - \$1,275,000.
  - \$4,500,000.

(USE THE FOLLOWING INFORMATION FOR 12-16)

Statements for the Cargill Company are given below:

Cargill Company		Balance Sheet	
January 1, 1993			
Assets		Equities	
-----		-----	
Cash	\$ 40,000	Accounts payable	\$ 19,000
Accounts receivable	36,000		
Buildings and equipment	150,000		
Accumulated depreciation-		Capital stock	115,000
buildings and equipment	(50,000)	Retained earnings	60,000
Patents	18,000		
	-----		-----
	\$194,000		\$194,000
	-----		-----

Cargill Company		Statement of Cash Flows	
For the Year Ended December 31, 1993			
Increase (Decrease) in Cash			
Cash flows from operating activities			
Net income			\$ 50,000
Adjustments to reconcile net income			
to net cash provided by operating			
activities:			
Increase in accounts receivable	\$(16,000)		
Increase in accounts payable	8,000		
Depreciation--buildings and equipment	15,000		
Gain on sale of equipment	(6,000)		
Amortization of patents	2,000		3,000
	-----		-----
Net cash provided by operating activities			53,000
Cash flows from investing activities			
Sale of equipment	12,000		
Purchase of land	(25,000)		
Purchase of buildings and equipment	(48,000)		
	-----		
Net cash used by investing activities			(61,000)
Cash flows from financing activities			
Payment of cash dividend	(15,000)		
Sale of common stock	40,000		
	-----		
Net cash provided by financing activities			25,000
			-----
Net increase in cash			17,000
Cash, January 1, 1993			40,000
			-----
Cash, December 31, 1993			\$ 57,000
			-----

Total assets on the balance sheet at December 31, 1993 are \$277,000.  
Accumulated depreciation on the equipment sold was \$14,000.

19. The net assets of Gary Co. total \$900,000 and earnings for the last five years total \$720,000. Included in the earnings are extraordinary losses of \$75,000 and unusual gains of \$30,000. A 12% return on net assets is considered normal for the industry.

If goodwill is computed by capitalization of average excess earnings at 16%, the estimate of goodwill is

- a. \$4,320.
- b. \$7,200.
- c. \$168,750.
- d. \$281,250.

20. Universe Age, Inc. incurred the following costs during the year ended December 31, 1993:

Laboratory research aimed at discovery of new knowledge	\$ 75,000
Design of tools, jigs, molds, and dies involving new technology	22,500
Quality control during commercial production, including routine testing of products	135,000
Construction of research facilities having an estimated useful life of 5 years but no alternative future use	150,000

The total amount to be classified and expensed as research and development in 1993 is

- a. \$262,500.
- b. \$382,500.
- c. \$247,500.
- d. \$127,500.

Problem #1 (20%)

The accounting standards setting bodies, especially the FASB, must set their priority of establishing accounting standards to meet the needs of the changing economic environment and to consider the economic consequence of accounting standards.

- (a) In your opinion, what were the major accounting issues that the FASB faced in the 1970's, 1980's and 1990's?
- (b) What were the accomplishments and drawbacks of the FASB in dealing with these issues?
- (c) Explain what is the economic consequence of accounting standards. Give examples of how the pronounced accounting principles affect the behavior of management, the decision making of investor, and the allocation of economic resources.
- (d) The accounting standard setting process is also well-known as a "social choice", that is, the compromise of interested parties. Under this circumstance, how can the conceptual framework of financial accounting be used to strengthen the position of the FASB?

problem #2 (10%)

(Change from Equity to Fair Value) Land Corp. was a 30% owner of Jersey Company, holding 210,000 shares of Jersey's common stock on December 31, 1994. The investment account had the following entries:

Investment in Jersey			
1/1/93 Cost	\$3,180,000	12/6/93 Dividend received	\$150,000
12/31/93 Share of income	390,000	12/31/93 Amortization of under-valued assets	30,000
12/31/94 Share of income	510,000	12/5/94 Dividend received	240,000
		12/31/94 Amortization of under-valued assets	30,000

On January 2, 1995, Land sold 119,000 shares of Jersey for \$3,250,000, thereby losing its significant influence. During the year 1995 Jersey experienced the following results of operations and paid the following dividends to Land.

	Jersey Income (Loss)	Dividends Paid to Land
1995	\$300,000	\$54,600

At December 31, 1995, the fair value of Jersey shares held by Land is \$1,700,000. This is the first reporting date since the January 2 sale.

Instructions

- (a) What effect does the January 2, 1995, transaction have upon Land's accounting treatment for its investment in Jersey?
- (b) Compute the carrying amount in Jersey as of December 31, 1995.
- (c) Prepare the adjusting entry on December 31, 1995, applying the fair value method to Land's long-term investment in Jersey Company securities.

problem \*3 (15%)

## 宏總靠轉投資股票賺錢 今年稅前盈餘每股可達五元

(記者張輝銜一台北)

宏總建設公司相互轉投資的宏聯公司，出售宏總建設股票1,200萬股，使宏總建設公司增加營業外收益3.69億元，今年每股稅前盈餘增加1.96元，因於營業外收益的挹注，宏總建設公司今年每股稅前盈餘更可達五元以上的水準。

宏總建設公司與宏統營造、宏聯投資是相互持股的公司，宏總建設持有宏統營造90%的股權，宏統營造又持有宏聯投資公司90%的股權，而宏聯投資公司則持有10.8%宏總建設的股權。

宏聯投資公司11月中旬向證管會提出申報轉該1,200萬的宏總建設股票，在12月上旬，已全部

轉讓完畢，每股成交價約50元，總收入約六億元，扣除持股成本及手續費，獲利約4.57億元，按相互持股比率推算，宏統營造可得營業外收益約4.11億元，而宏總建設可由宏統營造取得營業外收益3.69億元。

宏總建設目前資本額為18.8億元，所獲得的營業外收益3.69億元，相當可增每股稅前盈餘1.96元，而宏總建設預估今年正常稅前盈餘為六億元，相當每股稅前盈餘3.19元，兩者合計，宏總建設今年稅前盈餘可達5.15元，成為今年高獲利的公司，因此，宏總建設預計今年股利分配為4.5元，包括股票股利四元，現金股利0.5元。

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試從專業會計人員的立場評論上述報導。



problem #4 (15%)

(EPS Computation of Primary and Fully Diluted EPS) Bill Halvorsen of the controller's office of Delaney Corporation was given the assignment of determining the primary and fully diluted earnings per share values for the year ending December 31, 1992. Halvorsen has compiled the information listed below.

- The company is authorized to issue 12,000,000 shares of \$10 par value common stock. As of December 31, 1991, 4,000,000 shares had been issued and were outstanding.
- The per share market price of the common stock and the average Aa corporate bond yield on selected dates were as follows:

	Price per Share	Average Aa Corporate Bond Yield
July 1, 1991	\$20.00	11%
January 1, 1992	21.00	12
April 1, 1992	25.00	14
July 1, 1992	11.00	15
August 1, 1992	10.50	15
November 1, 1992	9.00	14
December 31, 1992	10.00	12

- A total of 800,000 shares of an authorized 1,200,000 shares of convertible preferred stock had been issued on July 1, 1991. The stock was issued at its par value of \$25, and it has a cumulative dividend of \$2 per share. The stock is convertible into common stock at the rate of one share of convertible preferred for one share of common. The rate of conversion is to be automatically adjusted for stock splits and stock dividends. Dividends are paid quarterly on September 30, December 31, March 31, and June 30.
- Delaney Corporation is subject to a 40% income tax rate.
- The after-tax net income for the year ended December 31, 1992 was \$14,554,000.

The following specific activities took place during 1992.

- January 1—A 5% common stock dividend was issued. The dividend had been declared on December 1, 1991, to all stockholders of record on December 29, 1991.
- April 1—A total of 200,000 shares of the \$3 convertible preferred stock was converted into common stock. The company issued new common stock and retired the preferred stock. This was the only conversion of the preferred stock during 1992.
- July 1—A 2-for-1 split of the common stock became effective on this date. The Board of Directors had authorized the split on June 1.
- August 1—A total of 300,000 shares of common stock were issued to acquire a factory building.
- November 1—A total of 24,000 shares of common stock were purchased on the open market at \$9 per share. These shares were to be held as treasury stock and were still in the treasury as of December 31, 1992.
- Common stock cash dividends—Cash dividends to common stockholders were declared and paid as follows:  
April 15—\$.30 per share  
October 15—\$.20 per share
- Preferred stock cash dividends—Cash dividends to preferred stockholders were declared and paid as scheduled.

Instructions

- Determine the number of shares used to compute primary earnings per share for the year ended December 31, 1992.
- Determine the number of shares used to compute fully diluted earnings per share for the year ended December 31, 1992.
- Compute the adjusted net income to be used as the numerator in the primary earnings per share calculation for the year ended December 31, 1992.