

一、 Define the following items and compare the difference(20%)

1. Neutrality & Economic consequences
2. Financial flexibility & Continuity
3. Accounting cycle & Operating cycle
4. Interest capitalized & Cost allocation
5. Stock dividend & Stock split

二、 Johnston Doors began operations on January 4, 2002. During the first month, Johnston purchased the following assets, all of which were depreciated using the straight-line method.

Equipment: Cost, \$48,000; estimated salvage value, \$5,000; estimated useful life, 10 years.
Building: Cost, \$85,000; estimated salvage value, \$15,000; estimated useful life, 15 years.

At the end of 2006, Johnston reviewed its accounting records and determined that the building should have a total useful life of 20 years. In addition, because of significant wear on the equipment, Johnston proposes changing to the sum-of-the-years'-digits method for depreciating equipment.

Johnston also has found that its estimated bad debt expense has been consistently higher than actual bad debts. Management proposes lowering the percentage from 3% of credit sales to 2%. If 2% had been used since 2002, the balance in Allowance for Bad Debts at the beginning of 2006 would have been \$3,200 rather than \$6,900. Credit sales for 2006 totaled \$250,000, and accounts written off as uncollectible during 2006 totaled \$5,500.

Instructions: (Ignore income tax effects.)

1. What is the proper accounting treatment for each of the proposed changes?
2. Prepare the journal entry necessary to record the cumulative adjustment associated with changing depreciation methods. The change is effective as of January 1, 2006.
3. Prepare the journal entries necessary to record the depreciation expense for 2006 for both the equipment and the building.
4. Prepare the journal entry to record the write-off of accounts deemed uncollectible during 2006 and the adjusting entry at year-end to record the bad debt expense for the period.
5. What adjustment is made to the allowance account at the beginning of 2006 as a result of changing the bad debt estimate percentage? (20%)

(背面仍有題目,請繼續作答)

- 三、 Jana Crebs is a contractor for the construction of large office buildings. At the beginning of 2005, three buildings were in progress. The following data describe the status of these buildings at the beginning of the year: (20%)

| | Contract Price | Costs Incurred to Jan. 1, 2005 | Estimated Cost to Complete as of Jan. 1, 2005 |
|------------------|----------------|-----------------------------------|--|
| Building 1 | \$ 4,000,000 | \$2,070,000 | \$1,380,000 |
| Building 2 | 9,000,000 | 6,318,000 | 1,782,000 |
| Building 3 | 13,150,000 | 3,000,000 | 9,000,000 |

During 2005, the following costs were incurred.

- Building 1 \$930,000 (estimated cost to complete as of December 31, 2005, \$750,000)
 Building 2 \$1,800,000 (job completed)
 Building 3 \$7,400,000 (estimated cost to complete as of December 31, 2005, \$2,800,000)
 Building 4 \$800,000 (contract price, \$2,500,000; estimated cost to complete as of December 31, 2005, \$1,200,000)

Instructions:

1. Compute the total revenue, costs, and gross profit in 2005. Assume that Crebs uses the cost-to-cost percentage-of-completion method. (Round to two decimal places for percentage completed.)
2. Compute the gross profit for 2005 if Crebs uses the completed-contract method.

- 四、 Based on an analysis of the cash and other accounts, the following information was provided by the controller of Lumbercamp, Inc., a manufacturer of wood-burning stoves, for the year 2005.

- (a) Cash sales for the year were \$150,000; sales on account totaled \$180,000.
- (b) Cost of goods sold was 50% of total sales.
- (c) All inventory is purchased on account.
- (d) Depreciation on equipment was \$93,000 for the year.
- (e) Amortization of patent was \$6,000.
- (f) Collection of accounts receivable was \$114,000.
- (g) Payments on accounts payable for inventory equaled \$117,000.
- (h) Rent expense paid in cash was \$33,000.
- (i) Cash of \$720,000 was obtained by issuing 60,000 shares of \$10 par stock.
- (j) Land was acquired by issuance of a \$300,000 bond that sold for \$318,000.
- (k) Equipment was purchased for cash at a cost of \$252,000.
- (l) Dividends of \$138,000 were declared.
- (m) Dividends of \$45,000 that had been declared the previous year were paid.
- (n) A machine used on the assembly line was sold for \$36,000. The machine had a book value of \$21,000.
- (o) Another machine with a book value of \$1,500 was scrapped and was reported as an ordinary loss. No cash was received on this transaction.
- (p) The cash account had a balance of \$87,000 on January 1, 2005.

Instructions: Use the direct method to prepare a statement of cash flows for Lumbercamp, Inc., for the year ended December 31, 2005. (20%)

五、 The Sonntag Corporation has adjusted and closed its books at the end of 2004. The company arrives at its inventory position by a physical count taken on December 31 of each year. In March of 2005, the following errors were discovered:

- (a) Merchandise that cost \$2,500 was sold for \$3,400 on December 29, 2004. The order was shipped December 31, 2004, with terms of FOB shipping point. The merchandise was not included in the ending inventory. The sale was recorded on January 12, 2005, when the customer made payment on the sale.
- (b) On January 3, 2005, Sonntag Corporation received merchandise that had been shipped to it on December 30, 2004. The terms of the purchase were FOB shipping point. Cost of the merchandise was \$1,750. The purchase was recorded and the goods included in the inventory when payment was made in January 2005.
- (c) On January 8, 2005, merchandise that had been included in the ending inventory was returned to Sonntag because the consignee had not been able to sell it. The cost of this merchandise was \$1,200 with a selling price of \$1,800.
- (d) Merchandise costing \$750, located in a separate warehouse, was overlooked and excluded from the 2004 inventory count.
- (e) On December 26, 2004, Sonntag Corporation purchased merchandise costing \$1,175 from a supplier. The order was shipped December 28 (terms FOB destination) and was still "in transit" on December 31. Because the invoice was received on December 31, the purchase was recorded in 2004. The merchandise was not included in the inventory count.
- (f) The corporation failed to make an entry for a purchase on account of \$835 at the end of 2004, although it included this merchandise in the inventory count. The purchase was recorded when payment was made to the supplier in 2005.
- (g) The corporation included in its 2004 ending inventory merchandise with a cost of \$1,350. This merchandise had been custom built and was being held until the customer could come and pick up the merchandise. The sale, for \$1,825, was recorded in 2005.

Instructions: Give the entry in 2005 (2004 books are closed) to correct each error. Assume that the errors were made during 2004, all amounts are material, and the periodic inventory system is used. (20%)