Financial Accounting II (Degree Program)

Part I. For each of the following questions, write "True" if the statement is correct or "False" if the statement is incorrect on the space provided.

_____1. A building owned by a corporation is always classified as plant asset.

_____2. Under the double-declining balance depreciation method, salvage value is considered only in computing the amount of depreciation for the final year of an asset's service life.

_____3. Whenever an investment in marketable equity securities doesn't qualify for equity method treatment, the investor is required to use the lower of cost or market method in accounting for the investment.

_____4. The amortization of a bond discount increases the amount of bond interest expense recorded each year.

_____5. Any gain or loss resulting from the early extinguishments of a debt is not amortized to future periods.

Part II. For each of the following multiple-choice questions, select the answer which you think best fits to the question and write the letter of your choice in Block letter on the space provided.

_____1. Which of the following items is/are included in the ending inventory?

A. Goods purchases FOB destination that are in transit at the end of the period
B. Goods sold on installment basis
C. Freight charges on goods purchased
D. Costs incurred to advertise goods held for resale

E. A and C

_____2. If the gross profit based on cost is 20%, what would the gross profit rate, based on sales?

A. 1/6 B. 1/5 C. ¼ D. 1/3 E. None

_____3. The progress Billing ledger account used in accounting for construction-type contracts is a/an

A. Asset account
B. Liability account
C. Contra-asset account
D. Contra-liability account

_____4. SAY Company exchanged land with a fair market value of Br. 150, 000 for Cline Company's Br. 226, 000, non interest bearing, 4-year note. If the Br. 150, 000 amount represents the present value of the note at an appropriate rate of interest, SAY Corporation should record the difference (Br. 76, 000) as:

A. Gain on the sale of Land
B. Premium on the sale of Land
C. Premium on notes receivable
D. Discount on notes receivables
E. None of the above.

_____5. The controller of MIDROC Company is entitled to a bonus of 10% of net income after bonus and tax deduction. If net income before tax and bonus amounts to Br. 80, 000 and the tax rate is 40%, what amount of bonus can the controller expect to receive?

A. Br. 3, 000
B. Br. 4, 528
C. Br. 5, 106

D. Br. 8, 000

E. None

Part II: Attempt the following exercise type questions. Show all your calculations and steps clearly.

Exercise I

The following information is taken from the inventory records of Sea merchandising Company for the year ended December 31, 2000

	Cost	Retail
Beginning inventories	Br. 270, 000	Br. 360, 000
Purchases	600, 000	900, 000
Purchase returns and allowances	49, 600	80, 000
Additional markups		70, 000
Markup cancellations		10, 000
Markdowns		40, 000
Markdown cancellations		20, 000
Sales		650, 000

Sales & returns and allowances ……..-30, 000

Required:

1. Determine the estimated ending inventory at last-in, First-out cost using the retail method.
2. Determine the estimated ending inventory at First-in, First-out cost using the retail method.
3. Assuming that the general price level had increased from 100 at the beginning of the year to 120 at the end of the year, determine the estimated ending inventory at money value retail LIFO cost

Exercise II

The following financial statement items were taken from the balance sheet prepared as of December 31, 1994 of FENOTE Construction Company that uses the percentage of Completion, Cost-to cost, method for its construction-type contracts. The company had a single contract during 1994. The contract price is Br. 1, 600, 000 and the construction is expected to be completed with in three years.

	1994
Contract Receivable	Br. 44, 000
Construction in progress (including estimated earnings of Br. 75, 000)	Br. 525, 000
Less: Progress billings to date	375, 000
Construction in progress and estimated earnings in excess of progress billings	150, 000

Required:

1. Determine the total estimated cost to complete the construction

2. Pass all the necessary journal entries that were made in 1994 to record
    a) Construction costs incurred
    b) Progress billing to customer
    c) Collection of receivables from customer
    d) Recognition of revenue and related costs

Exercise III.

Vien Company completes the construction of a building. The following independent items are the costs and other aspects relevant to the purchase of the lot and construction

- Cash payment to contractor----------Br. 100, 000
- Total sales tax on materials used in construction in addition to payments made to contractor---------- 30, 000
- Gross cost to raze old building on land---------- 20, 000
- Cost of land (building site)----------50, 000
- Proceeds from old building salvage---------- ----- 5, 000
- Power bill for electricity used in construction ----------2, 000
- Interest on purchase of materials---------- 1, 000
- Capitalized interest on construction---------- - 3, 000

Required:

What is the final recorded value of the building and land? (Show all your works clearly)