Unity University

School of Distance and Continuing Education

Work sheet for PRINCIPLES OF ACCOUNTING II

Name: _____

Id No.: _____

Department: _____

Student Center: _____

Program: Distance ☐ **Regular / Extension** ☐

This is a work sheet you are expected to do by your own. It carries 25 marks. The work sheet should be completed and submitted to your center coordinator which will be sent to the Head Office of the School of Distance and Continuing Education for evaluation. Do not try to complete the worksheet until you have covered all the lessons and exercises in the course material.

Any questions in the course that you have not been able to understand should be stated on a separate sheet of paper and attached to this work sheet. Your tutor will clarify for you.

After completing this worksheet, be certain to write your name, Id No and Address on the first page. In addition to this, your Name and Id No should be written on each paper of the work sheet.

N.B: The worksheet has 3 parts and 4 pages.

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Part I: Write "True" if the statement is correct or "False" if the statement is incorrect on the space provided

_____1. All plant assets are depreciable.

_____2. Dembel City Centre has currently started operation. The owner partly finances the construction through borrowing. The accountant should capitalize the interest cost incurred after being operational.

_____3. Plant assets are assets that can be used by a business enterprise for more than one year

_____4. Tangible assets are assets without physical feature.

_____5. Land held on a real estate (concern for resale) can be categorized as plant asset

_____6. In partnership the admission of new partner dissolves the old partnership.

_____7. The effect of ending inventory on net income is the same as its effect on gross profit.

_____8. Raw material inventories are goods purchased for resale in the normal course of business.

_____9. A capital expenditure has a benefit that extends beyond the end of the current period and should be charged to an asset.

_____10. There are no purchases and purchase returns and allowances accounts in perpetual inventory system.

PART II: Choose the correct answer and write the letter of your choice on the space provided

_____1. Which of the following statements regarding inventory accounting methods is true, In periods of

A. declining prices, the tax benefits of using LIFO are increased
B. rising prices, using the LIFO method results in a lower current ratio than the FIFO method
C. rising prices, using the FIFO method results in higher inventory cost than the LIFO method.
D. declining prices FIFO results in higher net income than LIFO

_____2. Which of the following statements about inventory are TRUE during periods of rising prices?

A. LIFO Gross Profit Margin > FIFO Gross Profit Margin
B. LIFO Current ratio > FIFO Current Ratio
C. LIFO Debt to Equity Ratio > FIFO Debt to Equity Ratio
D. LIFO Inventory cost < FIFO Inventory cost

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_____3. Which of the following statements regarding inventory methods used during periods of rising prices is FALSE?

A. FIFO results in higher inventory balances

B. LIFO results in lower cost of goods sold

C. FIFO results in higher taxes

D. LIFO results in lower net income

_____4. Which of the following items would NOT be amortized?

A. Goodwill.

B. Research and development

C. Plant, land and equipment

D. Trademark

_____5. Changes in asset lives and salvage value are changes in accounting:

A. principle and no specific disclosures are required

B. estimates and no specific disclosures are required

C. principle and specific disclosures are required

D. estimates and specific disclosures are required

A firm using straight-line depreciation reports the following financial information:

- Gross investment in fixed assets of $89,167,205
- Accumulated depreciation of $35,341,773
- Annual depreciation expense of $3,885,398

_____6. Based on the above information, the approximate age of the fixed asset is:

A. 13.85

B. 22.95

C. 9.10

D. 2.52

_____7. Based on the above information, a firm using straight-line depreciation reports gross investment in fixed assets of $80 million, accumulated depreciation of $45 million, and annual depreciation expense of $5 million. The approximate average age of the fixed assets is:

A. 7 years

B. 9 years

C. 15 years

D. 16 years

_____ 8. Based on the above information, assume that a company pays $20,000 for the rights to a well with 5 million gallons of water inside. If the company extracts 250,000 gallons of water, what is the total depletion amount?

A. $0.004

B. $5000.000

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C. $12.500 D. $1000.000.

_____9. Which of the following characteristics is considered to be an advantage of the corporate form of organization?

A. Avoidance of double taxation C. Low level of regulation

B. Limited liability of stockholders D. The absence of a perpetual existence

_____10. Of the following characteristics, which is not generally regarded as right of common shareholders?

A. Preemptive right C. Preference in liquidation

B. voting rights D. Transferability of shares

Part III: Work out part

An analyst has gathered the following financial data:

- Cost of the asset is $5,898
- Estimated useful life is 4.00 years (or 67,000 units)
- You estimate the residual value of the asset at $577
- For the purposes of product-output depreciation calculations, use the following data:
  - Year 1 - 30%
  - Year 2 - 25%
  - Year 3 - 25%
  - Year 4 - 20%
  - use the information to answer from 1 to 5 show your computation clearly (15 points)

1. Using the double-declining balance method, what is the depreciation in Year 2?
2. Using the product output method, what is the correct depreciation in Year 3?
3. Using the sum-of-year's digits method, what is the accumulated depreciation in Year 3?
4. Using the straight line depreciation method, what is the book value of the asset in Year 3?
5. At the end of Year 3, the analyst realizes that the useful life should really be 5 years, rather than 4, and the adjusted residual value was $215. Using the straight line method, what is the annual depreciation expense of the remainder of the useful life of the asset?

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