Intermediate Accounting I
Final Exam Booklet
Replacement

Part A

20 Point Questions (3 questions x 20 points = 60 total points)
Show all work.

1. The following information is provided in the 2011 annual report to shareholders of The BizStore:

	December 31, 2011	December 31, 2010
Accounts receivable	Y	$6 million
Inventory	$25 million	$20 million
Total assets	$250 million	X
Total stockholders' equity	W	$130 million
Net sales	$115 million	
Cost of Goods Sold	Z	
Net income	U	
Average collection period	22.2 days	
Average days in inventory	104 days	
Equity multiplier	1.9	
Return on stockholders' equity	16.0%	
Profit margin on sales	17.4%	
ROA	V	

Required: Compute U-Z in the table above.

2. Shown below is the activity for one of the products of Random Creations:
January 1 balance, 80 units @ $50 $4,000

Purchases:
- January 18: 40 units @ $51
- January 28: 40 units @ $52

Sales:
- January 12: 30 units
- January 22: 30 units
- January 31: 45 units

2a. Compute the ending inventory and cost of goods sold assuming Random Creations uses FIFO.
2b. Compute the ending inventory and cost of goods sold assuming Random Creations uses LIFO and perpetual inventory system.
2c. Compute the ending inventory and cost of goods sold assuming Random Creations uses LIFO and a periodic inventory system.
2d. Compute the ending inventory and cost of goods sold assuming Random Creations uses average cost and a periodic inventory system.
2e. Compute the ending inventory and cost of goods sold assuming Random Creations uses average cost and a perpetual inventory system.

3. On January 3, 2011, Michelson & Sons acquired a tract of land just outside the city limits. The land and existing building were purchased for $2.4 million. Michelson paid $400,000 and signed a noninterest-bearing note requiring the company to pay the remaining $2,000,000 on December 31, 2012. An interest rate of 7% properly reflects the time value of money for this type of loan agreement. Transfer taxes, title insurance and other costs totaling $24,000 were paid at closing.
During February, the old building was demolished at a cost of $120,000, and an additional $100,000 was paid to clear and grade the land. Construction of a new building began on March 1 and was completed on October 30. Construction expenditures were as follows:

March 30	$ 800,000
June 30	1,200,000
July 30	1,200,000
September 1	600,000

Michelson did not borrow specifically for the construction project, but did have the following debt outstanding throughout 2011:
$6,000,000, 8% long-term note payable
$2,000,000, 5% long-term note payable
In December, the company purchased equipment and office furniture and fixtures for a lump-sum price of $800,000. The fair values of the equipment and the furniture and fixtures were $540,000 and $360,000, respectively. In December, Michelson paid $340,000 for the construction of parking lots and landscaping.
Required:
3a. Determine the initial values of the various assets that Michelson acquired or constructed during 2011.
3b. How much interest expense will Michelson report in its 2011 income statement?

Part B:

4 Point Questions (10 questions x 4 points = 40 total points)

Show all work.

1. Tri Fecta, a partnership, had revenues of $360,000 in its first year of operations. The partnership has not collected on $35,000 of its sales, and still owes $40,000 on $150,000 of merchandise they purchased. There was no inventory on hand at the end of the year. The partnership paid $25,000 in salaries. The partners invested $40,000 in the business and $25,000 was borrowed on a five-year note. The partnership paid $3,000 in interest that was the amount owed for the year and paid $8,000 for a two-year insurance policy on the first day of business.

Required:

1a. Compute net income for the first year for Tri Fecta.

1b. Compute the cash balance at the end of the first year for Tri Fecta.

2. Presented below is a partial trial balance for the Messenger Corporation at December 31, 2011.

Account Title	Debits	Credits
Cash and cash equivalents	30,000	
Accounts receivable	195,000	
Raw materials inventory	36,000	
Note receivable	120,000	
Interest receivable	4,000	
Interest payable		7,000
Marketable securities	48,000	
Land	100,000	
Buildings	1,500,000	
Accumulated depreciation - buildings		740,000
Work in process inventory	38,000	
Finished goods inventory	98,000	
Equipment	400,000	
Accumulated depreciation – equipment		230,000
Franchise (net of amortization)	120,000	
Prepaid insurance (for the next year)	60,000	
Unearned revenue		48,000
Accounts payable		240,000
Note payable		500,000
Salaries payable		6,000
Cash restricted for payment of note payable	100,000	
Allowance for uncollectible accounts		24,000
Sales revenue		900,000
Cost of goods sold	500,000	
Salaries expense	48,000	

Additional information:
1. The note receivable, along with any accrued interest, is due on November 1, 2012.
2. The note payable is due in 2016. Interest is payable annually.
3. The marketable securities consist of equity securities of other corporations. Management does not intend to sell any of the securities in the next year.
4. Unearned revenue will be earned equally over the next eighteen months.

Required: Determine the company's working capital (current assets minus current liabilities) at December 31, 2011.

3. Paris Company reported the following items in its December 31, 2011, year-end adjusted trial balance:

Income from continuing operations before income taxes	$320,000
Extraordinary gain on litigation settlement	60,000
Extraordinary flood loss	(18,000)

Paris is subject to a 40% income tax rate.

Required: Prepare the December 31, 2011, income statement for Paris Company starting with income from continuing operations before income taxes.

4. Beck Construction Company began work on a new building project on January 1, 2010. The project is to be completed by December 31, 2012, for a fixed price of $108 million. The following are the actual costs incurred and estimates of remaining costs to complete the project that were made by Beck's accounting staff**:**

Years	Actual costs incurred in each year	Estimated remaining costs to complete the project (measured at Dec. 31 of each year)
2010	$30 million	$60 million
2011	$45 million	$45 million
2012	$35 million	$ 0

Required: What amount of gross profit (or loss) would Beck record on this project in each year under the **percentage-of-completion** method? <u>Place answers in the spaces provided below and show supporting computations</u>.

<u>Years</u>	<u>Gross Profit (or Loss) recognized</u>	<u>Supporting computations</u>
2010		
2011		
2012		

5. White & Decker Corporation's 2011 financial statements included the following information in the long-term debt disclosure note:

	($ in millions)
	2011
Zero-coupon subordinated debentures, due 2026	$275

The disclosure note stated that the debenture bonds were issued late in 2006 and have a maturity value of $500 million. The maturity value indicates the amount that White & Decker will pay bondholders in 2026. Each individual bond has a maturity value (face amount) of $1,000. Zero-coupon bonds pay no cash interest during the term to maturity. The company is "accreting" (gradually increasing) the issue price to maturity value using the bonds' effective interest rate computed on an annual basis.

Required:

5a. . Determine the effective interest rate on the bonds.

5b. . Determine the issue price in late 2006 of a single, $1,000 maturity-value bond.

6. During Bricker Company's first year of operations, credit sales totaled $200,000 and collections on credit sales totaled $145,000. Bricker estimates that $1,000 of its ending accounts receivable balance will not be collected. By year-end, Bricker had written off $330 of specific accounts as uncollectible.

Required:

6a. Prepare all appropriate journal entries relative to uncollectible accounts and bad debt expense.

6b. Show the year-end balance sheet presentation for accounts receivable.

7. Chavez Inc adopted dollar-value LIFO on January 1, 2011, when the inventory value was $850,000. The December 31, 2011, ending inventory at year-end cost was $950,000 and the cost index for the year is 1.08.

Required:

Compute the dollar-value LIFO inventory valuation (rounded) for the December 31, 2011, inventory.

8. Penfold's Paints uses the average cost retail method to estimate its ending inventories. The following data has been summarized for the year 2011:

	Cost	Retail
Inventory, January 1		$ 65,000
Purchases		270,000
Net markups		3,600
Net markdowns		2,100
Net sales		260,000
Inventory, December 31	$55,080	

Required: Compute the cost-to-retail percentage used by Penfold's Paints.

9. Calegari Mining paid $2 million to obtain the rights to operate a coal mine in Tennessee. Costs of exploring for the coal deposit totaled $1,500,000 and development costs of $5 million were incurred in preparing the mine for extraction, which began on January 2, 2011. After the coal is extracted in approximately five years, Calegari is obligated to restore the land to its original condition. The company's controller has provided the following three cash flow possibilities for the restoration costs:

	Cash Flow	Probability
1.	$1,000,000	10%
2.	1,400,000	60%
3.	1,800,000	30%

The company's credit-adjusted, risk-free rate of interest is 7%, and its fiscal year ends on December 31.

Required:

9a.. What is the initial cost of the coal mine? (Round computations to nearest whole dollar.)

9b. . How much accretion expense will Calegari report in its 2011 and 2012 income statements?

9c. . What is the carrying value (book value) of the asset retirement obligation that Calegari will report in its 2011 and 2012 balance sheets?

9d. . Assume that actual restoration costs incurred in 2016 totaled $1,370,000. What amount of gain or loss will Calegari recognize on retirement of the liability?

10. On June 30, 2009, Mobley Corporation acquired a patent for $4 million. The patent was estimated to have an eight-year life and no residual value. Mobley uses the straight-line method of amortization for intangible assets. At the beginning of January 2011, Mobley successfully defended its patent against infringement. Litigation costs totaled $650,000.

Required:

10a.. Calculate patent amortization for 2009 and 2010.

10b. Prepare the journal entry to record the 2011 litigation costs.

10c. Calculate amortization for 2011.

10d. Repeat requirements 2 and 3 assuming that Mobley prepares its financial statements according to International Financial Reporting Standards.