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Accounting Practice: selected questions and unofficial answers indexed to content specification outline, Uniform CPA Examination/May 1980-November 1984

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FOREWORD

The Uniform CPA Examination is prepared by the Board of Examiners of the American Institute of Certified Public Accountants, and is used by the examining boards of all fifty states of the United States, the District of Columbia, Puerto Rico, Guam, and the Virgin Islands, as a prerequisite for issuance of CPA certificates.

This booklet contains selected questions and unofficial answers from the last ten Accounting Practice sections (Parts 1 and 2) of the Uniform Certified Public Accountant Examination. The questions and unofficial answers have been indexed in accordance with the Accounting Practice Content Specification Outline for the Uniform Certified Public Accountant Examination.

All questions are identified by a boldface code indicating the part (**1** or **2**), the month—May (**M**) or November (**N**)—the year (**80** through **84**), and the question number in the original examination. Within the content specification areas and groups, questions and answers have been arranged in reverse chronological order.

Each individual multiple choice question is indexed according to the area and group it tests. In some cases, a common fact pattern is used for two or more multiple choice questions. In such cases, where different areas and groups are being tested by questions referring to a common fact pattern, the fact pattern is repeated to accompany the questions indexed in each applicable area or group.

Where problems and their answers involve more than one part—for example, part a. and part b.—the problems have been separated and indexed according to areas and groups tested. Thus, all parts of a problem and its answer may not appear in their original examination sequence.

Although the questions and unofficial answers may be used for many purposes, the principal reason for their publication is to aid candidates in preparing to take the examination. Candidates are also encouraged to read *Information for CPA Candidates,* which describes the content, grading, and other administrative aspects of the Uniform CPA Examination.

The unofficial answers were prepared by the staff of the Examinations Division and reviewed by the Board of Examiners but are not purported to be official positions of the American Institute of Certified Public Accountants.

William C. Bruschi, *Vice President—Regulation*
American Institute of Certified Public Accountants

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*No multiple choice items/problems were indexed for this group.

†Questions in this area are not classified according to group.

MULTIPLE CHOICE ITEMS — SELECTED QUESTIONS

I. Presentation of Financial Statements or Worksheets

C. Statement of Changes in Financial Position

2M83

Items 24 through 30 are based on the following information:

Best Corporation
BALANCE SHEETS

	December 31, 1982	December 31, 1981
Assets		
Current assets:		
Cash	$ 480,000	$ 220,000
Accounts receivable—net	840,000	560,000
Merchandise inventory	760,000	470,000
Total current assets	2,080,000	1,250,000
Land, buildings, and fixtures	1,330,000	800,000
Less accumulated depreciation	210,000	150,000
	1,120,000	650,000
Total assets	$3,200,000	$1,900,000
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 830,000	$ 440,000
Accrued expenses	300,000	130,000
Dividends payable	40,000	—
Total current liabilities	1,170,000	570,000
Stockholders' equity:		
Common stock ($10 par value)	1,200,000	900,000
Additional paid-in capital	200,000	100,000
Retained earnings	630,000	330,000
	2,030,000	1,330,000
Total liabilities and stockholders' equity	$3,200,000	$1,900,000

Best Corporation
INCOME STATEMENTS

	Year ended December 31, 1982	Year ended December 31, 1981
Credit sales	$6,300,000	$4,000,000
Cost of goods sold	4,900,000	3,200,000
Gross profit	1,400,000	800,000
Expenses (including income taxes)	700,000	630,000
Net income	$ 700,000	$ 170,000

Best Corporation
CHANGES IN STOCKHOLDERS' EQUITY

	Year ended December 31, 1982	Year ended December 31, 1981
Common stock		
Balance, 1/1	$ 900,000	$900,000
Sold, 4/1/82	100,000	—
20% stock dividend, 6/1/82	200,000	—
Balance, 12/31	$1,200,000	$900,000
Additional paid-in capital		
Balance, 1/1	$ 100,000	$100,000
Sold, 4/1/82	25,000	—
20% stock dividend, 6/1/82	75,000	—
Balance, 12/31	$ 200,000	$100,000
Retained earnings		
Balance, 1/1	$ 330,000	$250,000
Net income	700,000	170,000
Cash dividends	(125,000)	(90,000)
Stock dividends	(275,000)	—
Balance, 12/31	$ 630,000	$330,000

Additional available information included the following:

- Although Best will report all changes in financial position, management has adopted a format emphasizing the flow of working capital.

• During 1982, Best sold, at a $10,000 loss, fixtures with a book value of $30,000 ($100,000 cost minus $70,000 accumulated depreciation). This loss was included in the income statement. Depreciation expense for 1982 was $130,000. Best purchased $630,000 of new fixtures during 1982.

• Common stock issued during 1982 was as follows:

Date	*Number of shares*
4/1/82	10,000
6/1/82	20,000

24. How much working capital provided by operations during 1982 should be reported in the statement of changes in financial position?
 a. $300,000
 b. $700,000
 c. $830,000
 d. $840,000

25. How much working capital was provided by the sale of common stock during 1982?
 a. $100,000
 b. $125,000
 c. $200,000
 d. $400,000

26. How much working capital was used for dividends during 1982?
 a. $ 85,000
 b. $125,000
 c. $325,000
 d. $400,000

1N81#18. Selected information from Brook Corporation's accounting records and financial statements for 1980 is as follows:

Working capital provided by operations	$1,500,000
Mortgage payable issued to acquire land and building	1,800,000
Common stock issued to retire preferred stock	500,000
Proceeds from sale of equipment	400,000
Cost of office equipment purchased	200,000

On the statement of changes in financial position for the year ended December 31, 1980, Brook should disclose total sources of funds in the amount of
 a. $1,700,000
 b. $2,400,000
 c. $3,700,000
 d. $4,200,000

1N81#20. The net income for Mountain Corporation was $4,000,000 for the year ended December 31, 1980. Additional information is as follows:

Depreciation on fixed assets	$2,000,000
Provision for doubtful accounts on short-term receivables	200,000
Provision for doubtful accounts on long-term receivables	300,000
Dividends on preferred stock	400,000

The working capital provided from operations in the statement of changes in financial position for the year ended December 31, 1980, should be
 a. $4,900,000
 b. $6,000,000
 c. $6,300,000
 d. $6,500,000

2M81

Items 25 through 28 relate to data to be reported in the Statement of Changes in Financial Position of Debbie Dress Shops, Inc., based on the following information:

Debbie Dress Shops, Inc.
BALANCE SHEETS

	December 31, 1980	December 31, 1979
Assets		
Current assets:		
Cash	$ 300,000	$ 200,000
Accounts receivable—net	840,000	580,000
Merchandise inventory	660,000	420,000
Prepaid expenses	100,000	50,000
Total current assets	1,900,000	1,250,000
Long-term investments	80,000	—
Land, buildings, and fixtures	1,130,000	600,000
Less accumulated depreciation	110,000	50,000
	1,020,000	550,000
Total assets	$3,000,000	$1,800,000
Equities		
Current liabilities:		
Accounts payable	$ 530,000	$ 440,000
Accrued expenses	140,000	130,000
Dividends payable	70,000	—
Total current liabilities	740,000	570,000
Note payable — due 1983	500,000	—
Stockholders' equity:		
Common stock	1,200,000	900,000
Retained earnings	560,000	330,000
	1,760,000	1,230,000
Total liabilities and stockholders' equity	$3,000,000	$1,800,000

Debbie Dress Shops, Inc.
INCOME STATEMENTS

	Year ended December 31, 1980	1979
Net credit sales	$6,400,000	$4,000,000
Cost of goods sold	5,000,000	3,200,000
Gross profit	1,400,000	800,000
Expenses (including income taxes)	1,000,000	520,000
Net income	$ 400,000	$ 280,000

Additional information available included the following:

- Although the Corporation will report all changes in financial position, management has adopted a format emphasizing the flow of cash.
- All accounts receivable and accounts payable relate to trade merchandise. Accounts payable are recorded net and always are paid to take all of the discount allowed. The Allowance for Doubtful Accounts at the end of 1980 was the same as at the end of 1979; no receivables were charged against the Allowance during 1980.
- The proceeds from the note payable were used to finance a new store building. Capital stock was sold to provide additional working capital.

25. Cash collected during 1980 from accounts receivable amounted to
    a. $5,560,000
    b. $5,840,000
    c. $6,140,000
    d. $6,400,000

26. Cash payments during 1980 on accounts payable to suppliers amounted to
    a. $4,670,000
    b. $4,910,000
    c. $5,000,000
    d. $5,150,000

27. Cash receipts during 1980 which were not provided by operations totaled
    a. $140,000
    b. $300,000
    c. $500,000
    d. $800,000

28. Cash payments for noncurrent assets purchased during 1980 were
    a. $ 80,000
    b. $530,000
    c. $610,000
    d. $660,000

2M81
Items 29 and 30 are based on the following information:

Magnolia, Inc.
BALANCE SHEETS

	December 31, 1980	1979
Current assets	$ 474,000	$ 320,000
Equipment	1,230,000	1,200,000
Accumulated depreciation	(436,000)	(420,000)
Goodwill	480,000	500,000
Total assets	$1,748,000	$1,600,000
Current liabilities	$ 360,000	$ 160,000
Bonds payable	400,000	600,000
Discount on bonds	(12,000)	(20,000)
Common stock	1,112,000	1,112,000
Retained earnings (deficit)	(112,000)	(252,000)
Total liabilities and stockholders' equity	$1,748,000	$1,600,000

You have discovered the following facts:

- During 1980, Magnolia sold at no gain or loss equipment with a book value of $76,000 and purchased new equipment costing $150,000.
- During 1980, bonds with a face and book value of $200,000 were extinguished, with no gain or loss. They were not current liabilities prior to their extinguishment.
- Retained earnings was affected only by the 1980 net income or loss.

29. How much working capital was provided by operations during 1980?
    a. $208,000
    b. $212,000
    c. $220,000
    d. $228,000

30. Assume that $200,000 face value of bonds became current at December 31, 1980, to be repaid in early 1981. What should be the change in working capital under this assumption after considering all changes in financial position?
    a. $ 46,000 increase.
    b. $ 46,000 decrease.
    c. $246,000 increase.
    d. $246,000 decrease.

1M80#19. The following information was taken from the accounting records of Oregon Corporation for 1979:

Proceeds from issuance of preferred stock	$4,000,000
Dividends paid on preferred stock	400,000
Bonds payable converted to common stock	2,000,000
Purchases of treasury stock, common	500,000
Sale of plant building	1,200,000
2% stock dividend on common stock	300,000

Oregon's statement of changes in financial position for the year ended December 31, 1979, should show the following sources and uses of funds, based on the information above:

	Sources	*Uses*
a.	$5,200,000	$1,200,000
b.	$5,500,000	$1,200,000
c.	$7,200,000	$2,900,000
d.	$7,500,000	$3,200,000

II. Measurement, Valuation, Realization, and Presentation of Assets in Conformity With Generally Accepted Accounting Principles

A. Cash

1M84#2. Tallent Corporation had the following account balances at December 31, 1983:

Cash on hand and in banks	$975,000
Cash legally restricted for additions to plant (expected to be disbursed in 1985)	600,000
Bank certificates of deposit (due February 1, 1984)	250,000

In the current assets section of Tallent's December 31, 1983, balance sheet, what total amount should be reported under the caption "cash and cash equivalents"?

a. $ 975,000
b. $1,225,000
c. $1,575,000
d. $1,825,000

1M83#20. Greenfield Company had the following cash balances at December 31, 1982:

Cash in banks	$1,500,000
Petty cash funds (all funds were reimbursed on December 31, 1982)	20,000
Cash legally restricted for additions to plant (expected to be disbursed in 1984)	2,000,000

Cash in banks includes $500,000 of compensating balances against short-term borrowing arrangements at December 31, 1982. The compensating balances are not legally restricted as to withdrawal by Greenfield. In the current assets section of Greenfield's December 31, 1982, balance sheet, what total amount should be reported as cash?

a. $1,020,000
b. $1,520,000
c. $3,020,000
d. $3,520,000

1M82#6. In preparing its bank reconciliation for the month of March 1982, Derby Company has available the following information:

Balance per bank statement, 3/31/82	$36,050
Deposit in transit, 3/31/82	6,250
Outstanding checks, 3/31/82	5,750
Credit erroneously recorded by bank in Derby's account, 3/12/82	250
Bank service charges for March	50

What should be the correct balance of cash at March 31, 1982?

a. $35,250
b. $36,250
c. $36,300
d. $36,550

2N81#2. Lee Corporation's checkbook balance on December 31, 1980, was $4,000. In addition, Lee held the following items in its safe on December 31:

Check payable to Lee Corporation, dated January 2, 1981, not included in December 31 checkbook balance	$1,000
Check payable to Lee Corporation, deposited December 20, and included in December 31 checkbook balance, but returned by bank on December 30, stamped "NSF." The check was redeposited January 2, 1981, and cleared January 7	200
Postage stamps received from mail-order customers	75
Check drawn on Lee Corporation's account, payable to a vendor, dated and recorded December 31, but not mailed until January 15, 1981	500

The proper amount to be shown as Cash on Lee's balance sheet at December 31, 1980, is

a. $3,800
b. $4,000
c. $4,300
d. $4,875

2M80#1. The following bank reconciliation is presented for the Kingston Company for the month of November 1979:

Balance per bank statement, 11/30/79		$18,040
Add: Deposit in transit		4,150
		22,190
Less: Outstanding checks	$ 6,300	
Bank credit recorded in error	20	6,320
Balance per books, 11/30/79		$15,870

Data for the month of December 1979 follows:

Per bank	
December deposits	$26,100
December disbursements	22,420
Balance, 12/31/79	21,720

All items that were outstanding as of November 30, cleared through the bank in December, including the bank credit. In addition, $2,500 in checks were outstanding as of December 31, 1979. What is the balance of cash per books at December 31, 1979?

a. $19,220
b. $19,240
c. $21,720
d. $24,220

B. Marketable Securities and Investments

1N84#1. During 1982 Brody Company purchased marketable equity securities as a short-term investment. At December 31, 1982, the balance in the allowance for decline in value of current marketable equity securities was $20,000. There were no security transactions during 1983. Pertinent data at December 31, 1983, are as follows:

Security	*Cost*	*Market value*
X	$210,000	$190,000
Y	185,000	207,000
Z	100,000	90,000
	$495,000	$487,000

In its 1983 income statement, Brody should report a(an)

a. Recovery of unrealized loss of $12,000.
b. Unrealized loss of $12,000.
c. Recovery of unrealized loss of $10,000.
d. Unrealized loss of $8,000.

1N84#2. On January 3, 1983, Mill, Inc., acquired 20% of the outstanding common stock of Nash Company for $700,000. This investment gave Mill the ability to exercise significant influence over Nash. The book value of the acquired shares was $600,000. The excess of cost over book value was attributed to an identifiable intangible asset which was undervalued on Nash's balance sheet and which had a remaining useful life of ten years. For the year ended December 31, 1983, Nash reported net income of $180,000 and paid cash dividends of $60,000 on its common stock. At December 31, 1983, the carrying value of Mill's investment in Nash should be

a. $678,000
b. $690,000
c. $700,000
d. $714,000

1M84#1. On December 31, 1982, Clark Company purchased marketable equity securities as a temporary investment. Pertinent data are as follows:

Security	*Cost*	*Market value at 12/31/83*
W	$24,000	$26,000
X	36,000	33,000
Y	72,000	65,000

On December 31, 1983, Clark reclassified its investment in security Y from current to noncurrent because Clark intends to retain security Y as a long-term investment. What total amount of loss on these securities should be included in Clark's income statement for the year ended December 31, 1983?

a. $0
b. $1,000
c. $7,000
d. $8,000

1M84#3. On January 1, 1983, Wright Company purchased Keeler Corporation 9% bonds with a face value of $200,000, for $187,800. The bonds were purchased to yield 10%. The bonds are dated January 1, 1983, mature on December 31, 1992, and pay interest annually on December 31. Wright uses the interest method of amortizing bond discount. In its income statement for the year ended December 31, 1983, what total amount should Wright report as interest income from the long-term bond investment?

a. $17,220
b. $18,000
c. $18,780
d. $20,000

1M84#4. On January 1, 1983, Miller Company purchased 25% of Wall Corporation's common stock; no goodwill resulted from the purchase. Miller appropriately carries this investment at equity and the balance in Miller's investment account was $190,000 at December 31, 1983. Wall reported net income of $120,000 for the year ended December 31, 1983, and paid common stock dividends totaling $48,000 during 1983. How much did Miller pay for its 25% interest in Wall?

a. $172,000
b. $202,000
c. $208,000
d. $232,000

1M83#2. During 1982, Anthony Company purchased marketable equity securities as a long-term investment. Pertinent data are as follows:

Security	*Cost*	*Market value at 12/31/82*
A	$ 20,000	$ 18,000
B	40,000	30,000
C	90,000	93,000
	$150,000	$141,000

Anthony appropriately carries these securities at the lower of aggregate cost or market value. The amount of unrealized loss on these securities to flow through Anthony's income statement for 1982 should be

a. $0
b. $ 3,000
c. $ 9,000
d. $12,000

1M83#3. On January 1, 1982, Weaver Company purchased as a long-term investment $500,000 face value of Park Corporation's 8% bonds for $456,200. The bonds were purchased to yield 10% interest. The bonds mature on January 1, 1988, and pay interest annually on January 1. Weaver uses the interest method of amortization. What amount should Weaver report on its December 31, 1982, balance sheet as long-term investment?

a. $450,580
b. $456,200
c. $461,820
d. $466,200

2M83#10. Denso Corporation reports on a calendar-year basis. Its December 31, 1982, financial statements were issued on February 3, 1983. The auditor's report was dated January 22, 1983. The following information pertains to Denso's aggregate marketable equity securities portfolio:

Cost	$500,000
Market value, 12/31/82	400,000
Market value, 1/22/83	350,000
Market value, 2/3/83	300,000

How much should be reported on Denso's balance sheet at December 31, 1982, for marketable equity securities?

a. $500,000
b. $400,000
c. $350,000
d. $300,000

1N82#2. On January 1, 1976, Darby Company purchased, at par, 500 of the $1,000 face value, 8% bonds of Clark Corporation as a long-term investment. The bonds mature on January 1, 1986, and pay interest semiannually on July 1 and January 1. Clark incurred heavy losses from operations for several years and defaulted on the July 1, 1980, and January 1, 1981, interest payments. Because of the permanent decline in market value of Clark's bonds, Darby wrote down its investment to $400,000 at December 31, 1980. Pursuant to Clark's plan of reorganization effected on July 1, 1981, Darby received 5,000 shares of $100 par value, 8% cumulative preferred stock of Clark in exchange for the $500,000 face value bond investment. The quoted market value of the preferred stock was $70 per share on July 1, 1981. What amount of loss should be included in the determination of Darby's net income for 1981?

a. $0
b. $ 50,000
c. $100,000
d. $150,000

2N82#8. In 1978, Cromwell Corporation bought 30,000 shares of Fleming Corporation's listed stock for $300,000. This stock was not accounted for by the equity method. In 1981, when the market value had declined to $200,000, Cromwell changed its classification of this investment from current to noncurrent. In January 1982, before Cromwell's 1981 year-end statements were issued, the market value of the Fleming stock had risen to $230,000. How much should Cromwell record as a realized loss in its determination of net income for 1981?

a. $0
b. $ 30,000
c. $ 70,000
d. $100,000

2M82#2. On January 2, 1981, Portela, Inc., bought 30% of the outstanding common stock of Bracero Corporation for $258,000 cash. Portela accounts for this investment by the equity method. At the date of acquisition of the stock, Bracero's net assets had a book and fair value of $620,000. The excess of Portela's cost of the investment over its share of Bracero's net assets has an estimated life of 40 years. Bracero's net income for the year ended December 31, 1981, was $180,000. During 1981, Bracero declared and paid cash dividends of $20,000. On December 31, 1981, Portela should have carried its investment in Bracero in the amount of

a. $234,000
b. $258,000
c. $304,200
d. $306,000

2M82#10. On January 2, 1980, Troquel Corporation bought 15% of Zafacon Corporation's capital stock for $30,000. Troquel accounts for this investment by the cost method. Zafacon's net income for the years ended December 31, 1980, and December 31, 1981, were $10,000 and $50,000 respectively. During 1981, Zafacon declared a dividend of $70,000. No dividends were declared in 1980. How much should Troquel show on its 1981 income statement as income from this investment?

a. $ 1,575
b. $ 7,500
c. $ 9,000
d. $10,500

2M82#12. In January 1979, Cameron Corporation established a sinking fund in connection with its issue of bonds due in 1989. A bank was appointed as independent trustee of the fund. At December 31, 1981, the trustee held $364,000 cash in the sinking fund account, representing $300,000 in annual deposits to the fund, and $64,000 of interest earned on those deposits. How should the sinking fund be reported in Cameron's balance sheet at December 31, 1981?

a. No part of the sinking fund should appear in Cameron's balance sheet.
b. $64,000 should appear as a current asset.
c. $364,000 should appear as a current asset.
d. $364,000 should appear as a noncurrent asset.

1N81#3. On July 1, 1980, Hilltop Company purchased as a long-term investment Essex Company's ten-year 9% bonds, with a face value of $100,000 for $95,200. Interest is payable semiannually on January 1 and July 1. The bonds mature on July 1, 1984. Hilltop uses the straight-line method of amortization. What is the amount of interest income and amortization of bond discount that Hilltop should report in its income statement for the year ended December 31, 1980?

a. $4,284 and $240.
b. $4,284 and $600.
c. $4,500 and $240.
d. $4,500 and $600.

2N81#7. In 1980, Wallace Corporation purchased marketable securities, and at December 31, 1980, had the following marketable equity securities:

	Cost	*Market*	*Unrealized gain (loss)*
In Current Assets:			
Security X	$80,000	$50,000	$(30,000)
Y	15,000	20,000	5,000
Totals	$95,000	$70,000	$(25,000)
In Noncurrent Assets:			
Security Q	$ 60,000	$ 70,000	$ 10,000
R	90,000	45,000	(45,000)
Totals	$150,000	$115,000	$(35,000)

Valuation allowances at December 31, 1980, should be established with a corresponding charge against

	Income	*Stockholders' equity*
a.	$0	$60,000
b.	$25,000	$0
c.	$25,000	$35,000
d.	$60,000	$0

2N81#11. On January 1, 1980, Rey Corporation paid $150,000 for 10,000 shares of Rio Corporation's common stock, representing a 15% investment in Rio. Rio declared and paid a dividend of $1 a share to its common stockholders during 1980. Rio's net income was $130,000 for the year ended December 31, 1980. At what amount should Rey's investment in Rio appear on Rey's balance sheet as of December 31, 1980?

a. $140,000
b. $150,000
c. $159,500
d. $169,500

1N80#12. On July 1, 1979, Glenn Company purchased Dell Corporation 10-year, 9% bonds with a face value of $200,000, for $216,000, which included $6,000 of accrued interest. The bonds, which mature on March 1, 1986, pay interest semiannually on March 1 and September 1. Glenn uses the straight-line method of amortization. The amount of income Glenn should report for the calendar year 1979 as a result of the above long-term investment would be

a. $ 7,800
b. $ 8,250
c. $ 9,000
d. $15,000

1N80#13. On January 10, 1979, Wayne, Inc., purchased 5,000 shares of Jason Corporation's common stock at $60 per share. The purchase is a long-term investment and is less than 20% of Jason's outstanding shares. This investment is appropriately reflected in Wayne's balance sheet as a noncurrent marketable equity security at December 31, 1979. The market value of Wayne's investment in Jason's common stock was as follows:

	Market value	
Date	*Per share*	*Total*
December 15, 1979	$47	$235,000
December 31, 1979	46	230,000

On December 15, 1979, Wayne determined that there had been an other than temporary decline in the market value. What amount should Wayne record as a loss in its income statement for the year ended December 31, 1979?

a. $0
b. $ 5,000
c. $65,000
d. $70,000

1N80#20. An analysis of Pickwick Corporation's short-term marketable equity securities portfolio acquired in 1979 reveals the following totals at the end of its 1979 calendar year:

Aggregate cost	$90,000
Aggregate market value	80,000
Aggregate lower of cost or market value applied to each security in the portfolio	76,000

What is the amount of the valuation allowance that Pickwick should record at December 31, 1979?

a. $0
b. $ 4,000
c. $10,000
d. $14,000

2N80#13. The Action Corporation issued nonvoting preferred stock with a fair market value of $4,000,000 in exchange for all of the outstanding common stock of Master Corporation. On the date of the exchange, Master had tangible net assets with a book value of $2,000,000 and a fair value of $2,500,000. In addition, Action issued preferred stock valued at $400,000 to an individual as a finder's fee in arranging the transaction. As a result of this transaction, Action should record an increase in net assets of

a. $2,000,000
b. $2,500,000
c. $2,900,000
d. $4,400,000

1M80#15. On January 1, 1979, Star Company paid $1,200,000 for 40,000 shares of Comet Corporation's common stock which represents a 25% investment in the net assets of Comet. Star has the ability to exercise significant influence over Comet. Star received a dividend of $3 per share from Comet in 1979. Comet reported net income of $640,000 for the year ended December 31, 1979. The balance in Star's balance sheet account "Investment in Comet Corporation" at December 31, 1979, should be

a. $1,200,000
b. $1,240,000
c. $1,360,000
d. $1,480,000

C. Receivables and Accruals

1N84#3. Lewis Company began operations on January 1, 1983. The following information is available for the year ended December 31, 1983:

Total merchandise purchases	$700,000
Merchandise inventory at 12/31/83	140,000
Collections from customers	400,000

All merchandise is marked to sell at 40% above cost. Assume that all sales are credit sales and all receivables are collectible. The balance in accounts receivable at December 31, 1983, should be

a. $160,000
b. $244,000
c. $300,000
d. $384,000

1N84#4. Russell, Inc., owns 80% of the outstanding capital stock of Cox Corporation. On November 1, 1983, Russell advanced $100,000 in cash to Cox. In the December 31, 1983, consolidated balance sheet, the advance should be reported at

a. $0
b. $ 20,000
c. $ 80,000
d. $100,000

1N84#5. All of Glenn's sales are on a credit basis. The following information is available for 1983:

Allowance for doubtful accounts, 1/1/83	$ 18,000
Sales	950,000
Sales returns	80,000
Accounts written off as uncollectible, 11/30/83	20,000

Glenn provides for doubtful accounts expense at the rate of 3% of net sales. At December 31, 1983, the allowance for doubtful accounts balance should be

a. $28,100
b. $26,500
c. $26,100
d. $24,100

1N83#19. Grant, Inc., has current receivables from affiliated companies at December 31, 1982, as follows:

- A $50,000 cash advance to Adams Corporation. Grant owns 30% of the voting stock of Adams and accounts for the investment by the equity method.
- A receivable of $160,000 from Bullard Corporation for administrative and selling services. Bullard is 100% owned by Grant and is included in Grant's consolidated statements.
- A receivable of $100,000 from Carpenter Corporation for merchandise sales on open account. Carpenter is a 90% owned, unconsolidated subsidiary of Grant.

In the current assets section of its December 31, 1982, consolidated balance sheet, Grant should report accounts receivable from investees in the total amount of

a. $ 90,000
b. $140,000
c. $150,000
d. $310,000

1N83#21. Barrett Company's account balances at December 31, 1982, for accounts receivable and the related allowance for doubtful accounts were $1,200,000 and $60,000, respectively. An aging of accounts receivable indicated that $106,000 of the December 31, 1982, receivables may be uncollectible. The net realizable value of accounts receivable was

a. $1,034,000
b. $1,094,000
c. $1,140,000
d. $1,154,000

1N83#22. Anderson Company accepted a $20,000, 90-day, 12% interest-bearing note dated September 15, 1982, from a customer. On October 15, 1982, Anderson discounted the note at Provident National Bank at a 15% discount rate. The customer paid the note at maturity. Based on a 360-day year, what amount should Anderson report as net interest revenue from the note transaction?

a. $ 85
b. $100
c. $150
d. $200

1N82#3. Alden Corporation provides an allowance for its doubtful accounts receivable. At December 31, 1980, the allowance account had a credit balance of $8,000. Each month Alden accrues bad debt expense in an amount equal to 2% of credit sales. Total credit sales during 1981 amounted to $2,000,000. During 1981 uncollectible accounts receivable totaling $22,000 were written off against the allowance account. An aging of accounts receivable at December 31, 1981, indicates that an allowance of $42,000 should be provided for doubtful accounts as of that date. Accordingly, bad debt expense previously accrued during 1981 should be increased by

a. $62,000
b. $42,000
c. $26,000
d. $16,000

1N82#6. Tallent Company received a $30,000, 6-month, 10% interest-bearing note from a customer. After holding the note for two months, Tallent was in need of cash and discounted the note at the United National Bank at a 12% discount rate. The amount of cash received by Tallent from the bank was

a. $31,260
b. $30,870
c. $30,300
d. $30,240

1N82#18. On December 31, 1979, Marsh Company entered into a debt restructuring agreement with Saxe Company, which was experiencing financial difficulties. Marsh restructured a $100,000 note receivable as follows:

- Reduced the principal obligation to $70,000.
- Forgave $12,000 of accrued interest.
- Extended the maturity date from December 31, 1979, to December 31, 1981.
- Reduced the interest rate from 12% to 8%. Interest was payable annually on December 31, 1980, and 1981.

In accordance with the agreement, Saxe made payments to Marsh on December 31, 1980, and 1981. How much interest income should Marsh report for the year ended December 31, 1981?

a. $0
b. $ 5,600
c. $ 8,400
d. $11,200

1M82#3. Tillary Company, which began business on January 1, 1981, appropriately uses the installment sales method of accounting. The following data are available for 1981:

Installment accounts receivable, December 31, 1981	$200,000
Deferred gross profit, December 31, 1981 (before recognition of realized gross profit)	$140,000
Gross profit on sales	40%

The cash collections and the realized gross profit on installment sales for the year ended December 31, 1981, should be

	Cash collections	*Realized gross profit*
a.	$100,000	$80,000
b.	$100,000	$60,000
c.	$150,000	$80,000
d.	$150,000	$60,000

1M82#4. Based upon its past collection experience, Alden Company provides for bad debt expense at the rate of 2% of credit sales. On January 1, 1981, the allowance for doubtful accounts balance was $10,000. During 1981, Alden wrote off $18,000 of uncollectible receivables and recovered $5,000 of bad debts written off in prior years. If credit sales for 1981 totaled $1,000,000, the allowance for doubtful accounts balance at December 31, 1981, should be

a. $12,000
b. $17,000
c. $20,000
d. $30,000

2N81#1. The following accounts were abstracted from the December 31, 1980, trial balance of Robby Company:

	Debit	*Credit*
Credit sales		$750,000
Sales discounts	$15,000	

On January 1, 1980, Allowance for Doubtful Accounts had a credit balance of $18,000. During 1980, $30,000 of uncollectible accounts receivable were written off. Past experience indicates that 3% of gross sales proves to be uncollectible. What should be the balance of Allowance for Doubtful Accounts at December 31, 1980, after provision is made for the current year?

a. $10,050
b. $10,500
c. $22,050
d. $34,500

2N81#8. Marmol Corporation uses the allowance method for bad debts. During 1980, Marmol charged $30,000 to bad debt expense, and wrote off $25,200 of uncollectible accounts receivable. These transactions resulted in a decrease in working capital of

a. $0
b. $ 4,800
c. $25,200
d. $30,000

2N81#17. Bibi Corporation owns 80% of the outstanding capital stock of Daniels Corporation. On July 1, 1980, Bibi advanced $50,000 in cash to Daniels. On the consolidated balance sheet at December 31, 1980, how much of the advance should be eliminated?

a. $0
b. $10,000
c. $40,000
d. $50,000

2M81#5. At the end of its first year of operations, December 31, 1980, Wonder Company had accounts receivable of $500,000, which were net of the related allowance for doubtful accounts. During 1980 Wonder recorded charges to bad debt expense of $80,000 and wrote off as uncollectible, accounts receivable of $20,000. What should Wonder report on its balance sheet at December 31, 1980, as accounts receivable before the allowance for doubtful accounts?

a. $500,000
b. $520,000
c. $560,000
d. $600,000

2M81#19. Steven Corporation began operations in 1980. For the year ended December 31, 1980, Steven made available the following information:

Total merchandise purchases for the year	$350,000
Merchandise inventory at December 31, 1980	70,000
Collections from customers	200,000

All merchandise was marked to sell at 40% above cost. Assuming that all sales are on a credit basis and all receivables are collectible, what should be the balance in accounts receivable at December 31, 1980?

a. $ 50,000
b. $192,000
c. $250,000
d. $290,000

1N80#8. On January 1, 1980, Liberty Company sold a machine to Bell Corporation in an "arms length" transaction. Bell signed a noninterest bearing note requiring payment of $20,000 annually for ten years. The first payment was made on January 1, 1980. The prevailing rate of interest for this type of note at date of issuance was 12%. Information on present value factors is as follows:

Period	*Present value of $1 at 12%*	*Present value of ordinary annuity of $1 at 12%*
9	0.361	5.328
10	0.322	5.650

Liberty should record the above sale in January 1980 at

a. $ 64,400
b. $ 84,980
c. $113,000
d. $126,560

2M80#17. An analysis and aging of the accounts receivable of the Franklin Company at December 31, 1979, revealed the following data:

Accounts receivable	$450,000
Allowance for uncollectible accounts per books	25,000
Accounts deemed uncollectible	32,000

Based upon the above data, the net realizable value of the accounts receivable at December 31, 1979, was

a. $393,000
b. $418,000
c. $425,000
d. $443,000

D. Inventories

1N84#6. Thomson Company had the following consignment transactions during December 1983:

Inventory shipped on consignment to Pavin Company, consignee	$3,000
Freight paid by Thomson	100
Inventory received on consignment from Bellin Company, consignor	5,000
Freight paid by Bellin	300

No sales of consigned goods were made through December 31, 1983.

In its December 31, 1983, balance sheet, Thomson should include consigned inventory of
a. $8,400
b. $8,000
c. $3,100
d. $3,000

1N84#7. At December 31, 1983, the following information was available from Moore Company's accounting records:

	Cost	*Retail*
Inventory, 1/1/83	$ 29,400	$ 40,600
Purchases	166,600	231,000
Additional markups	—	8,400
Available for sale	$196,000	$280,000

Sales for the year totaled $221,200; markdowns amounted to $2,800. Under the approximate lower of average cost or market retail method, Moore's inventory at December 31, 1983, was
a. $39,200
b. $43,120
c. $56,000
d. $61,600

1N84#8. Beal Distribution Company has valued its December 31, 1983, inventory on a FIFO basis at $100,000. Information pertaining to that inventory is as follows:

Estimated selling price	$102,000
Estimated cost of disposal	5,000
Normal profit margin	15,000
Current replacement cost of inventory	90,000

Beal records a loss for any decline in inventory which is to be written down to a lower of cost or market basis. At December 31, 1983, the loss which Beal should recognize is
a. $10,000
b. $ 7,000
c. $ 3,000
d. $0

1M84#6. Shunpike Company's inventory records for product Y provide the following data for 1983:

	Units	*Unit cost*
Inventory, 1/1/83	12,000	$ 9.00
Purchases:		
April 8	20,000	9.50
October 25	8,000	10.00

A physical inventory on December 31, 1983, shows 10,000 units on hand. Under the FIFO cost flow method, the December 31, 1983, inventory should be
a. $100,000
b. $ 99,000
c. $ 95,000
d. $ 90,000

1M84#7. At December 31, 1983, the following data pertain to an inventory item held by Bradley Distribution Company:

Estimated selling price	$78
Normal profit margin	15
Estimated cost of disposal	2
Cost	65
Replacement cost	57

Under the lower of cost or market rule, this inventory item should be valued at
a. $57
b. $61
c. $63
d. $65

1N83#1. Dixon Menswear Shop regularly buys shirts from Colt Company and is allowed trade discounts of 20% and 10% from the list price. Dixon purchased shirts from Colt on May 27, 1983, and received an invoice with a list price amount of $5,000, and payment terms of 2/10, n/30. Dixon uses the net method to record purchases. Dixon should record the purchase at
a. $3,600
b. $3,528
c. $3,500
d. $3,430

1N83#3. Moore Company carries product A in inventory on December 31, 1982, at its unit cost of $7.50. Because of a sharp decline in demand for the product, the selling price was reduced to $8.00 per unit. Moore's normal profit margin on product A is $1.60, disposal costs are $1.00 per unit, and the replacement cost is $5.30. Under the rule of cost or market, whichever is lower, Moore's December 31, 1982, inventory of product A should be valued at a unit cost of
a. $5.30
b. $5.40
c. $7.00
d. $7.50

1N83#20. On December 31, 1981, Kern Company adopted the dollar value LIFO inventory method. All of Kern's inventories constitute a single pool. The inventory on December 31, 1981, using the dollar value LIFO inventory method was $600,000. Inventory data for 1982 are as follows:

12/31/82 inventory at year-end prices	$780,000
Relevant price index at year-end (base year 1981)	120

Under the dollar value LIFO inventory method, Kern's inventory at December 31, 1982, would be
a. $650,000
b. $655,000
c. $660,000
d. $720,000

2N82#11. The following information pertains to a flange that is carried in the inventory of Mills Wholesalers, Inc.:

	Per unit
Original cost	$3.00
Replacement cost	1.20
Net realizable value	2.40
Net realizable value, less normal markup	1.68

What should be the carrying value per unit on the basis of lower of cost or market?
a. $1.20
b. $1.68
c. $2.40
d. $3.00

2M82#3. The following items were included in Venicio Corporation's inventory account at December 31, 1981:

• Merchandise out on consignment, at sales price, including 40% markup on selling price	$14,000
• Goods purchased, in transit, shipped f.o.b. shipping point	12,000
• Goods held on consignment by Venicio	9,000

Venicio's inventory account at December 31, 1981, should be reduced by
a. $14,600
b. $17,400
c. $23,000
d. $35,000

2N81#13. The following pertains to an inventory item held by Moore Wholesalers, Inc., at December 31, 1980:

Cost	$60
Estimated selling price	68
Estimated cost of disposal	1
Normal profit margin	11
Replacement cost	51

Under the lower of cost or market rule, this inventory item should be valued at
a. $51
b. $56
c. $60
d. $67

2N81
Items 15 and 16 are based on the following data: City Stationers, Inc., had 200 calculators on hand at January 1, 1981, costing $18 each. Purchases and sales of calculators during the month of January were as follows:

Date	*Purchases*	*Sales*
Jan. 12		150 @ $28
14	100 @ $20	
29	100 @ $22	
30		100 @ $32

City does not maintain perpetual inventory records. According to a physical count, 150 calculators were on hand at January 31, 1981.

15. The cost of the inventory at January 31, 1981, under the FIFO method is
a. $ 400
b. $2,700
c. $3,100
d. $3,200

16. The cost of the inventory at January 31, 1981, under the LIFO method is
a. $ 400
b. $2,700
c. $3,100
d. $3,200

1M81#2. The following data were available from the records of the Bricker Department Store for the year ended December 31, 1980:

	At cost	*At retail*
Merchandise inventory, January 1, 1980	$180,000	$260,000
Purchases	660,000	920,000
Markups		20,000
Markdowns		80,000
Sales		960,000

Using the retail method, an estimate of the merchandise inventory at December 31, 1980, valued at the lower of average cost or market, would be
a. $220,000
b. $160,000
c. $120,000
d. $112,000

2M81#14. Hestor Company's records indicate the following information:

Merchandise inventory, January 1, 1980	$ 550,000
Purchases, January 1 through December 31, 1980	2,250,000
Sales, January 1 through December 31, 1980	3,000,000

On December 31, 1980, a physical inventory determined that ending inventory of $600,000 was in the warehouse. Hestor's gross profit on sales has remained constant at 30%. Hestor suspects some of the inventory may have been taken by some new employees. At December 31, 1980, what is the estimated cost of missing inventory?

a. $100,000
b. $200,000
c. $300,000
d. $700,000

2M81#35. Janis Manufacturing Company recorded the following data pertaining to raw material X:

	Units			
Date	*Received*	*Cost*	*Issued*	*On hand*
1/1/80 Inventory		$1.00		400
1/8/80 Purchase	600	$1.10		1,000
1/12/80 Issue			800	200

The weighted average unit cost of raw material X at January 12, 1980, is

a. $1.00
b. $1.05
c. $1.06
d. $1.10

2N80#11. The following information is available for the Silver Company for the three months ended March 31, 1979:

Merchandise inventory, January 1, 1979	$ 900,000
Purchases	3,400,000
Freight-in	200,000
Sales	4,800,000

The gross margin recorded was 25% of sales. What should be the merchandise inventory at March 31, 1979?

a. $ 700,000
b. $ 900,000
c. $1,125,000
d. $1,200,000

2M80#6. The Gilbert Department Store uses the retail inventory method to approximate the lower of cost or market. The following information is available for the month of August 1979:

	Cost	*Retail*
Cost of goods available for sale	$180,000	$225,000
Net markups		25,000
Net markdowns		10,000
Sales		170,000

What was the inventory approximation at the lower of cost or market at August 31, 1979?

a. $50,400
b. $52,500
c. $56,000
d. $57,600

E. Property, Plant, and Equipment

1N84#9. On February 1, 1984, Tilden Company purchased a tract of land as a factory site for $250,000. An existing building on the property was razed and construction was begun on a new factory building in March 1984. Additional data are available as follows:

Cost of razing old building	$ 30,000
Proceeds from sale of salvaged materials	3,000
Title insurance and legal fees to purchase land	15,000
Architect's fees	60,000
New building construction cost	1,500,000

The capitalized cost of the completed factory building should be

a. $1,560,000
b. $1,575,000
c. $1,587,000
d. $1,590,000

1N84#10. On January 1, 1980, Ott Company purchased a new machine for $360,000. The machine has an estimated useful life of eight years and depreciation is computed by the sum-of-the-years'-digits method. The accumulated depreciation at December 31, 1983, should be

a. $ 50,000
b. $100,000
c. $180,000
d. $260,000

1N84#11. Fifty percent of the machinery owned by Stone Company was destroyed by fire on June 30, 1984. At the date of the fire, the machinery had a book value of $90,000 and a current fair value of $120,000. The machinery was covered by a fire insurance policy with a face amount of $100,000 and a coinsurance clause of 80%. How much should Stone expect to recover from the insurance company?

a. $45,000
b. $48,000
c. $60,000
d. $80,000

1N84#12. On October 31, 1983, West Company received a condemnation award of $450,000 as compensation for the forced sale of a warehouse. On this date the warehouse, including the land on which it was situated, had a book value of $275,000. During December 1983, West purchased a parcel of land for a new warehouse site at a cost of $125,000. West should report on its income statement for the year ended December 31, 1983, a gain on condemnation of property at

a. $0
b. $ 50,000
c. $175,000
d. $325,000

1N84#13. The following expenditures were among those incurred by Butler Company during 1983:

A broken gear on a machine was replaced	$1,500
Replacement of tiles on portion of roof	4,500
Overhaul of machinery that is expected to extend its useful life for another three years	7,500

How much should be charged to repairs and maintenance in 1983?

a. $1,500
b. $4,500
c. $6,000
d. $9,000

1N84#20. On January 1, 1978, Victor Company purchased for $85,000 a machine having a useful life of ten years and an estimated salvage value of $5,000. The machine was depreciated by the straight-line method. On July 1, 1983, the machine was sold for $45,000. For the year ended December 31, 1983, how much gain should Victor record on the sale?

a. $0
b. $1,000
c. $4,000
d. $6,750

1M84#5. During 1983 Cooke Company made the following expenditures relating to plant machinery and equipment:

Continuing, frequent, and low cost repairs	$36,000
Special long-term protection devices were attached to ten machines	11,000
A broken gear on a machine was replaced	2,000

How much should be charged to repairs and maintenance in 1983?

a. $36,000
b. $38,000
c. $47,000
d. $49,000

1M84#8. On November 1, 1983, Rice Company purchased for $200,000 a tract of land as a factory site. The old building on the property was razed and salvaged materials resulting from demolition were sold. Additional costs incurred and salvage proceeds realized during November 1983 were as follows:

Demolition of old building	$25,000
Legal fees for purchase contract and recording ownership	5,000
Title guarantee insurance	6,000
Proceeds from sale of salvaged materials	4,000

In its November 30, 1983, balance sheet, Rice should report a balance in the land account of

a. $211,000
b. $221,000
c. $230,000
d. $232,000

1M84#9. Grey Company purchased a machine on January 2, 1982, for $500,000. The machine has an estimated useful life of five years and a salvage value of $50,000. Depreciation was computed by the 150% declining balance method. The accumulated depreciation balance at December 31, 1983, should be

a. $180,000
b. $229,500
c. $245,000
d. $255,000

1M84#10. The following expenditures relating to the plant building were made by Pine Company during the year ended December 31, 1983:

Replacement of the old shingle roof with a fireproof tile roof	$75,000
Repainted the plant building	5,000
Major improvements to the electrical wiring system	35,000

How much should be capitalized in 1983?

a. $ 35,000
b. $ 75,000
c. $110,000
d. $115,000

1M84#11. On December 31, 1983, Marsh Company completed the rearrangement of a group of factory machines to secure greater efficiency in production and incurred the following costs:

Moving costs	$20,000
Reinstallation costs	40,000
Total	$60,000

Marsh estimated that the benefits resulting from the rearrangement would extend over the remaining five-year useful lives of the machines. How much of the rearrangement costs should be capitalized at December 31, 1983?

a. $0
b. $20,000
c. $40,000
d. $60,000

1M84#13. On January 2, 1983, Evans Company signed an eight-year lease for office space. Evans has the option to renew the lease for an additional four-year period on or before January 2, 1990. During January 1983 Evans incurred the following costs:

- $120,000 for general improvements to the leased premises with an estimated useful life of ten years.
- $160,000 for office furniture and equipment with an estimated useful life of ten years.

At December 31, 1983, Evans' intentions as to exercise of the renewal option are uncertain since they depend upon future office space requirements. Assuming that a full year's amortization of leasehold improvements is taken for calendar year 1983, Evans should record amortization expense of

a. $10,000
b. $12,000
c. $15,000
d. $28,000

1N83#23. On August 29, 1983, Hadley Company sustained a loss from a fire that completely destroyed a machine with a fair value of $30,000. The machine was covered by an insurance policy with a face amount of $18,000 and a coinsurance clause of 80%. How much should Hadley expect to recover from the insurance company?

a. $24,000
b. $22,500
c. $18,000
d. $14,400

1N83#25. On June 30, 1982, a fire in Ruffing Company's plant caused a total loss to a production machine. The machine had a book value of $80,000 at December 31, 1981, and was being depreciated at an annual rate of $10,000. The machine had a fair value of $110,000 at the date of the fire, and Ruffing received insurance proceeds of $100,000 in October 1982. The same month Ruffing purchased a replacement machine for $130,000. Ignoring income taxes, what amount should Ruffing report on its 1982 income statement as involuntary conversion gain or loss?

a. $0.
b. $10,000 loss.
c. $20,000 gain.
d. $25,000 gain.

1N83#27. On January 1, 1978, Walton Company purchased a machine for $200,000 and established an annual straight-line depreciation rate of 10%, with no salvage value. During 1982 Walton determined that the machine will not be economically useful in its production process after December 31, 1982. Walton estimated that the machine had no scrap value at December 31, 1982, and would be disposed of in early 1983 at a cost of $5,000. In its income statement for the year ended December 31, 1982, what amount(s) and type of charge(s) should Walton report for the machine?

	Depreciation expense	*Loss on abandonment*
a.	$0	$125,000
b.	$ 20,000	$100,000
c.	$ 20,000	$105,000
d.	$120,000	$ 5,000

1N83#35. Crowder Company acquired a tract of land containing an extractable natural resource. Crowder is required by the purchase contract to restore the land to a condition suitable for recreational use after it has extracted the natural resource. Geological surveys estimate that the recoverable reserves will be 5,000,000 tons, and that the land will have a value of $1,000,000 after restoration. Relevant cost information follows:

Land	$9,000,000
Estimated restoration costs	1,500,000

If Crowder maintains no inventories of extracted material, what should be the charge to depletion expense per ton of extracted material?

a. $2.10
b. $1.90
c. $1.80
d. $1.60

1M83#5. On January 4, 1982, Hadley Company signed a 10-year nonrenewable lease for a building to be used in its manufacturing operations. During January 1982 Hadley incurred the following costs:

- $64,000 for general improvements to the leased premises with an estimated useful life of eight years.
- $32,000 for a movable assembly line equipment installation with an estimated useful life of eight years.

A full year's amortization is taken for the calendar year 1982. What amount should Hadley record as amortization of leasehold improvements for 1982?

a. $ 6,400
b. $ 8,000
c. $ 9,600
d. $12,000

2M83#1. On September 1, 1982, Sol, Inc., exchanged 2,000 shares of its $25 par value common stock held in treasury, for a parcel of land to be held for a future plant site. The treasury shares were acquired by Sol at a cost of $60 per share. Sol's common stock had a fair market value of $80 per share on September 1, 1982.

Sol received $9,000 from the sale of scrap when an existing building on the site was razed. The land should be carried at

a. $111,000
b. $120,000
c. $151,000
d. $160,000

2M83#14. Herr, Inc., has a fiscal year ending April 30. On May 1, 1982, Herr borrowed $10,000,000 at 15% to finance construction of its own building. Repayments of the loan are to commence the month following completion of the building. During the year ended April 30, 1983, expenditures for the partially completed structure totaled $6,000,000. These expenditures were incurred evenly throughout the year. Interest earned on the unexpended portion of the loan amounted to $400,000 for the year. How much should be shown as capitalized interest on Herr's financial statements at April 30, 1983?

a. $0
b. $ 50,000
c. $ 450,000
d. $1,100,000

2M83#23. On June 18, 1982, Paul Printing Company incurred the following costs for one of its printing presses:

Purchase of collating and stapling attachment	$42,000
Installation of attachment	18,000
Replacement parts for overhaul of press	13,000
Labor and overhead in connection with overhaul	7,000
Total	$80,000

The overhaul resulted in a significant increase in production. Neither the attachment nor the overhaul increased the estimated useful life of the press. How much of the above costs should be capitalized?

a. $42,000
b. $55,000
c. $60,000
d. $80,000

2M83
Items 31 through 33 are based on the following information:

Vorst Corporation's schedule of depreciable assets at December 31, 1981, was as follows:

Asset	*Cost*	*Accumulated depreciation*	*Acquisition date*	*Salvage value*
A	$100,000	$ 64,000	1980	$20,000
B	55,000	36,000	1979	10,000
C	70,000	33,600	1979	14,000
	$225,000	$133,600		$44,000

Vorst takes a full year's depreciation expense in the year of an asset's acquisition, and no depreciation expense in the year of an asset's disposition. The estimated useful life of each depreciable asset is five years.

31. Vorst depreciates asset A on the double-declining-balance method. How much depreciation expense should Vorst record in 1982 for asset A?

a. $32,000
b. $25,600
c. $14,400
d. $ 6,400

32. Using the same depreciation method as used in 1979, 1980, and 1981, how much depreciation expense should Vorst record in 1982 for asset B?

a. $ 6,000
b. $ 9,000
c. $11,000
d. $12,000

33. Vorst depreciates asset C by the straight-line method. On June 30, 1982, Vorst sold asset C for $28,000 cash. How much gain or (loss) should Vorst record in 1982 on the disposal of asset C?

a. $2,800
b. ($2,800)
c. ($5,600)
d. ($8,400)

1N82#13. White Airlines sold a used jet aircraft to Brown Company for $800,000, accepting a five-year 6% note for the entire amount. Brown's incremental borrowing rate was 14%. The annual payment of principal and interest on the note was to be $189,930. The aircraft could have been sold at an established cash price of $651,460. The present value of an ordinary annuity of $1 at 8% for five periods is 3.99. The aircraft should be capitalized on Brown's books at

a. $651,460
b. $757,820
c. $800,000
d. $949,650

2N82#2. The following expenditures were among those incurred by Jensen Corporation during the year ended December 31, 1981:

• Replacement of tiles on portion of roof that had been leaking	$4,000
• Overhaul of machinery that is expected to extend its useful life for another two years	6,000

How much should be charged to repairs and maintenance in 1981?

a. $0
b. $ 4,000
c. $ 6,000
d. $10,000

2N82#6. On July 1, 1982, a fire destroyed $100,000 of Brody Company's $300,000 inventory (fair market values). Brody carried a $120,000 fire insurance policy with an 80% coinsurance clause. What is the maximum amount of insurance that Brody can collect as a result of this loss?

a. $ 50,000
b. $ 80,000
c. $ 96,000
d. $100,000

1M82#2. Wright Company bought a building on July 1, 1979, for $130,000. A fire insurance policy with a face amount of $100,000 and a coinsurance clause of 80% was taken out on the building. On February 2, 1982, the building was partially destroyed by fire and the loss was estimated at $120,000. Assuming that the fair market value of the building was $180,000 at the date of the fire, how much should Wright expect to recover from the insurance company?

a. $ 80,000
b. $ 83,333
c. $ 96,000
d. $100,000

1M82#9. In January 1980 Colonial Company purchased equipment for $120,000, to be used in its manufacturing operations. The equipment was estimated to have a useful life of 8 years, with salvage value estimated at $12,000. Colonial considered various methods of depreciation and selected the sum-of-the-years'-digits method. On December 31, 1981, the related allowance for accumulated depreciation should have a balance

a. $15,000 less than under the straight-line method.
b. $15,000 less than under the double-declining-balance method.
c. $18,000 greater than under the straight-line method.
d. $18,000 greater than under the double-declining-balance method.

1M82#12. On July 1, 1981, Stone Corporation received a condemnation award of $300,000 as compensation for the forced sale of a plant located on company property which stood in the path of a new highway. On this date the plant building had a depreciated cost of $150,000 and the land cost was $50,000. On October 1, 1981, Stone purchased a parcel of land for a new plant site at a cost of $125,000. Ignoring income taxes, Stone should report on its income statement for the year ended December 31, 1981, a gain of

a. $0
b. $ 25,000
c. $ 75,000
d. $100,000

2N81#4. On January 2, 1979, Luco Manufacturing Company bought a new machine for $1,000,000. The machine has an estimated useful life of eight years and a salvage value of $100,000. Depreciation was computed by the sum-of-the-years'-digits method. What amount should appear for this machine on Luco's balance sheet at December 31, 1980, net of accumulated depreciation?

a. $525,000
b. $625,000
c. $787,500
d. $825,000

2N81#14. During 1980, Belardo Corporation constructed and manufactured certain assets, and incurred the following interest costs in connection with those activities:

	Interest costs incurred
Warehouse constructed for Belardo's own use	$20,000
Special-order machine for sale to unrelated customer, produced according to customer's specifications	9,000
Inventories routinely manufactured, produced on a repetitive basis	7,000

All of these assets required an extended period of time for completion. Assuming the effect of interest capitalization is material, what is the total amount of interest costs to be capitalized?

a. $0
b. $20,000
c. $29,000
d. $36,000

2N81#23. On July 1, 1980, Mundo Corporation purchased factory equipment for $50,000. Salvage value was estimated at $2,000. The equipment will be depreciated over ten years using the double-declining-balance method. Counting the year of acquisition as one-half year, Mundo should record 1981 depreciation expense of

a. $ 7,680
b. $ 9,000
c. $ 9,600
d. $10,000

2N81#31. On January 1, 1980, Yuki Yogurt Company decided to replace its obsolete refrigeration system with a more efficient one. The old system had a book value of $9,000 and a fair market value of $1,000. Yuki's new refrigeration system has a fair market value of $190,000, for which Yuki paid $189,000 after permitting the contractor to keep the old refrigeration equipment. How much should Yuki capitalize as the cost of the new refrigeration system?

a. $189,000
b. $190,000
c. $197,000
d. $198,000

2N81#34. Caravan Corporation owned a warehouse located in the path of a proposed highway. Caravan bought the land in 1940 for $10,000. That same year, it built the warehouse at a cost of $50,000. In 1980, after prolonged litigation, the state exercised its right of eminent domain and condemned the property, awarding Caravan $200,000. Depreciation accumulated to the date of the award was $45,000. On its 1980 federal income tax return, Caravan elected not to recognize the gain since replacement property was bought for $225,000. For income statement purposes, Caravan should recognize a gain in 1980 of

a. $0
b. $160,000
c. $185,000
d. $200,000

1M81#9. On January 1, 1979, Current Company purchased a new machine for $5,000,000. The new machine has an estimated useful life of five years and the salvage value was estimated to be $500,000. Current uses the sum-of-the-years'-digits method of depreciation. The amount of depreciation expense for 1980 (the second year) would be

a. $ 800,000
b. $1,200,000
c. $1,333,333
d. $1,500,000

1M81#11. On January 1, 1980, Richmond, Inc., signed a fixed-price contract to have Builder Associates construct a major plant facility at a cost of $4,000,000. It was estimated that it would take three years to complete the project. Also on January 1, 1980, to finance the construction cost, Richmond borrowed $4,000,000 payable in 10 annual installments of $400,000, plus interest at the rate of 11%. During 1980 Richmond made deposit and progress payments totaling $1,500,000 under the contract; the average amount of accumulated expenditures was $650,000 for the year. The excess borrowed funds were invested in short-term securities, from which Richmond realized investment income of $250,000. What amount should Richmond report as capitalized interest at December 31, 1980?

a. $ 71,500
b. $165,000
c. $190,000
d. $440,000

2M81#34. Electro Corporation bought a new machine and agreed to pay for it in equal annual installments of $5,000 at the end of each of the next five years. Assume a prevailing interest rate of 15%. The present value of an ordinary annuity of $1 at 15% for five periods is 3.35. The future amount of an ordinary annuity of $1 at 15% for five periods is 6.74. The present value of $1 at 15% for five periods is 0.5. How much should Electro record as the cost of the machine?

a. $12,500
b. $16,750
c. $25,000
d. $33,700

1N80#1. Shaw Company purchased a machine on January 1, 1978, for $350,000. The machine has an estimated useful life of five years and a salvage value of $50,000. The machine is being depreciated using the double-declining-balance method. The asset balance net of accumulated depreciation at December 31, 1979, should be

a. $126,000
b. $158,000
c. $170,000
d. $224,000

2M80#10. The Hickory Company made a lump sum purchase of three pieces of machinery for $115,000 from an unaffiliated company. At the time of acquisition, Hickory paid $5,000 to determine the appraised value of the machinery. The appraisal disclosed the following values:

Machine A	$70,000
Machine B	42,000
Machine C	28,000

What cost should be assigned to machines A, B, and C, respectively?

a. $40,000; $40,000; $40,000.
b. $57,500; $34,500; $23,000.
c. $60,000; $36,000; $24,000.
d. $70,000; $42,000; $28,000.

F. Capitalized Leased Assets

1N84#15. On June 1, 1984, Ichor Company entered into a ten-year noncancellable lease with Gillie, Inc., for a machine owned by Gillie. The machine had a fair value of $180,000 at inception of the lease. Ownership of the machine is transferred to Ichor upon expiration of the lease. The present value of the ten $30,000 annual lease payments, based on Ichor's incremental borrowing rate of 12%, is $190,000. The lease agreement specifies that all executory costs are assumed by Ichor. How much should Ichor record as an asset and corresponding liability at the inception of the lease?

a. $0
b. $180,000
c. $190,000
d. $300,000

1N84#16. On January 3, 1983, Sutter Company signed a ten-year noncancellable lease for new equipment, requiring annual payments of $25,000 starting at the beginning of the first year, with title passing to Sutter at the expiration of the lease. The equipment has a useful life of 15 years, with no salvage value. Sutter uses straight-line depreciation for all of its fixed assets. Aggregate lease payments were determined to have a present value of $158,000, based on implicit interest of 12%. For 1983 Sutter should record depreciation expense of

a. $10,533
b. $15,800
c. $15,960
d. $18,960

1M84#14. Hines Company leased a new machine from Ashwood Company on December 31, 1982, under a lease with the following pertinent information:

Lease term	8 years
Annual rental payable at the beginning of each lease year	$50,000
Useful life of the machine	10 years
Present value of the 8 lease payments at 12/31/82	$258,000
Machine reverts to Ashwood at lease expiration date	

The machine has a fair value of $280,000 at the inception of the lease. Hines uses the straight-line method of depreciation. For the year ended December 31, 1983, how much depreciation (amortization) should Hines record for the capitalized leased machine?

a. $35,000
b. $32,250
c. $28,000
d. $25,800

1N83#28. Barker Company leased a new machine from Bell Company on July 1, 1983, under a lease with the following pertinent information:

Lease term	10 years
Annual rental payable at the beginning of each lease year	$30,000
Useful life of the machine	12 years
Implicit interest rate	14%
Present value of an annuity of $1 in advance for 10 periods at 14%	5.95
Present value of $1 for 10 periods at 14%	0.27

Barker has the option to purchase the machine on July 1, 1993, by paying $40,000, which approximates the expected fair value of the machine on the option exercise date. The cost of the machine on Bell's accounting records is $150,000. On July 1, 1983, Barker should record a capitalized leased asset of

a. $150,000
b. $178,500
c. $189,300
d. $190,000

2M83
Items 21 and 22 are based on the following information:

On January 2, 1982, Doe Company leased a new crane from Leasement Corp. under the following terms:

- Noncancellable for eight years
- Annual lease payments of $10,000 beginning January 2, 1982, through January 2, 1989
- Nonrenewable
- Crane to be returned to Leasement on January 2, 1990

Doe properly recorded the crane as a "Leased asset — crane" in the amount of $52,880, based on a 14% interest rate implicit in the lease. Leasement paid $56,000 for the crane on December 31, 1981. The crane has an estimated useful life of ten years, with no salvage value. Both Doe and Leasement use the straight-line method of depreciation.

21. How much depreciation expense should Doe record in 1982 for "Leased asset — crane"?

a. $0
b. $ 6,610
c. $ 7,000
d. $10,000

2M82#18. On January 2, 1982, Amadeo Corporation entered into a ten-year noncancellable lease requiring year-end payments of $100,000. Amadeo's incremental borrowing rate is 12%, while the lessor's implicit interest rate, known to Amadeo, is 10%. Present value factors for an ordinary annuity for ten periods are 6.14457 at 10%, and 5.65022 at 12%. Ownership of the property remains with the lessor at expiration of the lease. There is no bargain purchase option. The leased property has an estimated economic life of 12 years. How much should be capitalized by Amadeo for this leased property?

a. $0
b. $ 565,022
c. $ 614,457
d. $1,000,000

2N81#9. On January 2, 1980, Lafayette Machine Shops, Inc., signed a ten-year noncancellable lease for a heavy duty drill press, stipulating annual payments of $15,000 starting at the end of the first year, with title passing to Lafayette at the expiration of the lease. Lafayette treated this transaction as a capital lease. The drill press has an estimated useful life of 15 years, with no salvage value. Lafayette uses straight-line depreciation for all of its fixed assets. Aggregate lease payments were determined to have a present value of $92,170, based on implicit interest of 10%. For 1980, Lafayette should record

	Interest expense	Depreciation expense
a.	$0	$0
b.	$7,717	$6,145
c.	$9,217	$6,145
d.	$9,217	$9,217

2N81#28. On July 1, 1981, Molloy Corporation entered into a 10-year noncancellable lease with Macless, Inc., for a machine owned by Macless. The machine had a fair value of $200,000 at inception of the lease, and an estimated useful life of 13 years. Present value of the minimum lease payments is $120,000, and executory costs amounted to $3,000. Molloy is obligated to return the machine to Macless upon expiration of the lease. No bargain purchase option is provided. How much should Molloy record as an asset and corresponding liability at the inception of this lease?

a. $0
b. $120,000
c. $123,000
d. $200,000

G. Intangibles

1N84#17. On July 1, 1984, James Rago signed an agreement to operate as a franchisee of Fast Foods, Inc., for an initial franchise fee of $60,000. Of this amount, $20,000 was paid when the agreement was signed, and the balance is payable in four equal annual payments of $10,000 beginning July 1, 1985. The agreement provides that the down payment is not refundable and no future services are required of the franchisor. Rago's credit rating indicates that he can borrow money at 14% for a loan of this type. Information on present and future value factors is as follows:

Present value of $1 at 14% for 4 periods	0.59
Future amount of $1 at 14% for 4 periods	1.69
Present value of an ordinary annuity of $1 at 14% for 4 periods	2.91

Rago should record the acquisition cost of the franchise on July 1, 1984, at

a. $43,600
b. $49,100
c. $60,000
d. $67,600

1N84#58. Greene Company bought a franchise from White Company on January 1, 1983, for $102,000. An independent research consultant retained by Greene estimated that the remaining useful life of the franchise was 50 years. Its unamortized cost on White's books at January 1, 1983, was $34,000. Greene has decided to write off the franchise over the maximum period allowed. How much should be amortized for the year ended December 31, 1983?

a. $ 850
b. $2,000
c. $2,040
d. $2,550

1M84#12. On October 31, 1983, Simpson, Inc., purchased for cash of $40 per share all 250,000 of the outstanding common stock of Rex Corporation. Rex's balance sheet at October 31, 1983, showed a book value of $8,000,000. Additionally, the fair value of Rex's property, plant and equipment on that date was $900,000 in excess of its book value. In the October 31, 1983, consolidated balance sheet of Simpson, Inc., and its wholly owned subsidiary, what amount should be reported as goodwill?

a. $0
b. $ 900,000
c. $1,100,000
d. $2,000,000

1M84#15. Ward Company purchased a patent on January 1, 1980, for $357,000. The patent was being amortized over its remaining legal life of 15 years expiring on January 1, 1995. During 1983 Ward determined that the economic benefits of the patent would not last longer than ten years from the date of acquisition. What amount should be charged to patent amortization expense for the year ended December 31, 1983?

a. $21,000
b. $35,700
c. $40,800
d. $71,400

1N83#40. Metropol Football Company had a player contract with Allen that is recorded in its books at $250,000 on July 1, 1983. Wildcat Football Company had a player contract with Baxter that is recorded in its books at $300,000 on July 1, 1983. On this date Metropol traded Allen to Wildcat for Baxter and paid a cash difference of $25,000. The fair value of the Baxter contract was $350,000 on the exchange date. After the exchange, the Baxter contract should be recorded in Metropol's books at

a. $275,000
b. $300,000
c. $325,000
d. $350,000

1M83#4. On April 1, 1983, Union Company paid $1,600,000 for all the issued and outstanding common stock of Cable Corporation in a transaction properly accounted for as a purchase. The recorded assets and liabilities of Cable on April 1, 1983, were as follows:

Cash	$160,000
Inventory	480,000
Property, plant and equipment (net)	960,000
Liabilities	(360,000)

On April 1, 1983, it was determined that Cable's inventory had a fair value of $460,000, and the property, plant and equipment (net) had a fair value of

$1,040,000. What is the amount of goodwill resulting from the business combination?

a. $0
b. $ 20,000
c. $300,000
d. $360,000

2M82#13. Howe Corporation bought a cola franchise from Pennington, Inc., on January 2, 1981, for $100,000. A highly regarded independent research company estimated that the remaining useful life of the franchise was 50 years. Its unamortized cost on Pennington's books at January 1, 1981, was $15,000. Howe has decided to write off the franchise over the longest possible period. How much should be amortized for the year ended December 31, 1981?

a. $ 375
b. $ 2,000
c. $ 2,500
d. $15,000

1N81#12. Sherwood Corporation incurred $68,000 of research and development costs in its laboratory to develop a patent which was granted on January 2, 1980. Legal fees and other costs associated with registration of the patent totaled $13,600. Sherwood estimates that the economic life of the patent will be eight years. What amount should Sherwood charge to patent amortization expense for the year ended December 31, 1980?

a. $0
b. $ 800
c. $ 1,700
d. $10,200

2N81#5. During 1975, Traco Machine Company spent $176,000 on research and development costs for an invention. This invention was patented on January 2, 1976, at a nominal cost that was expensed in 1976. The patent had a legal life of 17 years and an estimated useful life of 8 years. In January 1980, Traco paid $16,000 for legal fees in a successful defense of the patent. Amortization for 1980 should be

a. $0
b. $ 1,231
c. $ 4,000
d. $26,000

H. Prepaid Expenses and Deferred Charges

1N84#14. On July 1, 1983, Walton Company leased office premises for a three-year period at an annual rental of $36,000 payable on July 1 each year. The first rent payment was made July 1, 1983. Additionally on July 1, 1983, Walton paid $24,000 as a lease bonus to obtain a three-year lease instead of the lessor's usual lease term of six years. In its December 31, 1983, balance sheet, Walton should report prepaid rent of

a. $18,000
b. $22,000
c. $24,000
d. $38,000

1N84#36. For the year ended December 31, 1983, Dunn Corporation reported rent income of $225,000 in its income statement. Rents received, reported as taxable income in the year received, amounted to $350,000 for 1983. Also in 1983, Dunn had a nondeductible unrealized loss of $60,000, from a foreign currency transaction, which will be deductible when realized. Dunn's effective income tax rate is 40%. By what amount would the asset, deferred income tax, account balance increase for 1983?

a. $111,000
b. $ 74,000
c. $ 50,000
d. $ 26,000

1M84#17. In 1983 Stone Corporation received interest income of $50,000 on U.S. Government obligations and $300,000 in royalties under a licensing agreement. Royalties are reported as taxable income in the year received, but in the financial statements, royalties are recognized as income in the year earned and amounted to $200,000 for the year ended December 31, 1983. Stone's effective income tax rate is 40%. By what amount would the deferred income tax asset account balance increase for 1983?

a. $20,000
b. $40,000
c. $60,000
d. $80,000

1M84#18. Brown Company adopted a noncontributory pension plan on January 1, 1983. Brown decided to amortize the past service cost over 15 years and to fund this cost by making equal payments to the fund trustee at the end of each of the first ten years. The normal pension cost is also funded fully at the end of each year. The following pension plan data are available for 1983:

Normal pension cost	$80,000
Past service cost:	
Amortized	46,700
Funded	59,600

In its December 31, 1983, balance sheet, Brown should report deferred pension cost at

a. $12,900
b. $20,400
c. $46,700
d. $59,600

1M83#6. Under Gerber Company's accounting system, all insurance premiums paid are debited to prepaid insurance. For interim financial statements, Gerber makes monthly estimated charges to insurance expense with an offset to prepaid insurance. Additional information for the year ended December 31, 1982, is as follows:

Prepaid insurance at December 31, 1981	$150,000
Charges to insurance expense during 1982 (including a year-end adjustment of $25,000)	625,000
Unexpired insurance premiums at December 31, 1982	175,000

What was the total amount of insurance premiums paid by Gerber during 1982?

a. $475,000
b. $600,000
c. $625,000
d. $650,000

2N81#30. On January 1, 1980, Ulmer Corporation incurred organization costs of $12,000. For financial accounting purposes, Ulmer is amortizing these costs on the same basis as the maximum allowable for federal income tax purposes. What portion of the organization costs will Ulmer defer to years subsequent to 1980?

a. $0
b. $ 2,400
c. $ 9,600
d. $12,000

1M81#19. In 1980 Waldo Company paid the annual premiums of $80,000 on officers' life insurance (on which the company is the beneficiary) and received interest income of $120,000 on municipal obligations. Also in 1980 Waldo collected $200,000 in royalties. For income tax reporting, the royalties are taxed when collected. For financial statement reporting, the royalties are recognized as income in the period earned. The unearned portion of the royalties collected in 1980 amounted to $150,000 at December 31, 1980. Assuming that the income tax rate is 40%, what amount of deferred taxes would be recorded as a result of these transactions?

a. $ 60,000
b. $ 76,000
c. $ 96,000
d. $108,000

III. Valuation, Recognition, and Presentation of Liabilities in Conformity With Generally Accepted Accounting Principles

A. Payables and Accruals

1N84#21. For the year ended December 31, 1983, Rex Corporation reported book income, before federal income taxes, of $1,000,000. Selected information for 1983 is available from Rex's records as follows:

Interest income on municipal bonds	$ 80,000
Depreciation claimed on tax return in excess of depreciation per books	140,000
Warranty expense on the accrual basis	65,000
Actual warranty expenditures	35,000

Rex's effective income tax rate is 40% for 1983. Rex's current liability for 1983 federal income taxes (before reduction for estimated taxes paid) should be

a. $312,000
b. $324,000
c. $368,000
d. $400,000

1M84#16. On January 1, 1983, Trapp Company adopted a noncontributory pension plan which requires Trapp to make annual payments to an independent trustee two months after the end of each year. The first payment was due on February 29, 1984. Information relating to the pension plan is as follows:

Past service cost at 1/1/83 (unfunded)	$500,000
Normal cost for 1983	150,000
Funds held by the trustee are expected to earn a 6% return	

Trapp elects to minimize its annual pension cost. At December 31, 1983, how much should Trapp accrue for pension expense?

a. $150,000
b. $159,000
c. $180,000
d. $200,000

1M84#19. Farr Company pays its outside salespersons fixed monthly salaries and commissions on net sales. Sales commissions are computed and paid on a monthly basis (in the month following the month of sale) and the fixed salaries are treated as advances against commissions for this purpose. However, if the fixed salaries for salespersons exceed their sales commissions earned for a month, such excess is not charged back to them.

Pertinent data for the month of March 1984 for the three salespersons in sales region 101 are as follows:

Salesperson	*Fixed salary*	*Net sales*	*Commission rate*
A	$ 2,500	$100,000	2%
B	3,500	200,000	3%
C	4,500	300,000	3%
	$10,500	$600,000	

In respect of sales region 101, what total amount should Farr accrue for sales commissions payable at March 31, 1984?

a. $ 6,500
b. $ 7,000
c. $17,000
d. $17,500

1M84#20. During 1982 Waldron Company introduced a new line of machines that carry a two-year warranty against manufacturer's defects. Based on industry experience, the estimated warranty costs related to dollar sales are as follows:

Year of sale	4%
Year after sale	6%

Sales and actual warranty expenditures for the years ended December 31, 1982 and 1983 were as follows:

	Sales	*Actual warranty expenditures*
1982	$ 500,000	$15,000
1983	700,000	47,000
	$1,200,000	$62,000

What amount should Waldron report as its estimated warranty liability at December 31, 1983?

a. $0
b. $16,000
c. $42,000
d. $58,000

1N83#24. On January 7, 1983, Dean Company discounted its own $100,000, 180-day note at United National Bank at a discount rate of 20%. Dean repaid the note on the July 6, 1983, due date. Based on a 360-day year, the effective rate of interest on the borrowing was

a. 18.2%
b. 20.0%
c. 22.2%
d. 25.0%

1N83#30. Bronson Apparel, Inc., operates a retail store and must determine the proper December 31, 1982, year-end accrual for the following expenses:

- The store lease calls for fixed rent of $1,000 per month, payable at the beginning of the month, and additional rent equal to 6% of net sales over $200,000 per calendar year, payable on January 31 of the following year. Net sales for 1982 are $800,000.

- Bronson has personal property subject to a city property tax. The city's fiscal year runs from July 1 to June 30 and the tax, assessed at 3% of personal property on hand at April 30, is payable on June 30. Bronson estimates that its personal property tax will amount to $6,000 for the city's fiscal year ending June 30, 1983.

In its December 31, 1982, balance sheet, Bronson should report accrued expenses of

a. $39,000
b. $39,600
c. $51,000
d. $51,600

2N83#3. All of Rolf Co.'s employees are entitled to two weeks of paid vacation for each full year in Rolf's employ. Unused vacation time can be accumulated and carried forward to succeeding years, and will be compensated at the salary in effect when the vacation is taken. Mary Beal started her employment with Rolf on January 1, 1976. As of December 31, 1982, when Beal's salary was $500 per week, Beal had used ten weeks of her accumulated vacation time. In December 1982, Beal notified Rolf of Beal's intention to use her accumulated vacation weeks in June 1983. Rolf regularly scheduled salary adjustments in July of each year. Rolf properly did not deduct compensation for unused vacations in Rolf's 1982 income tax return. How much should Rolf report as a liability at December 31, 1982, for Beal's accumulated vacation time?

a. $0
b. $ 500
c. $1,000
d. $2,000

1M83#1. The balance in Ashwood Company's accounts payable account at December 31, 1982, was $900,000 before any necessary year-end adjustment relating to the following:

- Goods were in transit from a vendor to Ashwood on December 31, 1982. The invoice cost was $50,000, and the goods were shipped F.O.B. shipping point on December 29, 1982. The goods were received on January 4, 1983.
- Goods shipped F.O.B. shipping point on December 20, 1982, from a vendor to Ashwood were lost in transit. The invoice cost was $25,000. On January 5, 1983, Ashwood filed a $25,000 claim against the common carrier.
- Goods shipped F.O.B. destination on December 21, 1982, from a vendor to Ashwood were received on January 6, 1983. The invoice cost was $15,000.

What amount should Ashwood report as accounts payable on its December 31, 1982, balance sheet?
a. $925,000
b. $940,000
c. $950,000
d. $975,000

1M83#7. Morgan Company determined that: (1) it has a material obligation relating to employees' rights to receive compensation for future absences attributable to employees' services already rendered, (2) the obligation relates to rights that vest, and (3) payment of the compensation is probable. The amount of Morgan's obligation as of December 31, 1982, is reasonably estimated for the following employee benefits:

Vacation pay	$100,000
Holiday pay	25,000

What total amount should Morgan report as its liability for compensated absences in its December 31, 1982, balance sheet?
a. $0
b. $ 25,000
c. $100,000
d. $125,000

1M83#9. The books of Curtis Company for the year ended December 31, 1982, showed income of $360,000 before provision for income tax. In computing the taxable income for federal income tax purposes, the following differences were taken into account:

Depreciation deducted for tax purposes in excess of depreciation recorded on the books	$16,000
Income from installment sale reportable for tax purposes in excess of income recognized on the books	12,000

Assuming a corporate income tax rate of 40%, what should Curtis record as its current federal income tax liability at December 31, 1982?
a. $137,600
b. $142,400
c. $144,000
d. $145,600

1M83#13. Dell Company sells its products in reusable, expensive containers. The customer is charged a deposit for each container delivered and receives a refund for each container returned within two years after the year of delivery. Dell accounts for the containers not returned within the time limit as being retired by sale at the deposit amount. Information for 1982 is as follows:

Containers held by customers at December 31, 1981, from deliveries in:		
1980	$ 50,000	
1981	145,000	$195,000
Containers delivered in 1982		260,000
Containers returned in 1982 from deliveries in:		
1980	30,000	
1981	85,000	
1982	95,000	210,000

What amount should Dell report as a liability for returnable containers at December 31, 1982?
a. $165,000
b. $215,000
c. $225,000
d. $245,000

2N82#12. Lee Corporation has a noncontributory pension plan covering substantially all of its employees. Lee's policy is to fund pension costs as accrued. At December 31, 1981, the actuarially computed value of vested benefits equalled the cash on deposit with the trustee. The total pension expense for 1981 was $900,000, which included normal cost of $700,000 and amortization of past service cost of $200,000. The unamortized balance of past service cost at December 31, 1981, was $600,000. How much should appear on Lee's balance sheet at December 31, 1981, for pension liability?
a. $0
b. $200,000
c. $600,000
d. $900,000

2M82#20. Reynella Corporation commenced operations on January 1, 1981. For the year ended December 31, 1981, Reynella had pretax income of $1,500,000, after accruing estimated warranty expense of $570,000. Reynella's effective income tax rate was 40%, resulting in income tax payable of $624,000 and deferred income tax of $24,000 at December 31, 1981. What was the amount of actual warranty payments in 1981?
a. $0
b. $510,000
c. $570,000
d. $630,000

1M81#3. During 1978 Lawton Company introduced a new line of machines that carry a three-year warranty against manufacturer's defects. Based on industry experience, warranty costs are estimated at 2% of sales in the year of sale, 4% in the year after sale, and 6% in the second year after sale. Sales and actual warranty expenditures for the first three-year period were as follows:

	Sales	Actual warranty expenditures
1978	$ 200,000	$ 3,000
1979	500,000	15,000
1980	700,000	45,000
	$1,400,000	$63,000

What amount should Lawton report as a liability at December 31, 1980?
a. $0
b. $ 5,000
c. $ 68,000
d. $105,000

1M81#7. On January 1, 1980, Pierce, Inc., adopted a noncontributory pension plan for all of its eligible employees. The plan requires Pierce to make annual payments to the designated trustee three months after the end of each year. The first payment was due on March 31, 1981. Information relating to the plan is as follows:

Normal cost for 1980	$ 200,000
Past service cost at January 1, 1980 (unfunded)	1,000,000
Funds held by the trustee are expected to earn an 8% return.	

Assuming that Pierce elects to maximize its pension expense in accordance with GAAP, what would be the amount of accrued pension expense at December 31, 1980?
a. $216,000
b. $280,000
c. $300,000
d. $380,000

2M81#9. Bold Company estimates its annual warranty expense at 2% of annual net sales. The following data are available:

Net sales for 1980	$ 4,000,000
Warranty liability account:	
December 31, 1979	$60,000 credit
Warranty payments during 1980	50,000 debit

After recording the 1980 estimated warranty expense, the warranty liability account would show a December 31, 1980, balance of
a. $10,000
b. $70,000
c. $80,000
d. $90,000

2M81
Items 31 and 32 pertain to classification of short-term obligations expected to be refinanced, and are based on the following data:

Royal Corporation's liabilities at December 31, 1980, were as follows:

Trade accounts payable	$100,000
16% notes payable issued November 1, 1980, maturing July 1, 1981	30,000
14% debentures payable issued February 1, 1980; final installment due February 1, 1985; balance at December 31, 1980, including annual installment of $50,000 due February 1, 1981	300,000
	$430,000

Royal's December 31, 1980, financial statements were issued on March 31, 1981. On January 5, 1981, the entire $300,000 balance of the 14% debentures was refinanced by issuance of a long-term obligation. In addition, on March 1, 1981, Royal consummated a noncancellable agreement with the lender to refinance the 16% note payable on a long-term basis, on readily determinable terms that have not yet been implemented. Both parties are financially capable of honoring the agreement, and there have been no violations of any of the agreement's provisions.

31. The total amount of Royal's short-term obligations that may properly be excluded from current liabilities at December 31, 1980, is
a. $0
b. $30,000
c. $50,000
d. $80,000

32. Assume the same facts for Royal Corporation's liabilities, except that the agreement with the lender to refinance the 16% note payable on a long-term basis is cancellable at any time upon ten days' notice by the lender. The total amount of Royal's short-term obligations that may properly be excluded from current liabilities at December 31, 1980, is
a. $0
b. $30,000
c. $50,000
d. $80,000

2M80#12. A new product introduced by Maude Corporation carries a two-year warranty against defects. The estimated warranty costs related to dollar sales are as follows:

Year of sale	3%
Year after sale	5%

Sales and actual warranty expenditures for the years ended December 31, 1978, and 1979 are as follows:

	Sales	Actual Warranty Expenditures
1978	$400,000	$10,000
1979	500,000	35,000

What amount should Maude report as its estimated warranty liability as of December 31, 1979?

a. $ 2,000
b. $12,000
c. $27,000
d. $37,000

B. Deferred Revenues

1N84#22. Amboy Corporation, which began business on January 1, 1983, appropriately uses the installment sales method of accounting for income tax reporting purposes. The following data are available for 1983:

Installment accounts receivable, 12/31/83	$400,000
Installment sales for 1983	$700,000
Gross profit on sales	40%

Applying the installment sales method, what would be Amboy's deferred gross profit at December 31, 1983?

a. $120,000
b. $160,000
c. $180,000
d. $240,000

1M84#21. Greene Company sells office equipment service contracts agreeing to service equipment for a two-year period. Cash receipts from contracts are credited to unearned service contract revenue and service contract costs are charged to service contract expense as incurred. Revenue from service contracts is recognized as earned over the lives of the contracts. Additional information for the year ended December 31, 1983, is as follows:

Unearned service contract revenue at January 1, 1983	$600,000
Cash receipts from service contracts sold	980,000
Service contract revenue recognized	860,000
Service contract expense	520,000

What amount should Greene report as unearned service contract revenue at December 31, 1983?

a. $460,000
b. $480,000
c. $490,000
d. $720,000

1N83#4. Weaver Company sells magazine subscriptions for a one-year, two-year, or three-year period. Cash receipts from subscribers are credited to magazine subscriptions collected in advance, and this account had a balance of $1,700,000 at December 31, 1981. Information for the year ended December 31, 1982, is as follows:

Cash receipts from subscribers	$2,100,000
Magazine subscriptions revenue (credited at 12/31/82)	1,500,000

In its December 31, 1982, balance sheet, what amount should Weaver report as the balance for magazine subscriptions collected in advance?

a. $1,400,000
b. $1,900,000
c. $2,100,000
d. $2,300,000

1M83#16. On December 31, 1982, Tower Pizza, Inc., signed an agreement authorizing Greene Company to operate as a franchisee for an initial franchise fee of $50,000. Of this amount, $20,000 was received upon signing of the agreement and the balance is due in three annual payments of $10,000 each beginning December 31, 1983. The agreement provides that the down payment (representing a fair measure of the services already performed by Tower) is not refundable and substantial future services are required of Tower. Greene's credit rating is such that collection of the note is reasonably certain. The present value at December 31, 1982, of the three annual payments discounted at 14% (the implicit rate for a loan of this type) is $23,220. On December 31, 1982, Tower should record unearned franchise fees in respect of the Greene franchise of

a. $23,220
b. $30,000
c. $43,220
d. $50,000

1N82#5. Wright Company sells for cash major household appliance service contracts agreeing to service customers' appliances for a one-year, two-year, or three-year period. Cash receipts from contracts are credited to unearned service contract revenues and this account had a balance of $1,440,000 at December 31, 1981, before year-end adjustment. Service contract costs are charged to service contract expense as incurred and this account had a balance of $360,000 at December 31, 1981. Outstanding service contracts at December 31, 1981, expire as follows:

During 1982 — $300,000
During 1983 — 450,000
During 1984 — 200,000

What amount should Wright report as unearned service contract revenues at December 31, 1981?

a. $ 490,000
b. $ 712,500
c. $ 950,000
d. $1,080,000

C. Deferred Income Tax Liabilities

1N84#23. Dugan Corporation, which began operations on January 1, 1981, recognizes income from long-term construction contracts under the percentage-of-completion method in its financial statements but uses the completed-contract method for income tax reporting. Reported income from long-term construction contracts under each method is as follows:

Year	*Percentage of completion*	*Completed contract*
1981	$400,000	$0
1982	650,000	350,000
1983	950,000	750,000

For all years, the effective income tax rate is 40% and there are no other timing differences. In its December 31, 1983, balance sheet, Dugan should report a liability for deferred taxes of

a. $ 80,000
b. $160,000
c. $200,000
d. $360,000

1M84#23. On January 1, 1983, Wolfe Company purchased a building for $1,500,000. The building will be depreciated $50,000 per year by the straight-line method for financial statement reporting. For income tax reporting, Wolfe uses the ACRS and will be allowed a cost recovery deduction of $180,000 for 1983. Assuming an income tax rate of 40%, what amount of deferred income taxes should be added to Wolfe's deferred income tax liability at December 31, 1983?

a. $ 52,000
b. $ 72,000
c. $ 78,000
d. $130,000

1N83#29. On December 20, 1982, Sussex Corporation received a condemnation award of $300,000 as compensation for the forced sale of a company plant with a book value of $200,000. In its income tax return for the year ended December 31, 1982, Sussex elected to replace the condemned plant within the allowed replacement period. Accordingly, the $100,000 gain was not reported as taxable income for 1982. Sussex has an effective income tax rate of 40% for 1982. In its December 31, 1982, balance sheet, what amount should Sussex report as a liability for deferred taxes on the above gain?

a. $60,000
b. $40,000
c. $20,000
d. $0

1N83#31. Martin Company began operations on January 1, 1981, and a substantial part of its sales are made on an installment basis. For financial reporting Martin recognizes revenues from all sales under the accrual method. However, on its income tax returns, Martin reports revenues from installment sales under the installment method. Information concerning gross profit from installment sales under each method is as follows:

Year	*Accrual method*	*Installment method*
1981	$400,000	$150,000
1982	650,000	350,000

For both years, assume the effective income tax rate is 40% and there are no other timing differences. In its December 31, 1982, balance sheet, Martin should report a liability for deferred taxes of

a. $220,000
b. $200,000
c. $180,000
d. $120,000

1M83#12. Saratoga, Inc., owns 75% of the voting common stock of its domestic subsidiary, Bell Corporation. During 1982 Bell reported earnings of $150,000 and paid dividends of $50,000. Saratoga assumes that all of the undistributed earnings of Bell will be distributed as dividends in future periods. Assuming that Saratoga's income tax rate is 40%, the amount of deferred tax to be reported for 1982 is

a. $ 4,500
b. $ 6,750
c. $30,000
d. $40,000

2M81#33. On January 2, 1978, Gow Corporation bought a press for $22,000, with an estimated useful life of four years and a salvage value of $6,000. Straight-line depreciation is used for financial statement purposes and the sum-of-the-years'-digits method is used for income tax purposes. Assuming an income tax rate of 50%, and no other timing differences, what amount should be reported in the balance sheet as deferred income taxes at December 31, 1980?

a. $ 400 debit.
b. $1,200 credit.
c. $1,600 credit.
d. $2,400 credit.

D. Capitalized Lease Liability

1M84#24. On December 31, 1982, Kern Company leased a machine from Woods Company for a ten-year period expiring December 30, 1992. Equal annual payments under the lease are $50,000 and are due on December 31 of each year. The first payment was made on December 31, 1982, and the second payment was made on December 31, 1983. The present value at December 31, 1982, of the ten lease payments over the lease term discounted at 10% was $338,000. The lease is appropriately accounted for as a capital lease by Kern. In its December 31, 1983, balance sheet Kern should report the capitalized lease liability at

a. $243,000
b. $259,200
c. $266,800
d. $400,000

1N83#33. On December 31, 1982, Jackson Company leased a new machine from Nash Corporation. The following information relates to the lease transaction:

- The machine has an estimated useful life of seven years which coincides with the lease term.
- Lease rentals consist of seven equal annual payments of $100,000, the first of which was paid on December 31, 1982.
- Nash's implicit interest rate is 12%, which is known by Jackson.
- Jackson's incremental borrowing rate is 14% at December 31, 1982.
- Present value of an annuity of $1 in advance for seven periods at 12% is 5.11.
- Present value of an annuity of $1 in advance for seven periods at 14% is 4.89.

At the inception of the lease, Jackson should record a capitalized lease liability of

a. $389,000
b. $489,000
c. $500,000
d. $511,000

1N82#1. Star Company leased a new machine from Fox Company on December 31, 1981, under a lease with the following pertinent information:

Lease term	10 years
Annual rental payable at the beginning of each year	$200,000
Useful life of the machine	15 years
Implicit interest rate	10%
Present value of an annuity of $1 in advance for 10 periods at 10%	6.76
Present value of $1 for 10 periods at 10%	0.39

Star has the option to purchase the machine on December 31, 1991, by paying $250,000, which is significantly less than the $500,000 expected fair market value of the machine on the option exercise date. Assume that, at the inception of the lease, the exercise of the option appears to be reasonably assured. At the inception of the lease, Star should record a capitalized lease liability of

a. $1,254,500
b. $1,352,000
c. $1,449,500
d. $1,547,000

1N82#8. Harris, Inc., leased equipment under a capital lease for a period of seven years, contracting to pay $100,000 rent in advance at the start of the lease term on December 31, 1980, and $100,000 annually on December 31 of each of the next six years. The present value at December 31, 1980, of the seven rent payments over the lease term discounted at 10% (the implicit interest rate) was $535,000. Harris amortizes its liability under capital lease using the effective interest method. In its December 31, 1981, balance sheet, Harris should report a liability under capital lease of

a. $378,500
b. $391,500
c. $437,350
d. $500,000

1M82#8. Bond Company leased equipment from Howe, Inc., on December 31, 1980, for a ten-year period (the useful life of the asset) expiring December 30, 1990. Equal annual payments under the lease are $100,000 and are due on December 31 of each year. The first payment was made on December 31, 1980, and the second payment was made on the due date. The present value at December 31, 1980, of the minimum lease payments over the lease term discounted at 10% (the implicit rate computed by Howe and known by Bond) was $676,000. Bond's incremental borrowing rate was 12% at December 31, 1980. The lease is appropriately accounted for as a capital lease by Bond. What should be the balance in Bond's liability under capital lease account at December 31, 1981?

a. $533,600
b. $545,120
c. $607,960
d. $800,000

E. Bonds Payable

1N84#24. On December 31, 1982, Arnold, Inc., issued $200,000, 8% serial bonds, to be repaid in the amount of $40,000 each year. Interest is payable annually on December 31. The bonds were issued to yield 10% a year. The bond proceeds were $190,280 based on the present values at December 31, 1982, of the five annual payments as follows:

Due date	*Amounts due*		*Present value at 12/31/82*
	Principal	*Interest*	
12/31/83	$40,000	$16,000	$ 50,900
12/31/84	40,000	12,800	43,610
12/31/85	40,000	9,600	37,250
12/31/86	40,000	6,400	31,690
12/31/87	40,000	3,200	26,830
			$190,280

Arnold amortizes the bond discount by the interest method. In its December 31, 1983, balance sheet, at what amount should Arnold report the carrying value of the bonds?

a. $139,380
b. $149,100
c. $150,280
d. $153,308

1M84#25. On June 30, 1983, Dean Company had outstanding 8%, $1,000,000 face value, 15-year bonds maturing on June 30, 1993. Interest is payable on June 30 and December 31. The unamortized balances on June 30, 1983, in the bond discount and deferred bond issue costs accounts were $45,000 and $15,000, respectively. Dean reacquired all of these bonds at 93 on June 30, 1983, and retired them. Ignoring income taxes, how much gain should Dean report on this early extinguishment of debt?

a. $10,000
b. $25,000
c. $40,000
d. $70,000

1M84#30. On March 1, 1984, Riley Corporation issued $1,000,000 of 10% nonconvertible bonds at 103 which are due on February 28, 1999. In addition, each $1,000 bond was issued with 30 detachable stock warrants, each of which entitled the bondholder to purchase, for $50, one share of Riley common stock, par value $25. On March 1, 1984, the quoted market value of Riley's common stock was $40 per share and the quoted market value of each warrant was $4. What amount of the proceeds from the bond issue should Riley record as an increase in stockholders' equity?

a. $0
b. $ 30,000
c. $120,000
d. $750,000

1M84#40. On June 30, 1983, Harper, Inc., had outstanding 8%, $1,000,000 face value, convertible bonds maturing on June 30, 1988. Interest is payable on June 30 and December 31. The unamortized balance in the bond premium account was $50,000 on June 30, 1983. On this date all of these bonds were converted into 40,000 shares of $20 par value common stock. Harper incurred expenses of $30,000 in connection with the conversion. Under the book value method, the total amount by which additional paid-in capital should increase is

a. $180,000
b. $200,000
c. $220,000
d. $250,000

1N83#2. On January 1, 1982, Hansen, Inc., issued for $939,000 one thousand of its 9%, $1,000 bonds. The bonds were issued to yield 10%. The bonds are dated January 1, 1982, and mature on December 31, 1991. Interest is payable annually on December 31. Hansen uses the interest method of amortizing bond discount. In its December 31, 1982, balance sheet, Hansen should report unamortized bond discount of

a. $57,100
b. $54,900
c. $51,610
d. $51,000

1N83#5. On April 1, 1983, Girard Corporation issued at 98 plus accrued interest, two hundred of its 10%, $1,000 bonds. The bonds are dated January 1, 1983, and mature on January 1, 1993. Interest is payable semiannually on January 1 and July 1. From the bond issuance Girard would realize net cash receipts of

a. $191,000
b. $196,000
c. $198,500
d. $201,000

1N83#7. On January 1, 1975, Gilson Corporation issued for $1,030,000, one thousand of its 9%, $1,000 callable bonds. The bonds are dated January 1, 1975, and mature on December 31, 1989. Interest is payable semiannually on January 1 and July 1. The bonds can be called by the issuer at 102 on any interest payment date after December 31, 1979. The unamortized bond premium was $14,000 at December 31, 1982, and the market price of the bonds was 99 on this date. In its December 31, 1982, balance sheet, at what amount should Gilson report the carrying value of the bonds?

a. $1,020,000
b. $1,016,000
c. $1,014,000
d. $ 990,000

1M83#8. On December 31, 1981, Dumont Corporation had outstanding 8%, $2,000,000 face value convertible bonds maturing on December 31, 1985. Interest is payable annually on December 31. Each $1,000 bond is convertible into 60 shares of Dumont's $10 par value common stock. The unamortized balance on December 31, 1982, in the premium on bonds payable account was $45,000. On December 31, 1982, an individual holding 200 of the bonds exercised the conversion privilege when the market value of Dumont's common stock was $18 per share. Using the book value method, Dumont's entry to record the conversion should include a credit to additional paid-in capital of

a. $ 80,000
b. $ 84,500
c. $ 96,000
d. $125,000

1M83#11. On July 1, 1976, Belmont Corporation issued for $960,000, one thousand of its 9%, $1,000 callable bonds. The bonds are dated July 1, 1976, and mature on July 1, 1986. Interest is payable semiannually on January 1 and July 1. Belmont uses the straight-line method of amortizing bond discount. The bonds can be called by the issuer at 101 at any time after June 30, 1981.

On July 1, 1982, Belmont called in all of the bonds and retired them. Ignoring income taxes, how much loss should Belmont report on this early extinguishment of debt for the year ended December 31, 1982?
a. $50,000
b. $34,000
c. $26,000
d. $10,000

1M83#19. On January 1, 1982, Jaffe Corporation issued at 95, five hundred of its 9%, $1,000 bonds. Interest is payable semiannually on July 1 and January 1, and the bonds mature on January 1, 1992. Jaffe paid bond issue costs of $20,000 which are appropriately recorded as a deferred charge. Jaffe uses the straight-line method of amortizing bond discount and bond issue costs. On Jaffe's December 31, 1982, balance sheet, the bonds payable should be reported at their carrying value of
a. $459,500
b. $477,500
c. $495,500
d. $522,500

2M83#20. On June 4, 1982, Xmar Corporation sold $200,000 face amount of 12% bonds for $198,000, with interest payable semiannually beginning December 3, 1982. Each $1,000 bond had ten detachable warrants entitling the holder to buy one share of Xmar's common stock for each warrant surrendered, plus $20 cash. Shortly after the bonds were sold, each bond was selling for $1,000 without the warrants, while the warrants were selling for $10 each. What portion of the $198,000 proceeds should be credited to "Additional paid-in capital — warrants"?
a. $0
b. $ 2,000
c. $18,000
d. $20,000

2N82#7. On January 1, 1976, Roper Corporation issued 2,000 of its 10%, $1,000 bonds for $2,080,000. These bonds were to mature on January 1, 1986, but were callable at 101 any time after December 31, 1980. Interest was payable semiannually on July 1 and January 1. On July 1, 1981, Roper called all of the bonds and retired them. Bond premium was amortized on a straight-line basis. Ignoring income taxes, how much was Roper's gain or loss in 1981 on this early extinguishment of debt?
a. $16,000 gain.
b. $20,000 loss.
c. $24,000 gain.
d. $60,000 gain.

2N82#14. On July 1, 1982, Glendora Corporation issued $1,000,000 of 10% nonconvertible bonds at 103, due June 30, 2002. Each $1,000 bond was issued with 30 detachable stock warrants, each of which entitled the bondholder to buy one share of Glendora's $10 par value common stock for $25. On July 1, 1982, the market values of Glendora's common stock and warrants were $30 and $4, respectively. How much should Glendora record on July 1, 1982, as paid-in capital from stock warrants?
a. $ 30,000
b. $120,000
c. $150,000
d. $300,000

2N82#20. On July 1, 1982, Menzie Corporation sold a $1,000,000, 20-year, 10% bond issue for $1,060,000. Each $1,000 bond had a detachable warrant eligible for the purchase of one share of Menzie's $50 par value common stock for $60. Immediately after sale of the bonds, Menzie's securities had the following market values:

10% bond without warrants	$1,040
Warrants	20
Common stock, $50 par value	56

How much should Menzie credit to premium on bonds payable?
a. $0
b. $20,000
c. $40,000
d. $60,000

2M82#15. On January 1, 1981, when the market rate for bond interest was 14%, Luba Corporation issued bonds in the face amount of $500,000, with interest at 12% payable semiannually. The bonds mature on December 31, 1990, and were issued at a discount of $53,180. How much of the discount should be amortized by the interest method at July 1, 1981?
a. $1,277
b. $2,659
c. $3,191
d. $3,723

1N81#8. On December 31, 1979, Livonia Corporation had outstanding 7%, $2,000,000 face value, 15-year bonds maturing on December 31, 1989. Interest is payable on June 30 and December 31. The unamortized balances on December 31, 1979, in the premium on bonds payable and deferred bond issue costs accounts were $50,000 and $25,000, respectively. Livonia reacquired all of these bonds at 95 on December 31, 1980. Livonia uses the straight-line method for the amortization of bond premium and bond issue costs. Ignoring income taxes, what is the amount of gain or loss that Livonia should report on this early extinguishment of debt in its income statement for the year ended December 31, 1980?
a. $122,500 gain.
b. $122,500 loss.
c. $167,500 gain.
d. $167,500 loss.

2N81#29. On March 1, 1981, Harbour Corporation issued 10% debentures dated January 1, 1981, in the face amount of $1,000,000, with interest payable on January 1 and July 1. The debentures were sold at par and accrued interest. How much should Harbour debit to cash on March 1, 1981?
a. $ 966,667
b. $ 983,333
c. $1,016,667
d. $1,033,333

1M81#16. On January 1, 1980, Battle Corporation sold at 97 plus accrued interest, two hundred of its 8%, $1,000 bonds. The bonds are dated October 1, 1979, and mature on October 1, 1989. Interest is payable semiannually on April 1 and October 1. Accrued interest for the period October 1, 1979, to January 1, 1980, amounted to $4,000. As a result, on January 1, 1980, Battle would record bonds payable, net of discount, at
a. $190,000
b. $194,000
c. $196,000
d. $198,000

2M81#21. Elba Corporation issued $200,000 face amount of 8% bonds with interest payable on April 1 and October 1. The bonds were callable at 105. Interest and amortization of bond discount have been accounted for up to October 1, 1980, at which date the bonds were called. Unamortized bond discount on that date amounted to $16,000. Ignoring the income tax effect, what was Elba's gain or loss on the bond retirement?
a. $ 6,000 gain.
b. $ 6,000 loss.
c. $10,000 loss.
d. $26,000 loss.

2N80#20. On January 1, 1975, Gilbert Corporation issued $1,200,000 of 6% ten-year bonds at 103. The bonds are callable at the option of Gilbert at 105. Gilbert has recorded amortization of the bond premium on the straight-line method (which was not materially different from the interest method).

On December 31, 1979, Gilbert repurchased $600,000 of the bonds in the open market at 98. Gilbert has recorded interest and amortization for 1979. Ignoring income taxes and assuming that all amounts involved are material, Gilbert should report the gain from this reacquisition as
a. Other income of $21,000.
b. An extraordinary gain of $21,000.
c. Other income of $42,000.
d. An extraordinary gain of $42,000.

1M80#17. During 1979, Criterion Corporation issued at 105, two hundred $1,000 bonds due in ten years. One detachable stock purchase warrant entitling the holder to buy 20 shares of Criterion's common stock was attached to each bond. Shortly after issuance, each bond had a market value of $940, and each warrant was quoted at $60. What amount, if any, of the proceeds from the bond issuance should be recorded as part of Criterion's stockholders' equity?
a. $0
b. $12,000
c. $12,600
d. $13,404

1M80#20. On March 1, 1980, Williams Corporation issued at 103 plus accrued interest, one hundred of its 9%, $1,000 bonds. The bonds are dated January 1, 1980, and mature on January 1, 1990. Interest is payable semiannually on January 1 and July 1. Williams paid bond issue costs of $5,000. Based on the information above, Williams would realize net cash receipts from the bond issuance of
a. $ 98,000
b. $ 99,500
c. $103,000
d. $104,500

F. Long-Term Notes Payable

1N83#34. During 1982 Peterson Company experienced financial difficulties and is likely to default on a $500,000, 15%, three-year note dated January 1, 1981, payable to Forest National Bank. On December 31, 1982, the bank agreed to settle the note and unpaid interest of $75,000 for 1982 for $50,000 cash and marketable securities having a current market value of $375,000. Peterson's acquisition cost of the securities is $385,000. Ignoring income taxes, what amount should Peterson report as a gain from the debt restructuring in its 1982 income statement?
a. $ 65,000
b. $ 75,000
c. $140,000
d. $150,000

1M81#15. Stark, Inc., has $1,000,000 of notes payable due June 15, 1981. At the financial statement date of December 31, 1980, Stark signed an agreement to borrow up to $1,000,000 to refinance the notes payable on a long-term basis. The financing agreement called for borrowings not to exceed 80% of the value of the collateral Stark was providing. At the date of issue of the December 31, 1980, financial statements the value of the collateral was $1,200,000 and was not expected to fall below this amount during 1981. On the December 31, 1980, balance sheet, Stark should classify
a. $40,000 of notes payable as short-term and $960,000 as long-term obligations.
b. $200,000 of notes payable as short-term and $800,000 as long-term obligations.
c. $1,000,000 of notes payable as short-term obligations.
d. $1,000,000 of notes payable as long-term obligations.

G. Contingent Liabilities and Commitments

1N84#25. Day Company carries a $10,000,000 comprehensive public liability policy which has a $100,000 deductible clause. A personal injury liability suit was brought against Day in 1983. Day's counsel believes it is probable that the suit will be settled out of court for an estimated amount of $150,000. In its December 31, 1983, balance sheet, Day should report an accrued liability of

a. $0
b. $ 50,000
c. $100,000
d. $150,000

1M84#26. On December 31, 1983, Jordan Company was involved in a tax dispute with the IRS. Jordan's tax counsel believed that an unfavorable outcome was probable and a reasonable estimate of additional taxes was $400,000, with a chance that the additional taxes could be as much as $650,000. After the 1983 financial statements were issued, Jordan accepted an IRS settlement offer of $450,000. What amount of additional taxes should have been charged to income in 1983?

a. $0
b. $400,000
c. $450,000
d. $650,000

1M83#10. Starr Trading Stamp Company records stamp service revenue and provides for the cost of redemptions in the year stamps are furnished to licensees. Starr's past experience indicates that only 90% of the stamps sold to licensees will be redeemed. Starr's liability for stamp redemptions was $18,000,000 at December 31, 1981. Additional information for 1982 is as follows:

Stamp service revenue from stamps furnished to licensees	$10,000,000
Cost of redemptions	$ 8,500,000
Estimated cost of future redemptions as a percentage of stamps redeemable	60%

What amount should Starr report as a liability for stamp redemptions at December 31, 1982?

a. $ 9,500,000
b. $14,900,000
c. $18,500,000
d. $19,500,000

2M83#8. On March 1, 1982, a suit was filed against Dean Company for patent infringement. Dean's legal counsel believes an unfavorable outcome is probable, and estimates that Dean will have to pay between $500,000 and $900,000 in damages. However, Dean's legal counsel is of the opinion that $600,000 is a better estimate than any other amount in the range. The situation was unchanged when the December 31, 1982, financial statements were released on February 24, 1983. How much of a liability should Dean report on its balance sheet at December 31, 1982, in connection with this suit?

a. $0
b. $500,000
c. $600,000
d. $900,000

1N82#7. In an effort to increase sales, Mills Company inaugurated a sales promotional campaign on June 30, 1981. Mills placed a coupon redeemable for a premium in each package of cereal sold. Each premium costs Mills $1 and five coupons must be presented by a customer to receive a premium. Mills estimated that only 60% of the coupons issued will be redeemed. For the six months ended December 31, 1981, the following information is available:

Packages of cereal sold	*Premiums purchased*	*Coupons redeemed*
1,600,000	120,000	400,000

What is the estimated liability for premium claims outstanding at December 31, 1981?

a. $ 80,000
b. $112,000
c. $144,000
d. $192,000

2N82#15. Warren Waste Products Company carries a $5,000,000 comprehensive public liability policy which contains a $50,000 deductible clause. A personal injury liability suit was brought against Warren in 1981, which probably will be settled for $75,000. How much should appear on Warren's December 31, 1981, balance sheet for contingent liabilities?

a. $0
b. $25,000
c. $50,000
d. $75,000

1N81#1. Blake Foods Corporation mails coupons to consumers which may be presented by a stated expiration date at retail food stores to obtain discounts on certain Blake products. Retailers are reimbursed for the face value of coupons redeemed, plus 10% of coupon value as compensation for handling costs. Blake honors requests for coupon redemption by retailers received up to three months after the consumer expiration date. In Blake's experience, 60% of the coupons issued ultimately are redeemed. Information with respect to the two separate series of coupons issued by Blake during 1980 is as follows:

	Series A	*Series B*
Consumer expiration date	June 30, 1980	December 31, 1980
Total face value of coupons issued	$100,000	$200,000
Total payments to retailers as of December 31, 1980	$ 60,500	$ 40,500

What amount should Blake report as a liability for unredeemed coupons at December 31, 1980?

a. $0
b. $79,500
c. $91,500
d. $97,000

2N81#12. On January 10, 1981, an explosion and fire occurred at Staren Chemical Corporation's plant, causing extensive property damage to neighboring buildings. On March 1, 1981, Staren's management and attorneys concluded that $2,000,000 would be a reasonable estimate of liability for damages, although no claims had yet been asserted against Staren in connection with the accident. Of the $2,000,000 potential liability, only $500,000 was covered by insurance. In Staren's December 31, 1980, financial statements, which were issued on April 1, 1981, how should this item be reported?

a. As a footnote disclosure indicating the possible loss of $1,500,000.
b. As an accrued liability of $1,500,000, with a corresponding direct charge to retained earnings.
c. As an accrued liability of $2,000,000, with a corresponding charge to income.
d. As an accrued liability of $1,500,000, with a corresponding charge to income.

2M81#7. Fulton Cereal Company inaugurated a new sales promotional program. For every 10 cereal box tops returned to the company, customers receive an attractive prize. Fulton estimates that only 30% of the cereal box tops reaching the consumer market will be redeemed. Additional information is as follows:

	Units	*Amounts*
Sales of cereal boxes	2,000,000	$1,400,000
Purchase of prizes	36,000	18,000
Prizes distributed to customers	28,000	

At the end of its year, Fulton recognized a liability equal to the estimated cost of potential prizes outstanding. What is the amount of this estimated liability?

a. $ 4,000
b. $16,000
c. $18,000
d. $42,000

1N80#2. Taylor Company was involved in a tax dispute with the Internal Revenue Service at the close of its year ended December 31, 1979. The company's tax counsel believes that an unfavorable outcome is probable. A reasonable estimate of additional tax payments is in the range between $300,000 and $800,000, but $500,000 is a better estimate than any other amount in that range. The situation was unchanged when the financial statements were issued on March 5, 1980. What amount of additional taxes should be accrued and charged to income in 1979?

a. $0
b. $300,000
c. $500,000
d. $800,000

1M80#4. A truck owned and operated by Green Company was involved in an accident with an auto driven by White on November 15, 1979. Green received notice on January 10, 1980, of a lawsuit for $750,000 damages for a personal injury suffered by White. The company counsel believes it is probable that the plaintiff will be successful against the company for an estimated amount of $250,000. Counsel also believes there is a chance the plaintiff will be awarded as much as $350,000. Green's accounting year ends on December 31, and the 1979 financial statements were issued on March 15, 1980. What amount of loss, if any, must be accrued by a charge to income in 1979?

a. $0
b. $250,000
c. $350,000
d. $750,000

IV. Ownership Structure, Presentation, and Valuation of Equity Accounts in Conformity With Generally Accepted Accounting Principles

A. Preferred and Common Stock

1N84#26. Cronin Corporation was organized on January 3, 1983, with authorized capital of 50,000 shares of $10 par value common stock. During 1983 Cronin had the following transactions affecting stockholders' equity:

January 7 — Issued 20,000 shares @ $12 per share
December 2 — Purchased 3,000 shares of treasury stock @ $13 per share

The cost method was used to record the treasury stock transaction. Cronin's net income for 1983 is $150,000. What is the amount of stockholder's equity at December 31, 1983?

a. $320,000
b. $351,000
c. $354,000
d. $360,000

1N84#27. Jason Corporation's stockholders' equity at December 31, 1983, consisted of the following:

Preferred stock, $50 par value, 10% noncumulative; 10,000 shares issued and outstanding	$500,000
Common stock, $10 par value: 80,000 shares issued and outstanding	800,000
Retained earnings	300,000

The preferred stock has a liquidating value of $55 per share. At December 31, 1983, the book value per share of common stock is

a. $14.38
b. $13.75
c. $13.13
d. $10.00

2M83#34. The stockholders' equity section of Peter Corporation's balance sheet at December 31, 1982, was as follows:

Common stock ($10 par value, authorized 1,000,000 shares, issued and outstanding 900,000 shares)	$ 9,000,000
Additional paid-in capital	2,700,000
Retained earnings	1,300,000
Total stockholders' equity	$13,000,000

On January 2, 1983, Peter purchased and retired 100,000 shares of its stock for $1,800,000. Immediately after retirement of these 100,000 shares, the balances in the additional paid-in capital and retained earnings accounts should be

	Additional paid-in capital	*Retained earnings*
a.	$ 900,000	$1,300,000
b.	$1,400,000	$ 800,000
c.	$1,900,000	$1,300,000
d.	$2,400,000	$ 800,000

1N82#4. During 1980 Bradley Corporation issued for $110 per share, 5,000 shares of $100 par value convertible preferred stock. One share of preferred stock can be converted into three shares of Bradley's $25 par value common stock at the option of the preferred shareholder. On December 31, 1981, all of the preferred stock was converted into common stock. The market value of the common stock at the conversion date was $40 per share. What amount should be credited to the common stock account on December 31, 1981?

a. $375,000
b. $500,000
c. $550,000
d. $600,000

2N82#5. Ventura Corporation was organized on January 1, 1981, with the following capital structure:

10% cumulative preferred stock, par and liquidation value $100; authorized, issued, and outstanding 1,000 shares	$100,000
Common stock, par value $5; authorized 20,000 shares; issued and outstanding 10,000 shares	50,000

Ventura's net income for the year ended December 31, 1981, was $450,000, but no dividends were declared. How much was Ventura's book value per common share at December 31, 1981?

a. $44
b. $45
c. $49
d. $50

2M81#20. Maple Corporation's stockholders' equity at June 30, 1980, consisted of the following:

Preferred stock, 10%, $50 par value; liquidating value $55 per share; 20,000 shares issued and outstanding	$1,000,000
Common stock, $10 par value; 500,000 shares authorized; 150,000 shares issued and outstanding	1,500,000
Retained earnings	500,000

The book value per share of common stock is

a. $10.00
b. $12.67
c. $13.33
d. $17.65

2M81#22. Pine Corporation's stockholders' equity at December 31, 1980, consisted of the following:

Cumulative preferred stock, 6%, $100 par value; 1,000 shares issued and outstanding	$100,000
Common stock, $10 par value; 300,000 shares authorized; 50,000 shares issued and outstanding	500,000
Retained earnings	90,000

Dividends have not been declared on the preferred stock for the years 1976 through 1980. The book value per share of common stock is

a. $10.00
b. $11.20
c. $11.80
d. $14.12

B. Additional Paid-in Capital

2N81#21. Goodel Corporation was organized on January 1, 1980, with authorized capital of 500,000 shares of $10 par value common stock. During 1980, Goodel had the following transactions affecting stockholders' equity:

January 10 — Issued 10,000 shares @ $12 per share
May 8 — Purchased 1,000 shares of treasury stock @ $13 per share
September 10 — Sold 1,000 shares of treasury stock @ $14 per share

Goodel used the cost method for recording treasury stock transactions. What is the amount of additional paid-in capital at December 31, 1980?
a. $0
b. $ 1,000
c. $20,000
d. $21,000

2N81#22. On July 14, 1981, JX Corporation exchanged 1,000 shares of its $8 par value common stock for a plot of land. JX's common stock is listed on the NYSE and traded at an average price of $21 per share on July 14. The land was appraised by independent real estate appraisers on July 14 at $23,000. As a result of this exchange, JX's additional paid-in capital will increase by
a. $0
b. $ 8,000
c. $13,000
d. $15,000

C. Retained Earnings and Dividends

1N84#28. On January 2, 1984, the board of directors of Blake Mining Corporation declared a cash dividend of $800,000 to stockholders of record on January 18, 1984, and payable on February 10, 1984. The dividend is permissible under state law in Blake's state of incorporation. Selected data from Blake's December 31, 1983, balance sheet are as follows:

Accumulated depletion	$ 200,000
Capital stock	1,000,000
Additional paid-in capital	300,000
Retained earnings	600,000

The $800,000 dividend includes a liquidating dividend of
a. $600,000
b. $300,000
c. $200,000
d. $0

1N84#29. After the issuance of its 1982 financial statements Terry, Inc., discovered a computational error of $150,000 in the calculation of its December 31, 1982, inventory. The error resulted in a $150,000 overstatement in the cost of goods sold for the year ended December 31, 1982. In October 1983, Terry paid $500,000 in settlement of litigation instituted against it during 1982. Ignore income taxes. In the 1983 financial statements the December 31, 1982, retained earnings balance, as previously reported, should be adjusted by a
a. $150,000 credit.
b. $350,000 debit.
c. $500,000 debit.
d. $650,000 credit.

1N84#32. On June 30, 1984, Gilman, Inc., declared and issued a 10% common stock dividend. Prior to this dividend, Gilman had 20,000 shares of $10 par value common stock issued and outstanding. The market price of Gilman's common stock on June 30, 1984, was $24 per share. As a result of this stock dividend, by what amount should Gilman's total stockholders' equity increase (decrease)?
a. $0
b. $ 20,000
c. $ 28,000
d. $(48,000)

2N83#6. The following information pertains to a property dividend of marketable securities, declared by Tyson Corp.:

	Fair value
Declaration date—December 20, 1982	$300,000
Record date—January 10, 1983	310,000
Distribution date—January 28, 1983	305,000

Carrying value of the securities on Tyson's books was $200,000. How much gain should Tyson recognize in 1982 as a result of this property dividend?
a. $0
b. $100,000
c. $105,000
d. $110,000

2M83#5. During 1983, Olsen Company discovered that the ending inventories reported on its financial statements were understated as follows:

Year	*Understatement*
1980	$50,000
1981	$60,000
1982	$0

Olsen ascertains year-end quantities on a periodic inventory system. These quantities are converted to dollar amounts using the FIFO cost flow method. Assuming no other accounting errors, Olsen's retained earnings at December 31, 1982, will be
a. Correct.
b. $ 60,000 understated.
c. $ 60,000 overstated.
d. $110,000 understated.

1N82#9. On September 30, 1982, Grey Company issued 3,000 shares of its $10 par common stock in connection with a stock dividend. No entry was made on the stock dividend declaration date. The market value per share immediately after issuance was $15. Grey's stockholders' equity accounts immediately before issuance of the stock dividend shares were as follows:

Common stock, $10 par; 50,000 shares authorized; 20,000 shares outstanding	$200,000
Additional paid-in capital	300,000
Retained earnings	350,000

What should be the retained earnings balance immediately after the stock dividend?
a. $305,000
b. $320,000
c. $327,500
d. $350,000

2N82#1. Anton Corporation's retained earnings at December 31, 1981, amounted to $1,000,000. On that date Anton declared a property dividend. The property to be distributed had a carrying value of $100,000 and a fair market value of $180,000 at the declaration date. How much gain should Anton recognize as a result of this distribution?
a. $0
b. $ 80,000
c. $100,000
d. $180,000

1N81#11. Effective April 27, 1981, the stockholders of Bennett Corporation approved a two-for-one split of the company's common stock, and an increase in authorized common shares from 100,000 shares (par value $20 per share) to 200,000 shares (par value $10 per share). Bennett's stockholders' equity accounts immediately before issuance of the stock split shares were as follows:

Common stock, par value $20; 100,000 shares authorized; 50,000 shares outstanding	$1,000,000
Additional paid-in capital (premium of $3 per share on issuance of common stock)	150,000
Retained earnings	1,350,000

What should be the balances in Bennett's additional paid-in capital and retained earnings accounts immediately after the stock split is effected?

	Additional paid-in capital	*Retained earnings*
a.	$0	$ 500,000
b.	$ 150,000	$ 350,000
c.	$ 150,000	$1,350,000
d.	$1,150,000	$ 350,000

2N81#18. George Corporation declared a cash dividend of $10,000 on January 17, 1981. This dividend was payable to stockholders of record on February 10, 1981, and payment was made on March 2, 1981. As a result of this cash dividend, working capital will increase (decrease) on

	January 17	*February 10*
a.	$0	$0
b.	$10,000	$0
c.	$(10,000)	$0
d.	$(10,000)	$10,000

2N81#19. Doe Corporation owned 1,000 shares of Spun Corporation. These shares were purchased in 1977 for $9,000. On September 15, 1981, Doe declared a property dividend of one share of Spun for every ten shares of Doe held by a stockholder. On that date, when the market price of Spun was $14 per share, there were 9,000 shares of Doe outstanding. What gain and net reduction in retained earnings would result from this property dividend?

	Gain	*Net reduction in retained earnings*
a.	$0	$ 8,100
b.	$0	$12,600
c.	$4,500	$ 3,600
d.	$4,500	$ 8,100

2N81#38. On July 1, 1981, Boulevard Corporation split its common stock 4 for 1, when the market value was $80 per share. Prior to the split, Boulevard had 50,000 shares of $12 par value common stock issued and outstanding. After the split, the par value of the stock
a. Remained the same.
b. Was reduced by $3 per share.
c. Was reduced to $3 per share.
d. Was reduced by $4 per share.

2M81#13. On December 31, 1979, the stockholders' equity section of Mercedes Corporation was as follows:

Common stock, par value $5; authorized 30,000 shares; issued and outstanding, 9,000 shares	$ 45,000
Additional paid-in capital	58,000
Retained earnings	73,000
Total stockholders' equity	$176,000

On April 1, 1980, the board of directors declared a 10% stock dividend, and accordingly 900 additional shares were issued, when the fair market value of the stock was $8 per share. For the three months ended March 31, 1980, Mercedes sustained a net loss of $16,000.

What amount should Mercedes report as retained earnings as of April 1, 1980?
a. $49,800
b. $52,500
c. $54,300
d. $57,000

2N80#5. Sprint Company has 1,000,000 shares of common stock authorized with a par value of $3 per share, of which 600,000 shares are outstanding. When the market value was $8 per share, Sprint issued a stock dividend whereby for each six shares held one share was issued as a stock dividend. The par value of the stock was not changed. What entry should Sprint make to record this transaction?

a.	Retained earnings	$300,000	
	Common stock		$300,000
b.	Additional paid-in capital	300,000	
	Common stock		300,000
c.	Retained earnings	800,000	
	Common stock		300,000
	Additional paid-in capital		500,000
d.	Additional paid-in capital	800,000	
	Common stock		300,000
	Retained earnings		500,000

2N80#6. The following information was abstracted from the accounts of the Oar Corporation at December 31, 1979:

Total income since incorporation	$840,000
Total cash dividends paid	260,000
Proceeds from sale of donated stock	90,000
Total value of stock dividends distributed	60,000
Excess of proceeds over cost of treasury stock sold	140,000

What should be the current balance of retained earnings?

a. $520,000
b. $580,000
c. $610,000
d. $670,000

2N80
Items 7 and 8 are based on the following information:

The Shannon Corporation began operations on January 1, 1978. Financial statements for the years ended December 31, 1978, and 1979, contained the following errors:

	December 31, 1978	December 31, 1979
Ending inventory	$16,000 understated	$15,000 overstated
Depreciation expense	$ 6,000 understated	—
Insurance expense	$10,000 overstated	$10,000 understated
Prepaid insurance	$10,000 understated	—

In addition, on December 31, 1979, fully depreciated machinery was sold for $10,800 cash, but the sale was not recorded until 1980. There were no other errors during 1978 or 1979 and no corrections have been made for any of the errors.

7. Ignoring income taxes, what is the total effect of the errors on 1979 net income?
   a. Net income overstated by $30,200.
   b. Net income overstated by $11,000.
   c. Net income overstated by $5,800.
   d. Net income understated by $1,800.

8. Ignoring income taxes, what is the total effect of the errors on the amount of working capital at December 31, 1979?
   a. Working capital overstated by $4,200.
   b. Working capital understated by $5,800.
   c. Working capital understated by $6,000.
   d. Working capital understated by $9,800.

2N80#12. The following changes in account balances of the Marvel Corporation during 1979 are presented below:

	Increase
Assets	$356,000
Liabilities	108,000
Capital stock	240,000
Additional paid-in capital	24,000

Assuming there were no charges to retained earnings other than for a dividend payment of $52,000, the net income for 1979 should be

a. $16,000
b. $36,000
c. $52,000
d. $68,000

2N80#16. On June 30, 1979, the stockholders' equity section of Comet Corporation was as follows:

Common stock, par value $25; authorized 500,000 shares; issued and outstanding 300,000 shares	$ 7,500,000
Additional paid-in capital	1,400,000
Retained earnings	1,890,000
	$10,790,000

On July 1, 1979, the board of directors of Comet declared a 5% stock dividend on common stock, to be distributed on August 10, 1979, to shareholders of record on July 31, 1979. The market price of Comet's common stock on each of these dates was as follows:

July 1	$30
July 31	31
August 10	32

What is the amount of the charge to retained earnings as a result of the declaration and distribution of this stock dividend?

a. $375,000
b. $450,000
c. $465,000
d. $480,000

2M80#13. The Culture Corporation had the following classes of stock outstanding as of December 31, 1979:

Common stock, $20 par value, 20,000 shares outstanding.
Preferred stock, 6%, $100 par value, cumulative and fully participating, 1,000 shares outstanding.

Dividends on preferred stock have been in arrears for 1977 and 1978. On December 31, 1979, a total cash dividend of $90,000 was declared. What are the amounts of dividends payable on both the common and preferred stock, respectively?

a. $57,600 and $32,400.
b. $62,400 and $27,600.
c. $67,200 and $22,800.
d. $72,000 and $18,000.

D. Treasury Stock and Other Contra Accounts

1M83#15. Victor Corporation was organized on January 2, 1982, with 100,000 authorized shares of $10 par value common stock. During 1982 Victor had the following capital transactions:

- January 5—issued 75,000 shares at $14 per share.
- December 27—purchased 5,000 shares at $11 per share.

Victor used the par value method to record the purchase of the treasury shares. What would be the balance in the paid-in capital from treasury stock account at December 31, 1982?

a. $0
b. $ 5,000
c. $15,000
d. $20,000

1N82#10. The stockholders' equity account balances of Rice Corporation as of December 31, 1981, are as follows:

Common stock, $10 par; 50,000 shares authorized; 25,000 shares issued	$250,000
Paid-in capital in excess of par	50,000
Retained earnings	100,000
Less treasury stock, 2,000 shares at cost	(32,000)
Total stockholders' equity	$368,000

On January 4, 1982, Rice sold the treasury shares on the open market at $20 per share. The entry to record this sale on Rice's books should include a credit to

a. Gain from sale of treasury stock of $8,000.
b. Paid-in capital from treasury stock of $8,000.
c. Retained earnings of $8,000.
d. Paid-in capital from treasury stock of $12,000.

2M81#6. An analysis of the stockholders' equity of Barton Corporation as of January 1, 1980, is as follows:

Common stock, par value $20; authorized 200,000 shares; issued and outstanding, 120,000 shares	$2,400,000
Additional paid-in capital	280,000
Retained earnings	1,540,000
Total	$4,220,000

Barton uses the cost method of accounting for treasury stock and during 1980 recorded the following transactions:

- Acquired 2,000 shares of its stock for $70,000
- Sold 1,200 treasury shares at $40 per share
- Retired the remaining treasury shares

Assuming no other equity transactions occurred during 1980, what should Barton report at December 31, 1980, as additional paid-in capital?

a. $274,000
b. $280,000
c. $304,000
d. $316,000

2N80#4. Newton Corporation was organized on January 1, 1977. On that date it issued 200,000 shares of its $10 par value common stock at $15 per share (400,000 shares were authorized). During the period January 1, 1977, through December 31, 1979, Newton reported net income of $750,000 and paid cash dividends of $380,000. On January 5, 1979, Newton purchased 12,000 shares of its common stock at $12 per share. On December 31, 1979, 8,000 treasury shares were sold at $8 per share. Newton used the cost method of accounting for treasury shares. What is the total stockholders' equity of Newton as of December 31, 1979?

a. $3,290,000
b. $3,306,000
c. $3,338,000
d. $3,370,000

2M80#16. Theodore Corporation's stockholders' equity section of its December 31, 1978, balance sheet was as follows:

Common stock, authorized 1,000,000 shares; issued 900,000 shares; outstanding 800,000 shares; $10 par value	$ 9,000,000
Capital in excess of par	2,200,000
Retained earnings	5,600,000
Less shares held in treasury, 100,000 shares at cost	(800,000)
Total stockholders' equity	$16,000,000

During 1979 Theodore reissued 50,000 shares of the treasury stock at $12 per share. No other treasury stock transactions occurred during 1979. What amount and type of income should be reported on this transaction on the financial statements for the year ended December 31, 1979?

a. $0.
b. $100,000 ordinary income.
c. $200,000 ordinary income.
d. $200,000 extraordinary income.

2M80#19. Jordon Corporation has 80,000 shares of $50 par value common stock authorized, issued and outstanding. All 80,000 shares were issued at $55 per share. Retained earnings of the company amounts to $160,000. If 1,000 shares of Jordon common stock are reacquired at $62 and the par value method of accounting for treasury stock is used, stockholders' equity would decrease by

a. $0
b. $50,000
c. $55,000
d. $62,000

E. Stock Options, Warrants, and Rights

1N84#30. On March 2, 1983, Tooker Company purchased 2,000 shares of Apex Corporation's newly issued 6% cumulative $100 par value preferred stock for $217,000. Each preferred share carried one detachable stock warrant which entitled the holder to acquire, at $17, one share of Apex $10 par common stock. On March 3, 1983, the market price of the preferred stock (without warrants) was $90 per share and the market price of the stock warrants was $15 per warrant. On December 23, 1983, Tooker sold all the stock warrants for $35,200. The gain on the sale of the stock warrants was

a. $0
b. $1,200
c. $4,200
d. $5,200

1N82#17. On January 1, 1981, Stoner Corporation granted stock options to key employees for the purchase of 10,000 shares of the company's common stock at $25 per share. The options are intended to compensate employees for the next two years. The options are exercisable within a four-year period beginning January 1, 1983, by grantees still in the employ of the company. The market price of Stoner's common stock was $32 per share at the date of grant. Stoner plans to distribute up to 10,000 shares of treasury stock when options are exercised. The treasury stock was acquired by Stoner during 1980 at a cost of $28 per share and was recorded under the cost method. Assume that no stock options were terminated during the year. How much should Stoner charge to compensation expense for the year ended December 31, 1981?

a. $70,000
b. $35,000
c. $30,000
d. $15,000

2M81
Items 10 and 11 are based on the following information:

On January 1, 1980, Karva Company granted James Dean, the president, an option to purchase 1,000 shares of Karva's $30 par value common stock at $40 per share. The option becomes exercisable on January 1, 1982, after Dean has completed two years of service.

10. Assume that the quoted market prices of Karva's $30 par value common stock were as follows:

January 1, 1980	$40
December 31, 1980	55

As a result of the option granted to Dean, Karva should recognize compensation expense in 1980 of

a. $0
b. $ 5,000
c. $ 7,500
d. $15,000

11. Assume that the quoted market prices of Karva's $30 par value common stock were as follows:

January 1, 1980	$45
December 31, 1980	55

As a result of the option granted to Dean, Karva should recognize compensation expense in 1980 of

a. $0
b. $2,500
c. $5,000
d. $7,500

2M81#12. On July 1, 1980, Metaro Corporation purchased for $108,000, 2,000 shares of Jean Corporation's newly issued 6% cumulative $20 par value preferred stock. Each share also had one stock warrant attached, which entitled the holder to acquire, at $19, one share of Jean $10 par value common stock for each two warrants held. On July 2, 1980, the market price of the preferred stock (without warrants) was $50 per share and the market price of the stock warrants was $10 per warrant. On September 1, 1980, Metaro sold all the stock warrants for $19,800.

What should be the gain on the sale of the stock warrants?

a. $0
b. $ 800
c. $1,800
d. $9,800

F. Reorganization and Change in Entity

1N84#31. Clark Corporation was organized to consolidate the resources of Allen Company and Bell Company in a business combination appropriately accounted for by the pooling of interests method. On January 1, 1984, Clark issued 62,000 shares of its $10 par value voting stock in exchange for all of the outstanding capital stock of Allen and Bell. The equity accounts of Allen and Bell on this data were:

	Allen	*Bell*	*Total*
Common stock, at par value	$200,000	$400,000	$600,000
Additional paid-in capital	25,000	35,000	60,000
Retained earnings	120,000	210,000	330,000
	$345,000	$645,000	$990,000

What is the balance in Clark's additional paid-in capital account immediately after the business combination?

a. $0
b. $ 40,000
c. $ 60,000
d. $390,000

1N84#33. Carroll, Inc., accomplished a quasi-reorganization effective December 31, 1983. Immediately prior to the quasi-reorganization the stockholders' equity was as follows:

Common stock, par value $10 per share; authorized, issued and outstanding, 400,000 shares	$4,000,000
Additional paid-in capital	600,000
Retained earnings (deficit)	(900,000)
	$3,700,000

Under the terms of the quasi-reorganization: (1) the par value of the common stock was reduced from $10 per share to $5 per share, and (2) plant and equipment (net) was written down by $1,200,000. Immediately after the quasi-reorganization, the total stockholders' equity should be

a. $2,500,000
b. $2,000,000
c. $1,700,000
d. $1,600,000

1N84#35. Decker Company filed a voluntary bankruptcy petition on August 15, 1984, and the statement of affairs reflects the following amounts:

	Book carrying amount	*Estimated current value*
Assets:		
Assets pledged with fully secured creditors	$150,000	$185,000
Assets pledged with partially secured creditors	90,000	60,000
Free assets	210,000	160,000
	$450,000	$405,000
Liabilities:		
Liabilities with priority	$ 35,000	
Fully secured creditors	130,000	
Partially secured creditors	100,000	
Unsecured creditors	270,000	
	$535,000	

Assume that the assets are converted into cash at the estimated current values and the business is liquidated. How much cash will be available to pay unsecured nonpriority claims?

a. $240,000
b. $180,000
c. $160,000
d. $125,000

1N83#8. Scott Company filed a voluntary bankruptcy petition on June 25, 1982, and the statement of affairs reflects the following amounts:

	Book carrying amount	*Estimated current value*
Assets:		
Assets pledged with fully secured creditors	$160,000	$190,000
Assets pledged with partially secured creditors	90,000	60,000
Free assets	200,000	140,000
	$450,000	$390,000
Liabilities:		
Liabilities with priority	$ 20,000	
Fully secured creditors	130,000	
Partially secured creditors	100,000	
Unsecured creditors	260,000	
	$510,000	

Assume that the assets are converted into cash at the estimated current values and the business is liquidated.

What total amount of cash should the partially secured creditors receive?
  a. $ 60,000
  b. $ 84,000
  c. $ 90,000
  d. $100,000

2M83#12. Following is the condensed balance sheet of Fine Products, an individual proprietorship, at December 31, 1982:

Current assets	$100,000
Equipment	200,000
Accumulated depreciation	(120,000)
	$180,000
Liabilities	$ 40,000
Silvia Fine, Capital	140,000
	$180,000

Fair market values of assets at December 31, 1982, were as follows:

Current assets	$110,000
Equipment	290,000

The liabilities were fairly stated at book values. On January 2, 1983, the proprietorship was incorporated, with 2,000 shares of $20 par value common stock issued. How much should be credited to additional paid-in capital?
  a. $100,000
  b. $140,000
  c. $320,000
  d. $360,000

2N82
Items 3 and 4 are based on the following data:

On March 1, 1982, Agront Corporation issued 10,000 shares of its $1 par value common stock for all of the outstanding stock of Barcelo Corporation, when the fair market value of Agront's stock was $50 per share. In addition, Agront made the following payments in connection with this business combination:

Finder's and consultants' fees	$20,000
SEC registration costs	7,000

3. If this business combination is treated as a pooling of interests, how much should be recorded as business combination expenses in 1982?
  a. $0
  b. $ 7,000
  c. $20,000
  d. $27,000

4. If this business combination is treated as a purchase, Agront's acquisition cost would be capitalized at
  a. $0
  b. $500,000
  c. $520,000
  d. $527,000

1N81#13. On January 1, 1980, Platt Company issued 200,000 additional shares of $5 par value voting common stock in exchange for all of Drew Company's voting common stock in a business combination appropriately accounted for by the pooling of interests method. Immediately before the business combination, the total stockholders' equity of Platt was $16,000,000 and of Drew was $4,000,000. Net income for the year ended December 31, 1980, was $1,500,000 for Platt, exclusive of any consideration of Drew, and $450,000 for Drew. During 1980, Platt paid $750,000 in dividends to its stockholders. The consolidated stockholders' equity at December 31, 1980, should be
  a. $17,750,000
  b. $19,250,000
  c. $21,200,000
  d. $21,950,000

2N81
Items 36 and 37 are based on the following data:

On January 1, 1981, Rolan Corporation issued 10,000 shares of common stock in exchange for all of Sandin Corporation's outstanding stock. Condensed balance sheets of Rolan and Sandin immediately prior to the combination are as follows:

	Rolan	*Sandin*
Total assets	$1,000,000	$500,000
Liabilities	$ 300,000	$150,000
Common stock ($10 par)	200,000	100,000
Retained earnings	500,000	250,000
Total equities	$1,000,000	$500,000

Rolan's common stock had a market price of $60 per share on January 1, 1981. The market price of Sandin's stock was not readily ascertainable.

36. Assuming that the combination of Rolan and Sandin qualifies as a purchase, Rolan's investment in Sandin's stock will be stated in Rolan's balance sheet immediately after the combination in the amount of
  a. $100,000
  b. $350,000
  c. $500,000
  d. $600,000

37. Assuming that the combination of Rolan and Sandin qualifies as a pooling of interests, rather than as a purchase, what should be reported as retained earnings in the consolidated balance sheet immediately after the combination?
   a. $500,000
   b. $600,000
   c. $750,000
   d. $850,000

1M81#20. Livingston Corporation has incurred losses from operations for several years. At the recommendation of the newly hired president, the board of directors voted to implement a quasi-reorganization, subject to stockholder approval. Immediately prior to the restatement, on June 30, 1980, Livingston's balance sheet was as follows:

Current assets	$ 550,000
Property, plant and equipment (net)	1,350,000
Other assets	200,000
	$2,100,000
Total liabilities	$ 600,000
Common stock	1,600,000
Additional paid-in capital	300,000
Retained earnings (deficit)	(400,000)
	$2,100,000

The stockholders approved the quasi-reorganization effective July 1, 1980, to be accomplished by a reduction in other assets of $150,000, a reduction in property, plant and equipment (net) of $350,000, and appropriate adjustment to the capital structure. To implement the quasi-reorganization, Livingston should reduce the common stock account in the amount of
   a. $0
   b. $100,000
   c. $400,000
   d. $600,000

2N80

Items 17 and 18 are based on the following information:

The Gaston Company has sustained heavy losses over a period of time, and conditions warrant that Gaston undergo a quasi-reorganization at December 31, 1979.

Selected balance sheet items prior to the quasi-reorganization are as follows:

• Inventory was recorded in the accounting records at December 31, 1979, at its market value of $6,000,000. Cost was $6,500,000.

• Property, plant, and equipment was recorded in the accounting records at December 31, 1979, at $12,000,000 net of accumulated depreciation. The appraised value was $8,000,000.

• Stockholders' equity on December 31, 1979, was as follows:

Common stock, par value $10 per share; authorized, issued and outstanding, 700,000 shares	$7,000,000
Capital in excess of par	1,600,000
Retained earnings (deficit)	(900,000)
	$7,700,000

• Under the terms of the quasi-reorganization, the par value of the common stock is to be reduced from $10 per share to $5 per share.

17. Immediately after the quasi-reorganization has been accomplished, the total of stockholders' equity should be
   a. $3,300,000
   b. $3,500,000
   c. $3,700,000
   d. $4,200,000

18. Immediately after the quasi-reorganization has been accomplished, retained earnings (deficit) should be
   a. $0
   b. $ (200,000)
   c. $(4,400,000)
   d. $(4,900,000)

1M80#2. On June 30, 1979, Needle Corporation purchased for cash at $10 per share all 100,000 shares of the outstanding common stock of Thread Company. The total appraised value of identifiable assets less liabilities of Thread was $1,400,000 at June 30, 1979, including the appraised value of Thread's property, plant, and equipment (its only noncurrent asset) of $250,000. The consolidated balance sheet of Needle Corporation and its wholly owned subsidiary at June 30, 1979, should reflect
   a. A deferred credit (negative goodwill) of $150,000.
   b. Goodwill of $150,000.
   c. A deferred credit (negative goodwill) of $400,000.
   d. Goodwill of $400,000.

G. Partnerships

1N84#18. The partnership agreement of Jones, King, and Lane provides for annual distribution of profit or loss in the following order:

- Jones, the managing partner, receives a bonus of 20% of profit.
- Each partner receives 15% interest on average capital investment.
- Residual profit or loss is divided equally.

The average capital investments for 1983 were:

Jones	$100,000
King	200,000
Lane	300,000

How much of the $90,000 partnership profit for 1983 should be distributed to Jones?
a. $15,000
b. $27,000
c. $30,000
d. $33,000

1N84#34. Ames and Buell are partners who share profits and losses in the ratio of 3:2, respectively. On August 31, 1984, their capital accounts were as follows:

Ames	$70,000
Buell	60,000
	$130,000

On that date they agreed to admit Carter as a partner with a one-third interest in the capital and profits and losses, for an investment of $50,000. The new partnership will begin with a total capital of $180,000. Immediately after Carter's admission, what are the capital balances of the partners?

	Ames	*Buell*	*Carter*
a.	$60,000	$60,000	$60,000
b.	$63,333	$56,667	$60,000
c.	$64,000	$56,000	$60,000
d.	$70,000	$60,000	$50,000

2M83#11. Luca and Mira formed a partnership on July 1, 1982, and contributed the following assets:

	Luca	*Mira*
Cash	$65,000	$100,000
Realty		300,000

The realty was subject to a mortgage of $25,000, which was assumed by the partnership. The partnership agreement provides that Luca and Mira will share profits and losses in the ratio of one-third and two-thirds, respectively. Mira's capital account at July 1, 1982, should be
a. $400,000
b. $391,667
c. $375,000
d. $310,000

1N82
Items 11 and 12 are based on the following information:

The following condensed balance sheet is presented for the partnership of Cooke, Dorry, and Evans who share profits and losses in the ratio of 4:3:3, respectively:

Cash	$ 90,000
Other assets	820,000
Cooke, loan	30,000
	$940,000
Accounts payable	$210,000
Evans, loan	40,000
Cooke, capital	300,000
Dorry, capital	200,000
Evans, capital	190,000
	$940,000

11. Assume that the assets and liabilities are fairly valued on the balance sheet and the partnership decides to admit Fisher as a new partner with a one-fourth interest. No goodwill or bonus is to be recorded. How much should Fisher contribute in cash or other assets?
a. $172,500
b. $175,000
c. $230,000
d. $233,333

12. Assume that instead of admitting a new partner, the partners decide to liquidate the partnership. If the other assets are sold for $600,000, how much of the available cash should be distributed to Cooke?
a. $170,000
b. $182,000
c. $212,000
d. $300,000

2N81#25. On June 30, 1981, the balance sheet for the partnership of Coll, Maduro, and Prieto, together with their respective profit and loss ratios, were as follows:

Assets, at cost	$180,000
Coll, loan	$ 9,000
Coll, capital (20%)	42,000
Maduro, capital (20%)	39,000
Prieto, capital (60%)	90,000
Total	$180,000

Coll has decided to retire from the partnership. By mutual agreement, the assets are to be adjusted to their fair value of $216,000 at June 30, 1981. It was agreed that the partnership would pay Coll $61,200 cash for Coll's partnership interest, including Coll's loan which is to be repaid in full. No goodwill is to be recorded. After Coll's retirement, what is the balance of Maduro's capital account?
a. $36,450
b. $39,000
c. $45,450
d. $46,200

2N81#26. The following condensed balance sheet is presented for the partnership of Alexander, Bell and Graham, who share profits and losses in the ratio of 6:2:2, respectively:

Cash	$ 80,000
Other assets	280,000
Total	$360,000
Liabilities	$140,000
Alexander, capital	100,000
Bell, capital	100,000
Graham, capital	20,000
Total	$360,000

The partners agreed to liquidate the partnership after selling the other assets. If the other assets are sold for $160,000, how much should Alexander receive upon liquidation?

a. $ 25,000
b. $ 26,000
c. $ 28,000
d. $100,000

2N81#27. On July 1, 1981, Motta and Puleo formed a partnership, agreeing to share profits and losses in the ratio of 4:6, respectively. Motta contributed a parcel of land that cost him $25,000. Puleo contributed $50,000 cash. The land was sold for $50,000 on July 1, 1981, four hours after formation of the partnership. How much should be recorded in Motta's capital account on formation of the partnership?

a. $10,000
b. $20,000
c. $25,000
d. $50,000

2M80#4. James Dixon, a partner in an accounting firm, decided to withdraw from the partnership. Dixon's share of the partnership profits and losses was 20%. Upon withdrawing from the partnership he was paid $74,000 in final settlement for his interest. The total of the partners' capital accounts **before** recognition of partnership goodwill prior to Dixon's withdrawal was $210,000. After his withdrawal the remaining partners' capital accounts, excluding their share of goodwill, totaled $160,000. The total agreed upon goodwill of the firm was

a. $120,000
b. $140,000
c. $160,000
d. $250,000

2M80
Items 8 and 9 are based on the following information:

Presented below is the condensed balance sheet of the partnership of Kane, Clark and Lane who share profits and losses in the ratio of 6:3:1, respectively:

Cash	$ 85,000
Other assets	415,000
	$500,000
Liabilities	$ 80,000
Kane, capital	252,000
Clark, capital	126,000
Lane, capital	42,000
	$500,000

8. The assets and liabilities on the above balance sheet are fairly valued and the partnership wishes to admit Bayer with a 25% interest in the capital and profits/losses **without** recording goodwill or bonus. How much should Bayer contribute in cash or other assets?

a. $ 70,000
b. $105,000
c. $125,000
d. $140,000

9. Assume that the partners agree instead to sell Bayer 20% of their respective capital and profit and loss interests for a total payment of $90,000. The payment by Bayer is to be made directly to the individual partners. The partners agree that implied goodwill is to be recorded prior to the acquisition by Bayer. What are the capital balances of Kane, Clark and Lane, respectively, after the acquisition by Bayer?

a. $198,000; $ 99,000; $33,000
b. $201,600; $100,800; $33,600
c. $216,000; $108,000; $36,000
d. $255,600; $127,800; $42,600

V. Measurement and Presentation of Income and Expense Items, Their Relationship to Matching and Periodicity, and Their Relationship to Generally Accepted Accounting Principles

A. Sales or Revenues

1N84#38. Frey Company bought a building at auction on June 30, 1983, for $2,000,000. On July 15, 1983, before occupying the building, Frey sold it to a creditworthy company for $2,400,000. Frey received a cash down payment of $600,000 and a first mortgage note at the market rate of interest, for the balance. No additional payments were required of the buyer until July 1984. How much gain should Frey recognize on July 15, 1983, from the sale of the building?

a. $0
b. $100,000
c. $400,000
d. $600,000

1N84#39. Landy Construction Company has consistently used the percentage-of-completion method of recognizing income. During 1981 Landy started work on a $7,500,000 fixed-price construction contract, which was completed in 1984. The accounting records disclosed the following data:

	Cumulative contract costs incurred	*Estimated costs at completion*
At 12/31/81	$ 500,000	$5,000,000
At 12/31/82	2,750,000	5,500,000
At 12/31/83	5,000,000	6,000,000

How much income should Landy have recognized on this contract for the year ended December 31, 1983?

a. $250,000
b. $416,667
c. $500,000
d. $562,500

1N84#40. On July 1, 1983, Barker Company purchased 20% of the outstanding common stock of Acme Company for $400,000 when the fair value of Acme's net assets was $2,000,000. Barker does not have the ability to exercise significant influence over the operating and financial policies of Acme. The following data concerning Acme are available for 1983:

	12 months ended 12/31/83	*6 months ended 12/31/83*
Net income	$300,000	$160,000
Dividends declared and paid	190,000	100,000

In its income statement for the year ended December 31, 1983, how much income should Barker report from this investment?

a. $20,000
b. $32,000
c. $38,000
d. $60,000

1N84#41. On January 1, 1984, Grafton Company sold a machine to Sussex Company, and simultaneously leased it back for one year. Pertinent data are as follows:

Sales price	$240,000
Carrying value at 12/31/83	$210,000
Estimated remaining useful life at 12/31/83	12 years
Monthly rental under leaseback	$ 2,000
Interest rate implicit in lease	12%
Present value of lease rentals at 1/1/84	$ 22,736

How much profit should Grafton recognize on January 1, 1984, on the sale of the machine?

a. $0
b. $ 7,264
c. $22,736
d. $30,000

1N84#42. On January 1, 1983, Riley Company sold a building which cost $380,000 and had accumulated depreciation of $160,000 on the date of sale. Riley received as consideration a $400,000 noninterest bearing note due on January 1, 1986. There was no established exchange price for the building, and the note had no ready market. The prevailing rate of interest for a note of this type at January 1, 1983, was 10%. The present value of $1 at 10% for three periods is 0.75. What amount of interest income should be included in Riley's 1983 income statement?

a. $40,000
b. $33,333
c. $30,000
d. $13,500

1N84#43. Dalton Company owns 1,000 shares of Reber, Inc., $10 par value common stock which was acquired on July 1, 1983, at a cost of $19,000. On April 30, 1984, Reber issued a 10% common stock dividend when the market price of its common stock was $24 per share. As a result of this stock dividend, Dalton should record dividend income of

a. $2,400
b. $1,900
c. $1,000
d. $0

1N84#47. Grady Company purchased a machine on January 1, 1983, for $720,000. The machine is expected to have a ten-year life, no residual value, and will be depreciated by the straight-line method. On January 1, 1983, the machine was leased to Lesch Company for a three-year period, at an annual rental of $125,000. Grady could have sold the machine for $860,000 instead of leasing it. Grady incurred maintenance and other executory costs of $15,000 in 1983 under the terms of the lease. What amount should Grady report as operating profit on this leased asset for the year ended December 31, 1983?

a. $ 38,000
b. $ 53,000
c. $125,000
d. $178,000

1N84#48. Walker, Inc., a U.S. corporation, ordered a machine from Pfau Company of West Germany on July 15, 1983, for 100,000 marks when the spot rate for marks was $.4955. Pfau shipped the machine on September 1, 1983, and billed Walker for 100,000 marks. The spot rate was $.4875 on this date. Walker bought 100,000 marks and paid the invoice on October 25, 1983, when the spot rate was $.4855 . In Walker's income statement for the year ended December 31, 1983, how much should be reported as foreign exchange gain?

a. $0
b. $ 200
c. $ 800
d. $1,000

1M84#22. Hadley Construction Company has consistently used the percentage-of-completion method of recognizing income. During 1982 Hadley started work on a $3,000,000 construction contract which was completed in 1983. The accounting records provided the following data:

	1982	*1983*
Progress billings	$1,100,000	$1,900,000
Costs incurred	900,000	1,800,000
Collections	700,000	2,300,000
Estimated cost to complete	1,800,000	—

How much income should Hadley have recognized in 1982?

a. $100,000
b. $110,000
c. $150,000
d. $200,000

1M84#27. Hiller Company manufactures equipment which is sold or leased. On December 31, 1983, Hiller leased equipment to Drake Company for a five-year period expiring December 31, 1988, at which date ownership of the leased asset is transferred to Drake. Equal payments under the lease are $20,000 and are due on December 31 of each year. The first payment was made on December 31, 1983. Collectibility of the remaining lease payments is reasonably assured and Hiller has no material cost uncertainties. The normal sales price of the equipment is $77,000 and Hiller's cost is $60,000. For the year ended December 31, 1983, how much income should Hiller recognize from the lease transaction?

a. $0
b. $17,000
c. $20,000
d. $23,000

1M84#28. On January 1, 1982, Bartell Company sold its idle plant facility to Cooper, Inc., for $1,050,000. On this date the plant had a depreciated cost of $735,000. Cooper paid $150,000 cash on January 1, 1982, and signed a $900,000 note bearing interest at 10%. The note was payable in three annual installments of $300,000 beginning January 1, 1983. Bartell appropriately accounted for the sale under the installment method. Cooper made a timely payment of the first installment on January 1, 1983, of $390,000, which included interest of $90,000 to date of payment. At December 31, 1983, Bartell has deferred gross profit of

a. $153,000
b. $180,000
c. $225,000
d. $270,000

1M84#29. On November 1, 1983, Allen Corporation issued shares of its voting common stock in exchange for all of the voting common stock of Bell, Inc., in a business combination appropriately accounted for by the pooling of interests method. The separate net income for each company was as follows:

	Allen	*Bell*
12 months ended December 31, 1983	$1,000,000	$600,000
2 months ended December 31, 1983	110,000	100,000

During September Bell paid $300,000 in dividends to its stockholders. For the year ended December 31, 1983, the consolidated net income should be

a. $ 210,000
b. $1,100,000
c. $1,300,000
d. $1,600,000

1M84#31. On January 4, 1982, Wynn, Inc., bought 15% of Parr Corporation's common stock for $60,000. Wynn appropriately accounts for this investment by the cost method. The following data concerning Parr are available for the years ended December 31, 1982 and 1983:

	1982	*1983*
Net income	$30,000	$90,000
Dividends paid	None	80,000

In its income statement for the year ended December 31, 1983, how much should Wynn report as income from this investment?

a. $ 4,500
b. $ 9,000
c. $12,000
d. $13,500

1M84#32. Decker Company assigns some of its patents to other enterprises under a variety of licensing agreements. In some instances advance royalties are received when the agreements are signed and, in others, royalties are remitted within 60 days after each license year end. The following data are included in Decker's December 31 balance sheets:

	1982	*1983*
Royalties receivable	$90,000	$85,000
Unearned royalties	60,000	40,000

During 1983 Decker received royalty remittances of $200,000. In its income statement for the year ended December 31, 1983, Decker should report royalty income of

a. $195,000
b. $215,000
c. $220,000
d. $225,000

1M84#33. Wagner Company, a lessor of office machines, purchased a new machine for $500,000 on January 1, 1983, which was leased the same day to Lee Company. The machine is expected to have a ten-year life, and will be depreciated $50,000 per year. The lease is for a three-year period expiring January 1, 1986, and provides for annual rental payments of $100,000 beginning January 1, 1983. Additionally, Lee paid $60,000 as a lease bonus to obtain a three-year lease. In its 1983 income statement, what amount should Wagner report as operating profit on this leased asset?

a. $ 50,000
b. $ 70,000
c. $100,000
d. $110,000

1N83#26. On July 1, 1982, Diamond, Inc., paid $1,000,000 for 100,000 shares (40%) of the outstanding common stock of Ashley Corporation. At that date the net assets of Ashley totaled $2,500,000 and the fair values of all of Ashley's identifiable assets and liabilities were equal to their book values. Ashley reported net income of $500,000 for the year ended December 31, 1982, of which $300,000 was for the six months ended December 31, 1982. Ashley paid cash dividends of $250,000 on September 30, 1982. In its income statement for the year ended December 31, 1982, what amount of income should Diamond report from its investment in Ashley?

a. $ 80,000
b. $100,000
c. $120,000
d. $200,000

1N83#32. On December 27, 1982, Holden Company sold a building, receiving as consideration a $400,000 noninterest bearing note due in three years. The building cost $380,000 and the accumulated depreciation was $160,000 at the date of sale. The prevailing rate of interest for a note of this type was 12%. The present value of $1 for three periods at 12% is 0.71. In its 1982 income statement, how much gain or loss should Holden report on the sale?

a. $ 20,000 gain.
b. $ 64,000 gain.
c. $ 96,000 loss.
d. $180,000 gain.

1N83#37. On January 1, 1982, Kiner Company formed a foreign branch. The branch purchased merchandise at a cost of 720,000 local currency units (LCU) on February 15, 1982. The purchase price was equivalent to $180,000 on this date. The branch's inventory at December 31, 1982, consisted solely of merchandise purchased on February 15, 1982, and amounted to 240,000 LCU. The exchange rate was 6 LCU to $1 on December 31, 1982, and the average rate of exchange was 5 LCU to $1 for 1982. Assume that the LCU is the functional currency of the branch. In Kiner's December 31, 1982, balance sheet, the branch inventory balance of 240,000 LCU should be translated into United States dollars at

a. $40,000
b. $48,000
c. $60,000
d. $84,000

2N83#2. Adams Construction Co. uses the percentage-of-completion method of accounting. During 1982, Adams contracted to build an apartment house for Roper for $10,000,000. Adams estimated that total costs would amount to $8,000,000 over the period of construction. In connection with this contract, Adams incurred $1,000,000 of construction costs during 1982. Adams billed and collected $1,500,000 from Roper in 1982. How much gross profit should Adams recognize in 1982?

a. $300,000
b. $250,000
c. $187,500
d. $125,000

1M83#17. Wildwood Company's usual sales terms are net 60 days, F.O.B. shipping point. Sales, net of returns and allowances, totaled $2,000,000 for the year ended December 31, 1982, before year-end adjustment. Additional information is as follows:

- Goods with an invoice amount of $40,000 were billed to a customer on January 3, 1983. The goods were shipped on December 31, 1982.
- On January 5, 1983, a customer notified Wildwood that goods billed and shipped to it on December 21, 1982, were lost in transit. The invoice amount was $50,000.
- On December 27, 1982, Wildwood authorized a customer to return, for full credit, goods shipped and billed at $25,000 on December 15, 1982. The returned goods were received by Wildwood on January 4, 1983, and a $25,000 credit memo was issued on the same date.

Wildwood's adjusted net sales for 1982 should be

a. $1,965,000
b. $1,975,000
c. $1,990,000
d. $2,015,000

2M83#9. Empire Corporation owns an office building and leases the offices under a variety of rental agreements involving rent paid monthly in advance and rent paid annually in advance. Not all tenants make timely payments of their rent. Empire's balance sheets contained the following information:

	1982	*1981*
Rentals receivable	$3,100	$2,400
Unearned rentals	6,000	8,000

During 1982, Empire received $20,000 cash from tenants. How much rental revenue should Empire record for 1982?

a. $17,300
b. $18,700
c. $21,300
d. $22,700

2M83
Items 21 and 22 are based on the following information:

On January 2, 1982, Doe Company leased a new crane from Leasement Corp. under the following terms:

- Noncancellable for eight years
- Annual lease payments of $10,000 beginning January 2, 1982, through January 2, 1989
- Nonrenewable
- Crane to be returned to Leasement on January 2, 1990

Doe properly recorded the crane as a "Leased asset — crane" in the amount of $52,880, based on a 14% interest rate implicit in the lease. Leasement paid $56,000 for the crane on December 31, 1981. The crane has an estimated useful life of ten years, with no salvage value. Both Doe and Leasement use the straight-line method of depreciation.

22. How much interest income should Leasement recognize in 1982?

a. $10,000
b. $ 7,403
c. $ 6,003
d. $0

2M83
Items 38 through 40 are based on the following information:

The general ledger of Rosson Corporation showed the following investments at January 1, 1982:

Common stock:	
Joyce Corp. (2,000 shares)	$ 100,000
James Corp. (8,000 shares)	400,000
Real estate:	
Vacant lot #4 (leased to Whit Corp.)	1,000,000
Other:	
Textbook, *Ancient Accounting* (original preparation and printing costs)	80,000
Total investments	$1,580,000

Rosson owns 2% of Joyce and 30% of James. A majority of Rosson's directors are also directors of James. The Whit lease is for ten years, starting December 31, 1980, at an annual rental of $60,000. In addition, Whit paid a nonrefundable rental deposit of $100,000 on December 31, 1980, as well as a security deposit of $50,000 to be refunded upon expiration of the lease. *Ancient Accounting,* a textbook written by Rosson's personnel in 1979, was sold to Endless Hall, Inc., for royalties of 20% of sales. Royalties are payable semiannually on April 30 (for sales in July through December of the previous year) and on October 31 (for sales in January through June of the same year).

During the year ended December 31, 1982, Rosson received cash dividends of $2,000 from Joyce and $24,000 from James, whose 1982 net incomes were $80,000 and $200,000, respectively. Rosson also received $60,000 of rent from Whit in 1982, and the following royalty checks from Endless:

	April 30	*October 31*
1981	$12,000	$15,000
1982	10,000	13,000

Endless estimated that sales of *Ancient Accounting* would total $70,000 for the last half of 1982.

38. How much dividend income should Rosson report in its 1982 income statement?

a. $0
b. $ 2,000
c. $26,000
d. $61,600

39. How much rental revenue should Rosson report in its 1982 income statement?

a. $0
b. $60,000
c. $70,000
d. $75,000

40. How much royalty revenue should Rosson report in its 1982 income statement?

a. $23,000
b. $25,000
c. $26,000
d. $27,000

1N82#14. On April 1, 1980, Pine Construction Company entered into a fixed-price contract to construct an apartment building for $6,000,000. Pine appropriately accounts for this contract under the percentage-of-completion method. Information relating to the contract is as follows:

	At December 31, 1980	*At December 31, 1981*
Percentage of completion	20%	60%

Estimated costs at completion	$4,500,000	$4,800,000
Income recognized (cumulative)	$ 300,000	$ 720,000

What is the amount of contract costs incurred during the year ended December 31, 1981?

a. $1,200,000
b. $1,920,000
c. $1,980,000
d. $2,880,000

2N82#13. Tollner Company sold a machine to Snead Corporation on January 1, 1980, for which the cash sales price was $379,100. Snead entered into an installment sales contract with Tollner, calling for annual payments of $100,000 for five years, including interest at 10%. The first payment was due on December 31, 1980. How much interest income should be recorded by Tollner in 1981?

a. $27,910
b. $31,701
c. $37,910
d. $50,000

1M82#19. Melville Company leased equipment from Rice Corporation on July 1, 1981, for an eight-year period expiring June 30, 1989. Equal payments under the lease are $600,000 and are due on July 1 of each year. The first payment was made on July 1, 1981. The rate of interest contemplated by Melville and Rice is 10%. The cash selling price of the equipment is $3,520,000 and the cost of the equipment on Rice's accounting records is $2,800,000. Assuming that the lease is appropriately recorded as a sales-type lease, what is the amount of profit on the sale and interest income that Rice should record for the year ended December 31, 1981?

a. $0 and $0.
b. $0 and $146,000.
c. $720,000 and $146,000.
d. $720,000 and $160,000.

2M82#1. On November 30, 1980, Tyrola Publishing Company, located in Colorado, executed a contract with Ernest Blyton, an author from Canada, providing for payment of 10% royalties on Canadian sales of Blyton's book. Payment is to be made in Canadian dollars each January 10 for the previous year's sales. Canadian sales of the book for the year ended December 31, 1981, totaled $50,000 Canadian. Tyrola paid Blyton his 1981 royalties on January 10, 1982. Tyrola's 1981 financial statements were issued on February 1, 1982. Spot rates for Canadian dollars were as follows:

November 30, 1980	$.87
January 1, 1981	$.88
December 31, 1981	$.89
January 10, 1982	$.90

How much should Tyrola accrue for royalties payable at December 31, 1981?

a. $4,350
b. $4,425
c. $4,450
d. $4,500

2M82#6. Bicar Corporation owns 10% of the outstanding capital stock of Kopel, Inc. On December 31, 1981, when Kopel's retained earnings was $50,000, Bicar received a plot of land from Kopel in a nonreciprocal transfer. Kopel's cost of the land was $7,000 and its fair market value at December 31, 1981, was $15,000. At what amount should this land be recorded on Bicar's books?

a. $0
b. $ 5,000
c. $ 7,000
d. $15,000

2M82#7. Dale, Inc., a U.S. corporation, bought machine parts from Kluger Company of West Germany on March 1, 1981, for 30,000 marks, when the spot rate for marks was $.4895. Dale's year-end was March 31, 1981, when the spot rate for marks was $.4845. Dale bought 30,000 marks and paid the invoice on April 20, 1981, when the spot rate was $.4945. How much should be shown in Dale's income statements as foreign exchange gain or loss for the years ended March 31, 1981 and 1982?

	1981	*1982*
a.	$0	$0
b.	$0	$150 loss
c.	$150 loss	$0
d.	$150 gain	$300 loss

2M82#11. On December 31, 1981, Paulison Corporation signed an operating lease for a warehouse with Outwater Company for ten years, at $12,000 per year. Upon execution of the lease, Outwater paid Paulison $24,000, covering rent for the first two years. Paulison closed its books on December 31, and correctly reported $24,000 as gross rental income on its 1981 federal income tax return. How much should be shown in Paulison's 1981 income statement as gross rental income?

a. $0
b. $ 1,000
c. $12,000
d. $24,000

1N81#16. Damon, Inc., leased equipment to Union Company on January 1, 1980. The lease is for an eight-year period expiring January 1, 1988. The first equal annual payment of $800,000 was made on January 1, 1980. The cash selling price of the equipment is

$4,695,000, which is equal to the present value of the lease payments at 10%. Damon had purchased the equipment for $4,200,000. The lease is appropriately recorded as a sale by Damon. What amount of interest income should Damon record in 1980 as a result of the lease?

a. $389,500
b. $420,000
c. $469,500
d. $560,000

2N81#33. On January 1, 1980, Cardow Corporation sold a machine to Simpson Corporation, and simultaneously leased it back for three years. Pertinent data are:

Estimated remaining useful life at December 31, 1979	10 years
Sales price	$120,000
Carrying value at December 31, 1979	$ 20,000
Monthly rental under leaseback	$ 1,266
Interest rate implicit in lease	12%
Present value of lease rentals ($1,266 for 36 months @ 12%)	$ 38,116

How much profit should Cardow recognize on January 1, 1980, on the sale of the machine?

a. $0
b. $ 33,333
c. $ 61,884
d. $100,000

2N81#40. Bucca Warehousing Corporation bought a building at auction on June 30, 1980, for $1,000,000. On July 2, 1980, before occupying the building, Bucca sold it to a triple-A rated company for $1,200,000. Bucca received a cash down payment of $300,000 and a first mortgage note at the market rate of interest, for the balance. No additional payments were required until 1981. On September 1, 1980, an independent appraiser valued the property at $1,500,000. On its 1980 income tax return, Bucca reported the sale on the installment basis. How much gain should Bucca recognize in its income statement for the year ended December 31, 1980?

a. $0
b. $ 50,000
c. $200,000
d. $300,000

1M81#5. Mercer Construction Company recognizes income under the percentage-of-completion method of reporting income from long-term construction contracts. During 1978 Mercer entered into a fixed-price contract to construct a bridge for $15,000,000. Contract costs incurred and estimated costs to complete the bridge were as follows:

	Cumulative contract costs incurred	*Estimated costs to complete*
At December 31, 1978	$ 1,000,000	$8,000,000
At December 31, 1979	5,500,000	5,500,000
At December 31, 1980	10,000,000	2,000,000

How much income should Mercer recognize on the above contract for the year ended December 31, 1980?

a. $ 500,000
b. $ 833,333
c. $1,350,000
d. $2,500,000

2M81#38. Howard Company sublet a portion of its warehouse for five years at an annual rental of $18,000, beginning on May 1, 1980. The tenant paid one year's rent in advance, which Howard recorded as a credit to unearned rental income. Howard reports on a calendar-year basis. The adjustment on December 31, 1980, should be

		Dr.	*Cr.*
a.	No entry		
b.	Unearned rental income	$ 6,000	
	Rental income		$ 6,000
c.	Rental income	$ 6,000	
	Unearned rental income		$ 6,000
d.	Unearned rental income	$12,000	
	Rental income		$12,000

1N80#14. Benedict Company leased equipment to Mark, Inc., on January 1, 1978. The lease is for an eight-year period expiring December 31, 1985. The first of 8 equal annual payments of $600,000 was made on January 1, 1978. Benedict had purchased the equipment on December 29, 1977, for $3,200,000. The lease is appropriately accounted for as a sales-type lease by Benedict. Assume that the present value at January 1, 1978, of all rent payments over the lease term discounted at a 10% interest rate was $3,520,000. What amount of interest income should Benedict record in 1979 (the second year of the lease period) as a result of the lease?

a. $261,200
b. $292,000
c. $320,000
d. $327,200

1N80#16. Arrow Company purchased a machine on January 1, 1979, for $1,440,000 for the purpose of leasing it. The machine is expected to have an eight-year life from date of purchase, no residual value, and be depreciated on the straight-line basis. On February 1, 1979, the machine was leased to Baxter Company for a three-year period ending January 31, 1982, at a monthly rental of $30,000. Additionally, Baxter paid $72,000 to Arrow on February 1, 1979, as a lease bonus. What is the amount of income before income taxes that Arrow should report on this leased asset for the year ended December 31, 1979?

a. $172,000
b. $187,000
c. $222,000
d. $237,000

2N80#10. On January 1, 1979, Barton Corporation acquired as a long-term investment for $500,000, a 30% common stock interest in Buffer Company. On that date, Buffer had net assets with a book value and current market value of $1,600,000. During 1979 Buffer reported net income of $180,000 and declared and paid cash dividends of $40,000. What is the maximum amount of income that Barton should report from this investment for 1979?

a. $12,000
b. $42,000
c. $53,500
d. $54,000

1M80#14. On January 1, 1979, the Carpet Company lent $100,000 to its supplier, Loom Corporation, evidenced by a note, payable in 5 years. Interest at 5% is payable annually with the first payment due on December 31, 1979. The going rate of interest for this type of loan is 10%. The parties agreed that Carpet's inventory needs for the loan period will be met by Loom at favorable prices. Assume that the present value (at the going rate of interest) of the $100,000 note is $81,000 at January 1, 1979. What amount of interest income, if any, should be included in Carpet's 1979 income statement?

a. $0
b. $4,050
c. $5,000
d. $8,100

B. Cost of Goods Sold

1M84#34. On September 30, 1983, a fire at Brock Company's only warehouse caused severe damage to its entire inventory. Based on recent history, Brock has a gross profit of 30% of net sales. The following information is available from Brock's records for the nine months ended September 30, 1983:

Inventory at 1/1/83	$ 550,000
Purchases	3,000,000
Net sales	4,000,000

A physical inventory disclosed usable damaged goods which Brock estimates can be sold to a jobber for $50,000. Using the gross profit method, the estimated cost of goods sold for the nine months ended September 30, 1983, should be

a. $2,050,000
b. $2,485,000
c. $2,750,000
d. $2,800,000

1M83#18. Paulson Company had inventories at the beginning and end of 1982 as follows:

	1/1/82	*12/31/82*
Raw materials	$55,000	$65,000
Work-in-process	96,000	80,000
Finished goods	50,000	85,000

During 1982 the following costs were incurred:

Raw materials purchased	$400,000
Direct-labor payroll	220,000
Factory overhead	330,000

Paulson's cost of goods sold for 1982 was

a. $921,000
b. $956,000
c. $966,000
d. $979,000

1M82#13. The following information is available for Cooke Company for 1981:

Net sales	$1,800,000
Freight-in	45,000
Purchase discounts	25,000
Ending inventory	120,000

The gross margin is 40% of net sales. What is the cost of goods available for sale?

a. $ 840,000
b. $ 960,000
c. $1,200,000
d. $1,220,000

2M82#14. The following costs were among those incurred by Woodcroft Corporation during 1981:

Merchandise purchased for resale	$500,000
Salesmen's commissions	40,000
Interest on notes payable to vendors	5,000

How much should be charged to the cost of the merchandise purchases?

a. $500,000
b. $505,000
c. $540,000
d. $545,000

2N81#6. The following information is available for Wagner Corporation for 1980:

Sales	$500,000
Beginning inventory	180,000
Ending inventory	95,000
Freight-out	45,000
Purchases	215,000

How much is the cost of goods sold?
a. $200,000
b. $300,000
c. $345,000
d. $440,000

C. Expenses

1N84
Items 44 and 45 are based on the following information:

Parker Corporation reports operating expenses in two categories: (1) selling and (2) general and administrative. The adjusted trial balance at December 31, 1983, included the following expense accounts:

Accounting and legal fees	$175,000
Advertising	150,000
Freight-out	75,000
Interest	60,000
Loss on sale of long-term investment	30,000
Officers' salaries	225,000
Rent for office space	180,000
Sales salaries and commissions	140,000

One-half of the rented premises is occupied by the sales department.

44. How much of the expenses listed above should be included in Parker's selling expenses for 1983?
a. $290,000
b. $365,000
c. $380,000
d. $455,000

45. How much of the expenses listed above should be included in Parker's general and administrative expenses for 1983?
a. $490,000
b. $520,000
c. $550,000
d. $580,000

1N84#46. Wayne, Inc., incurred the following costs during the year ended December 31, 1983:

Laboratory research aimed at discovery of new knowledge	$150,000
Radical modification to the formulation of a chemical product	125,000
Research and development costs reimbursable under a contract to perform research and development for Apex Chemicals, Inc.	350,000
Testing for evaluation of new products	250,000

The total amount to be classified and expensed as research and development for 1983 is
a. $150,000
b. $275,000
c. $525,000
d. $625,000

1N84#49. Bergen Company purchased factory equipment which was installed and put into service January 3, 1982, at a total cost of $128,000. Salvage value was estimated at $8,000. The equipment is being depreciated over eight years by the double declining balance method. For the year 1983, how much depreciation expense should Bergen record on this equipment?
a. $22,500
b. $24,000
c. $30,000
d. $32,000

1N84#51. The balance in Mitchell Corporation's foreign exchange loss account was $6,500 at December 31, 1983, before any necessary year-end adjustment relating to the following:

- Mitchell had a $10,000 translation loss resulting from the translation of the accounts of its wholly owned foreign subsidiary for the year ended December 31, 1983.
- Mitchell had an account payable to an unrelated foreign supplier payable in the local currency of the foreign supplier on January 27, 1984. The U.S. dollar equivalent of the payable was $50,000 on the November 28, 1983, invoice date, and it was $53,000 on December 31, 1983.

In Mitchell's 1983 consolidated income statement, what amount should be included as foreign exchange loss?
a. $19,500
b. $16,500
c. $ 9,500
d. $ 6,500

1N84#52. On January 1, 1983, Baxter Corporation granted John Eliot, the president, an option to purchase 10,000 shares of Baxter's $20 par value common stock at $30 per share. The option is intended as additional compensation to Eliot for the next two years. The option is exercisable within a four-year period beginning January 1, 1985. The market price of Baxter's common stock was $35 per share on January 1, 1983, and $37

on December 31, 1983. As a result of the stock option, Baxter should charge compensation expense in 1983 of
a. $25,000
b. $35,000
c. $50,000
d. $75,000

1N84#53. For the year ended December 31, 1983, Matlock Company incurred the following infrequent losses:

- A loss of $80,000 was incurred on the abandonment of equipment used in the business.
- A loss of $150,000 was sustained as a result of hurricane damage to a warehouse.
- Several factories were shut down during a major strike by employees. Shutdown expenses totaled $170,000.

In its 1983 income statement, how much should Matlock report as total infrequent charges, **not** considered extraordinary?
a. $ 80,000
b. $170,000
c. $250,000
d. $400,000

1N84#54. Dickey Company prepared an aging of its accounts receivable at December 31, 1983, and determined that the net realizable value of the receivables at that date is $100,000. Additional information is available as follows:

Accounts receivable, 12/31/82	$ 96,000
Accounts receivable, 12/31/83	108,000
Allowance for doubtful accounts, 12/31/82 — credit balance	12,000
Accounts written off as uncollectible during 1983	10,000

Dickey's bad debt expense for the year ended December 31, 1983, is
a. $ 6,000
b. $ 8,000
c. $10,000
d. $14,000

1N84#55. On July 1, 1981, Apgar Publishing, Inc., acquired the copyright to a book owned by Seaford Company for royalties of 20% of future sales. Royalties are payable semiannually on March 31 for sales in July through December of the preceding year, and on September 30 for sales in January through June of the same year. During 1982 and 1983, Apgar remitted the following royalty checks to Seaford:

	March 31	*September 30*
1982	$18,000	$21,000
1983	15,000	19,000

Apgar estimated that sales of the Seaford book would total $110,000 for the last half of 1983. How much royalty expense for this book should Apgar report in its 1983 income statement?
a. $34,000
b. $35,000
c. $36,000
d. $41,000

1N84#56. On December 1, 1983, Studley Company leased office space for ten years at a monthly rental of $25,000. On the same date Studley paid the lessor the following amounts:

Security deposit (refundable upon expiration of the lease)	$ 20,000
First month's rent	25,000
Last month's rent	25,000
Installation of new walls and offices	120,000

For the year ended December 31, 1983, Studley should record expense of
a. $ 25,000
b. $ 26,000
c. $ 45,000
d. $ 51,000

1M84#35. The following expenses were among those incurred by Sayre Company during 1983:

Accounting and legal fees	$160,000
Interest	60,000
Loss on sale of office equipment	25,000
Rent for office space	200,000

One-quarter of the rented premises is occupied by the sales department. How much of the expenses listed above should be included in Sayre's general and administrative expenses for 1983?
a. $310,000
b. $335,000
c. $360,000
d. $370,000

1M84#36. Blackwood Corporation had a $20,000 translation loss adjustment resulting from the translation of the accounts of its wholly owned foreign subsidiary for the year ended December 31, 1983. Blackwood also had a receivable from a foreign customer which was payable in the local currency of the foreign customer. On December 31, 1982, this receivable for 100,000 local currency units (LCU) was appropriately included in Blackwood's balance sheet at $55,000. When the receivable was collected on February 10, 1983, the exchange rate was 2 LCU to $1. In Blackwood's 1983 consolidated income statement, what amount should be included as foreign exchange loss?
a. $0
b. $ 5,000
c. $20,000
d. $25,000

1M84#37. Based on the aging of its accounts receivable at December 31, 1983, Drury Company determined that the net realizable value of the receivables at that date is $95,000. Additional information is as follows:

Accounts receivable at 12/31/83	$110,000
Allowance for doubtful accounts at 1/1/83 — credit balance	16,000
Accounts written off as uncollectible at 9/30/83	12,000

Drury's bad debt expense for the year ended December 31, 1983, was

a. $11,000
b. $13,000
c. $15,000
d. $19,000

1M84#38. During 1983 Mann Company developed a new product to be marketed beginning January 1, 1984. The following costs, incurred during 1983 in the development of this product, are expected to be recovered by December 31, 1985:

Research and development departmental costs	$365,000
Materials and supplies consumed	110,000
Compensation paid to research consultants	200,000
	$675,000

How much of the costs incurred should Mann charge to expense in 1983?

a. $675,000
b. $475,000
c. $225,000
d. $0

1M84#39. On January 1, 1983, Cody Company as lessee signed a ten-year noncancellable lease for equipment stipulating annual payments of $50,000 starting at the end of the first year. Cody appropriately treated this transaction as a capital lease. The ten lease payments have a present value of $251,000 at January 1, 1983, based on implicit interest of 15%. For the year ended December 31, 1983, Cody should record interest expense of

a. $0
b. $24,900
c. $30,150
d. $37,650

1M84#41. Martin Company had the following account balances for the year ended December 31, 1983:

Interest expense	$120,000
Loss on disposal of noncurrent investment	80,000
Writedown of plant and equipment to estimated realizable value	60,000

In its income statement for 1983, how much should Martin report as total extraordinary items?

a. $0
b. $140,000
c. $180,000
d. $200,000

1M84#52. On January 1, 1983, Kipling Company paid $12,000 to White Properties as a lease bonus to obtain a four-year nonrenewable lease on premises beginning on that date. Additionally, Kipling will pay $14,000 annual rent on each December 31 throughout the term of the lease. For the year ended December 31, 1983, Kipling should report rent expense at

a. $12,000
b. $14,000
c. $17,000
d. $26,000

1N83#6. Essex Company purchased a machine on July 1, 1982, for $300,000. The machine has an estimated useful life of five years and a salvage value of $40,000. The machine is being depreciated from the date of acquisition by the 150% declining balance method. For the year ended December 31, 1982, Essex should record depreciation on this machine of

a. $39,000
b. $45,000
c. $60,000
d. $90,000

1N83#10. Frye Company incurred research and development costs in 1982 as follows:

Equipment acquired for use in research and development projects	$1,000,000
Depreciation on the above equipment	150,000
Materials used	200,000
Compensation costs of personnel	500,000
Outside consulting fees	100,000
Indirect costs appropriately allocated	250,000

The total research and development costs charged in Frye's 1982 income statement should be

a. $ 650,000
b. $ 900,000
c. $1,200,000
d. $1,800,000

1N83#11. On July 1, 1981, Stone Company lent $120,000 to a foreign supplier, evidenced by an interest bearing note due on July 1, 1982. The note is denominated in the currency of the borrower and was equivalent to 840,000 local currency units (LCU) on the loan date. The note principal was appropriately included at $140,000 in the receivables section of Stone's December 31, 1981, balance sheet. The note principal was repaid to Stone on the July 1, 1982, due date when the exchange rate was 8 LCU to $1. In its income statement for the year ended December 31, 1982, what amount should Stone include as a foreign currency transaction gain or loss?

a. $0.
b. $15,000 loss.
c. $15,000 gain.
d. $35,000 loss.

1N83#12. On January 15, 1981, Ward Company purchased 10,000 shares (10%) of the outstanding common stock of Diamond, Inc., for $25 per share. The purchase was appropriately recorded as a long-term investment and accounted for under the cost method. The market price of the stock was $24 per share on December 31, 1981. During 1982 Diamond experienced severe financial difficulties and Ward disposed of its entire investment in Diamond stock for $10 per share on November 10, 1982. Ward's effective income tax rate was 40% for 1982. In its income statement for the year ended December 31, 1982, how much should Ward report as unusual loss from disposal of the long-term investment?

a. $150,000
b. $140,000
c. $ 90,000
d. $ 84,000

1N83#36. Effective with the year ended December 31, 1982, Grimm Company adopted a new accounting method for estimating the allowance for doubtful accounts at the amount indicated by the year-end aging of accounts receivable. The following data are available:

Allowance for doubtful accounts, 1/1/82	$24,000
Provision for doubtful accounts during 1982 (2% on credit sales of $1,000,000)	20,000
Bad debts written off, 11/30/82	19,500
Estimated uncollectible accounts per aging, 12/31/82	21,000

After year-end adjustment, the bad debt expense for 1982 would be

a. $16,500
b. $19,500
c. $20,000
d. $21,000

1N83#38. On January 1, 1982, Chestnut Corporation adopted a noncontributory pension plan. The actuarial consultant recommended a 7% interest rate, and applying an acceptable actuarial method, determined that the past service cost is $500,000 at January 1, 1982. The normal cost will be funded fully each year and the past service cost will be amortized and funded over 20 years. Information relating to the plan for 1982 is as follows:

Normal pension cost	$100,000
Past service cost amortized and funded	47,200

In its income statement for the year ended December 31, 1982, Chestnut should report pension expense of

a. $100,000
b. $135,000
c. $147,200
d. $150,000

1N83#39. Marsh, Inc., has an incentive compensation plan under which the president is paid a bonus of 10% of corporate income in excess of $100,000 before income tax but after deducting the bonus. The 1982 income before income tax and bonus is $430,000. The bonus should be

a. $39,091
b. $36,667
c. $33,000
d. $30,000

2M83#16. On July 1, 1982, Seco Company sold machinery to an unaffiliated company for its fair value of $275,000. Simultaneously, Seco leased back the machinery at $750 per month for five years, with no option to renew the lease or to repurchase the machinery. At July 1, 1982, this machinery had a book value of $250,000 and a remaining useful life of ten years. Seco's rent expense for this machinery for the year ended December 31, 1982, should be

a. $0
b. $2,000
c. $2,500
d. $4,500

1M82#14. On January 1, 1981, Dorr Company borrowed $200,000 from its major customer, Pine Corporation, evidenced by a note payable in three years. The promissory note did not bear interest. Dorr agreed to supply Pine's inventory needs for the loan period at favorable prices. The going rate of interest for this type of loan is 14%. Assume that the present value (at the going rate of interest) of the $200,000 note is $135,000 at January 1, 1981. What amount of interest expense should be included in Dorr's 1981 income statement?

a. $0
b. $18,900
c. $21,667
d. $28,000

2M82#17. In 1981 Collazo Corporation developed a new product to be marketed in 1982. The following costs were incurred during 1981 in the development of this product:

Research and development departmental costs	$400,000
Materials and supplies consumed	100,000
Compensation paid to research consultants	120,000
Total	$620,000

These costs are expected to be recovered by 1984. How much should be charged to income in 1981 for research and development costs?

a. $0
b. $120,000
c. $500,000
d. $620,000

1N81#7. Kipling Company does not carry insurance on its office typewriters. On December 28, 1980, one of its typewriters was stolen. The book value of the typewriter at the date of the burglary was $500. On January 15, 1981, another typewriter was vandalized. The book value of that typewriter, depreciated to the date of the vandalism, was $600. On February 1, 1981, before the issuance of the 1980 financial statements, the vandalized typewriter was repaired for $120. The total amount of losses that should be charged to income in 1980 is

a. $0
b. $ 500
c. $ 620
d. $1,100

2N81#10. Tech Products, Inc., incurred the following costs during the year ended December 31, 1980:

Laboratory research aimed at discovery of new knowledge	$ 7,000
Design, construction, and testing of pre-production prototypes	9,000
Design of tools, jigs, molds, and dies involving new technology	15,000
Quality control during commercial production, including routine testing of products	18,000

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

a. $ 7,000
b. $22,000
c. $31,000
d. $49,000

2N81#32. U. S. Importers, Inc., bought 5,000 dolls from Latin American Exporters, S. A., at 12.5 pesos each, when the rate of exchange was $.08 per peso. How much should U. S. Importers record on its books as the total dollar cost for the merchandise purchased?

a. $ 400
b. $ 625
c. $5,000
d. $6,250

1M81#14. During 1980 Trencher, Inc., incurred research and development costs as follows:

Experimental and development costs of a new process patented in December 1980	$250,000
Testing for evaluation of new products	300,000
Modification of the formulation of a chemical product	150,000
Research and development costs reimbursable under a contract with Quality Chemicals Corporation	500,000

What amount should Trencher report as research and development expense in its income statement for the year ended December 31, 1980?

a. $0
b. $450,000
c. $700,000
d. $950,000

2N80#14. The December 31, 1979, trial balance of the Mark Company before adjustments included the following accounts:

	Debit	*Credit*
Allowance for doubtful accounts	$ 2,000	
Sales		$830,000
Sales returns and allowances	10,000	

Mark estimates its bad debts based upon 2% of net sales. What amount should Mark record as bad debt expense for 1979?

a. $14,400
b. $14,600
c. $16,400
d. $16,600

2N80#15. On January 2, 1975, Hermes Corporation acquired a patent for $192,000. The patent had a remaining legal life of twelve years and an estimated useful life of eight years. In January 1979 Hermes paid $12,000 in legal fees in a successful defense of the patent. What should Hermes record as patent amortization for 1979?

a. $16,000
b. $24,000
c. $25,500
d. $27,000

1M80

Items 10 and 11 are based on the following information:

Fox Company, a dealer in machinery and equipment, leased equipment to Tiger, Inc., on July 1, 1979. The lease is appropriately accounted for as a sale by Fox and as a purchase by Tiger. The lease is for a 10-year period (the useful life of the asset) expiring June 30, 1989. The first of 10 equal annual payments of $500,000 was made on July 1, 1979. Fox had purchased the equipment for $2,675,000 on January 1, 1979, and established a list selling price of $3,375,000 on the equipment. Assume that the present value at July 1, 1979, of the rent payments over the lease term discounted at 12% (the appropriate interest rate) was $3,165,000.

11. Assuming that Tiger uses straight-line depreciation, what is the amount of depreciation and interest expense that Tiger should record for the year ended December 31, 1979?

a. $158,250 and $159,900.
b. $158,250 and $189,900.
c. $168,750 and $159,900.
d. $168,750 and $189,900.

2M80#2. The Plaza Company was organized late in 1978 and began operations on January 1, 1979. Plaza is engaged in conducting market research studies on behalf of manufacturers. Prior to the start of operations, the following costs were incurred:

Attorney's fees in connection with organization of Plaza	$ 4,000
Improvements to leased offices prior to occupancy	7,000
Meetings of incorporators, state filing fees and other organization expenses	5,000
	$16,000

Plaza has elected to record amortization of organization costs over the maximum period allowable under generally accepted accounting principles. What is the amount of organization costs amortized for 1979?

a. $ 225
b. $ 400
c. $1,800
d. $3,200

2M80#3. The following information is available for the Leer Company:

Credit sales during 1979	$200,000
Allowance for doubtful accounts at December 31, 1978	2,400
Accounts receivable deemed worthless and written off during 1979	3,200

During 1979 Leer estimated that its bad debt expense should be 1% of all credit sales.

As a result of a review and aging of accounts receivable in early January 1980, it has been determined that an allowance for doubtful accounts of $2,200 is needed at December 31, 1979. What amount should Leer record as bad debt expense for the year ended December 31, 1979?

a. $2,000
b. $3,000
c. $3,200
d. $4,200

2M80#20. The Vandiver Corporation provides an incentive compensation plan under which its president receives a bonus equal to 10% of the corporation's income in excess of $100,000 before income tax but after the bonus. If income before income tax and bonus is $320,000 and the effective tax rate is 40%, the amount of the bonus would be

a. $20,000
b. $22,000
c. $29,090
d. $32,000

D. Provision for Income Tax

1N84#50. Bishop Corporation began operations in 1981 and had operating losses of $200,000 in 1981 and $150,000 in 1982. For the year ended December 31, 1983, Bishop had pretax book income of $300,000. For the three-year period 1981 to 1983, assume an income tax rate of 40% and no permanent or timing differences between book and taxable income. In Bishop's 1983 income statement, how much should be reported as current income tax expense?

a. $0
b. $ 40,000
c. $ 60,000
d. $120,000

1N84#59. At December 31, 1983, Tower Corporation accrued, for financial statement reporting, an estimated loss of $100,000 on disposal of unused plant equipment. During 1983 Tower collected $150,000 in royalties, of which $80,000 was unearned at December 31, 1983.

Assuming an effective income tax rate of 40%, how much should Tower report as deferred income tax credit to income for 1983?

a. $ 8,000
b. $32,000
c. $40,000
d. $72,000

1M84
Items 45 and 46 are based on the following information:

Hanson Corporation's income statement for the year ended December 31, 1983, shows pretax book income of $400,000. The following items for 1983 are treated differently on the tax return and on the books:

	Per tax return	*Per books*
Royalty income	$ 20,000	$ 40,000
Depreciation expense	125,000	100,000
Amortization of goodwill	None	15,000

Assume that Hanson's effective tax rate for 1983 is 40%.

45. Of Hanson's total income tax expense, how much should be reported as current portion of income taxes in Hanson's 1983 income statement?

a. $142,000
b. $148,000
c. $160,000
d. $166,000

46. Of Hanson's total income tax expense, how much should be reported as deferred income taxes in Hanson's 1983 income statement?

a. $ 8,000
b. $10,000
c. $12,000
d. $18,000

2N83#8. Agard Company's effective income tax rate is 40%. For the year ended December 31, 1982, Agard's income statement reflected depletion expense of $1,000,000 based on the cost of assets being depleted. However, Agard properly deducted $4,000,000 for percentage depletion on its 1982 tax return. How much should be reported as provision for deferred income taxes in Agard's 1982 financial statements?

a. $1,600,000
b. $1,200,000
c. $ 400,000
d. $0

2N83#9. Andan Corp. purchased machinery in 1982 that qualified for an investment tax credit of $10,000. This machinery is being depreciated over a five-year period. Andan's 1982 taxable income and book income before income taxes was $250,000. Andan's effective income tax rate for 1982 was 40%. If Andan accounts for the investment tax credit by the flow-through method, how much should Andan report in its 1982 income statement for income tax expense?

a. $ 90,000
b. $ 96,000
c. $ 98,000
d. $100,000

2M83
Items 36 and 37 are based on the following information:

Bee Corp. prepared the following reconciliation between book income and taxable income for the year ended December 31, 1982:

Income before income taxes, per books	$500,000
Taxable income, per Form 1120	300,000
Difference	$200,000
Permanent difference — interest on municipal bonds	$ 50,000
Timing difference — lower depreciation per books	150,000
Total differences	$200,000

Bee's effective income tax rate for 1982 is 40%.
Bee reported the following information in its annual report:

Income before income taxes		$500,000
Provision for income taxes:		
Current	$?	
Deferred	?	
Net income		$

36. What amount should Bee report as the current portion of its provision for income taxes?

a. $120,000
b. $140,000
c. $180,000
d. $200,000

37. What amount should Bee report as the deferred portion of its provision for income taxes?

a. $ 20,000
b. $ 60,000
c. $ 80,000
d. $120,000

1M82#15. For calendar year 1981 Steiner Corporation reported depreciation of $300,000 in its income statement. On its 1981 income tax return Steiner reported depreciation of $500,000. Additionally, Steiner's income statement included interest income of $50,000 on municipal obligations. Assuming an income tax rate of 40%, the amount of deferred taxes reported on Steiner's 1981 income statement should be

a. $ 60,000
b. $ 80,000
c. $100,000
d. $120,000

1N81#9. Lelak Company was formed on January 1, 1979. Its machinery is being depreciated using an accelerated method of depreciation for income tax reporting and the straight-line method for financial statement reporting.

Information concerning depreciation amounts under each method is as follows:

Year	*Accelerated method*	*Straight-line method*
1979	$600,000	$400,000
1980	800,000	500,000

Assuming that the income tax rate is 40%, the amount of deferred taxes charged to expense in Lelak's 1980 income statement should be

a. $ 40,000
b. $120,000
c. $180,000
d. $200,000

E. Recurring Versus Nonrecurring Transactions and Events

1N84#19. On May 1, 1983, an erupting volcano destroyed Wilson Company's operating plant, resulting in a loss of $1,800,000, of which only $600,000 was covered by insurance. Wilson's effective income tax rate is 40%. In Wilson's income statement for the year ended December 31, 1983, this event should be reported as an extraordinary loss of

a. $ 480,000
b. $ 720,000
c. $1,200,000
d. $1,800,000

1N84#37. Art, Inc., decided on January 1, 1983, to discontinue its cinder block manufacturing division. The division, considered a reportable segment of the business, was sold on July 1, 1983. Division assets with a carrying value of $450,000 were sold for $300,000. Operating income from January 1 to June 30, 1983, for the division amounted to $90,000. Ignoring income taxes, what amount should be reported on Art's income statement for the year ended December 31, 1983, under the caption "discontinued operations"?

a. $ 60,000
b. $ 90,000
c. $150,000
d. $240,000

1M84#42. Carr Company is indebted to Apex Company under a $700,000, 12%, four-year note dated December 31, 1980. Annual interest of $84,000 was paid on December 31, 1981, and 1982. During 1983 Carr experienced financial difficulties and is likely to default on the note and interest unless concessions are made. On December 31, 1983, Apex agreed to restructure the debt as follows:

- Interest for 1983 was reduced from $84,000 to $40,000 payable on January 31, 1984.
- Interest for 1984 was waived.
- The $700,000 principal amount was reduced to $600,000.

Ignoring income taxes, how much should Carr report as extraordinary gain on debt restructure in its income statement for the year ended December 31, 1983?

a. $0
b. $ 60,000
c. $100,000
d. $144,000

1M84#44. On July 1, 1983, Tyler Corporation approved a formal plan to sell its plastics division, considered a segment of the business. The sale will occur in the first three months of 1984. The division had an operating loss of $400,000 for the six months ended December 31, 1983, and expects to incur a loss of $200,000 for the first quarter of 1984. The sales price is $22,000,000 and the carrying value at the date of sale should be $20,000,000. Tyler's effective tax rate for 1983 is 40%. For the year ended December 31, 1983, how much gain should Tyler report on disposal of the plastics division?

a. $0
b. $ 840,000
c. $1,080,000
d. $1,200,000

1N83#13. On May 1, 1982, the board of directors of Edgewood, Inc., approved a formal plan to sell its electronics division. The division is considered a segment of the business. It is expected that the actual sale will occur in the first three months of 1983. During 1982 the electronics division had a loss from operations of $1,200,000, which was incurred evenly during the year. Edgewood's effective tax rate for 1982 is 40%. For the year ended December 31, 1982, Edgewood should report a loss from operations of discontinued electronics division of

a. $240,000
b. $400,000
c. $480,000
d. $720,000

1N83#14. On July 1, 1982, Chatham, Inc., called for redemption all of its $1,000,000 face amount bonds payable outstanding at the call price of 105. As of June 30, 1982, the unamortized discount was $50,000 and the unamortized bond issue costs were $30,000. The market value of the bonds was $1,060,000 on July 1, 1982. Chatham's effective income tax rate was 40% for 1982. In its income statement for the year ended December 31, 1982, what amount should Chatham report as extraordinary gain or loss from bond redemption?

a. $0.
b. $30,000 gain.
c. $60,000 loss.
d. $78,000 loss.

1M83#14. Bricker Company is indebted to Springburn Bank under a $200,000, 16%, three-year note dated January 1, 1981. Interest, payable annually on December 31, was paid on the December 31, 1981, due date. During 1982 Bricker experienced severe financial difficulties and is likely to default on the note and interest unless a concession is made by the bank. On December 31, 1982, the bank agreed to settle the note and interest for 1982 for $10,000 cash and a tract of land having a current market value of $140,000. Bricker's acquisition cost of the land is $100,000. Ignoring income taxes, what amount should Bricker report as extraordinary gain on the debt restructure in its income statement for the year ended December 31, 1982?

a. $0
b. $ 50,000
c. $ 82,000
d. $122,000

2M83#18. Palo Corporation incurred the following losses, net of applicable taxes, for the year ended December 31, 1982:

• Loss on disposal of a segment of Palo's business	$400,000
• Loss on translation of foreign currency due to major devaluation	500,000

How much should Palo report as extraordinary losses on its 1982 income statement?

a. $0
b. $400,000
c. $500,000
d. $900,000

2M83#35. Electro Corporation had an operating loss carryforward of $250,000 at December 31, 1981, for which the benefit was fully realized at the end of 1982, when the income tax rate was 40%. For the year ended December 31, 1982, the tax benefit of the $250,000 loss carryforward should be reported as

a. An extraordinary item of $100,000.
b. A $100,000 reduction of 1982 income tax expense.
c. An extraordinary item of $150,000.
d. A $150,000 reduction of 1982 income tax expense.

2N82#19. Gulliver Company is disposing of a segment of its business. At the measurement date the net loss from the disposal is estimated to be $475,000. Included in this $475,000 are severance pay of $50,000 and employee relocation costs of $25,000, both of which are directly associated with the decision to dispose of the segment, and estimated net operating losses of the segment from the measurement date to the disposal date of $100,000. Net losses of $75,000 from operations from the beginning of the year to the measurement date are not included in the $475,000 estimated disposal loss. Ignoring income taxes, how much should be reported on Gulliver's income statement as the total loss under the heading "discontinued operations"?

a. $175,000
b. $425,000
c. $450,000
d. $550,000

2N81#35. On April 30, 1980, Empire Corporation, whose fiscal year-end is September 30, adopted a plan to discontinue the operations of Bello Division on November 30, 1980. Bello contributed a major portion of Empire's sales volume. Empire estimated that Bello would sustain a loss of $460,000 from May 1, 1980, through September 30, 1980, and would sustain an additional loss of $220,000 from October 1, 1980, to November 30, 1980. Empire also estimated that it would realize a gain of $600,000 on the sale of Bello's assets. At September 30, 1980, Empire determined that Bello had actually lost $1,120,000 for the fiscal year, of which $420,000 represented the loss from May 1 to September 30, 1980.

Ignoring income tax effects, how much should Empire report in its September 30, 1980, financial statements as gain or loss on disposal of Bello?

a. $ 40,000 loss.
b. $ 80,000 loss.
c. $180,000 gain.
d. $600,000 gain.

2N81#39. On July 1, 1981, an erupting volcano destroyed Coastal Corporation's operating plant, resulting in a loss of $1,500,000, of which only $500,000 was covered by insurance. Coastal's income tax rate is 46%. How should this event be shown in Coastal's income statement for the year ended December 31, 1981?

a. As an operating loss of $540,000, net of $460,000 income tax.
b. As an extraordinary loss of $540,000, net of $460,000 income tax.
c. As an operating loss of $1,000,000.
d. As an extraordinary loss of $1,000,000.

2M81
Items 39 and 40 are based on the following data:

Marvel Construction Co., Inc., had a net income of $600,000 for the year ended December 31, 1980, after inclusion of the following special events that occurred during the year:

- The decision was made on January 2 to discontinue the cinder block manufacturing segment.
- The cinder block manufacturing segment was actually sold on July 1.
- Operating income from January 1 to June 30 for the cinder block manufacturing segment amounted to $90,000 before taxes.
- Cinder block manufacturing equipment with a book value of $250,000 was sold for $100,000.

Marvel was subject to income tax at the rate of 40%.

39. Marvel's after-tax income from continuing operations for the year ended December 31, 1980, was
   a. $360,000
   b. $564,000
   c. $600,000
   d. $636,000

40. Marvel's aggregate income tax expense for the year ended December 31, 1980, should be
   a. $216,000
   b. $240,000
   c. $264,000
   d. $400,000

2N80
Items 2 and 3 are based on the following information:

The following condensed statement of income of Helen Corporation, a diversified company, is presented for the two years ended December 31, 1979 and 1978:

	1979	*1978*
Net sales	$10,000,000	$9,600,000
Cost of sales	6,200,000	6,000,000
Gross profit	3,800,000	3,600,000
Operating expenses	2,200,000	2,400,000
Operating income	1,600,000	1,200,000
Gain on sale of division	900,000	—
	2,500,000	1,200,000
Provision for income taxes	1,250,000	600,000
Net income	$ 1,250,000	$ 600,000

On January 1, 1979, Helen entered into an agreement to sell for $3,200,000 the assets and product line of one of its separate operating divisions. The sale was consummated on December 31, 1979, and resulted in a gain on disposition of $900,000. This division's contribution to Helen's reported income before income taxes for each year was as follows:

1979	$(640,000) loss
1978	$(500,000) loss

Assume an income tax rate of 50%.

2. In the preparation of a revised comparative statement of income, Helen should report income from continuing operations after income taxes for 1979 and 1978, respectively, amounting to
   a. $1,120,000 and $600,000.
   b. $1,120,000 and $850,000.
   c. $1,250,000 and $600,000.
   d. $1,250,000 and $850,000.

3. In the preparation of a revised comparative statement of income, Helen should report under the caption "discontinued operations" for 1979 and 1978, respectively
   a. Income of $130,000 and a loss of $250,000.
   b. Income of $130,000 and $0.
   c. Income of $260,000 and a loss of $500,000.
   d. A loss of $640,000 and a loss of $500,000.

F. Accounting Changes

1N84#60. On January 1, 1980, Clay Company purchased for $264,000 a machine to be depreciated by the straight-line method over the estimated useful life of eight years, with no salvage value. On January 1, 1983, Clay determined that the machine has a useful life of six years from the date of acquisition and will have a salvage value of $24,000. An accounting change was made in 1983 to reflect this additional data. The accumulated depreciation for this machine should have a balance at December 31, 1983, of
   a. $176,000
   b. $160,000
   c. $154,000
   d. $146,000

1M84#43. During 1983 White Company determined that machinery previously depreciated over a seven-year life had a total estimated useful life of only five years. An accounting change was made in 1983 to reflect the change in estimate. If the change had been made in 1982, accumulated depreciation would have been $1,600,000 at December 31, 1982, instead of $1,200,000. As a result of this change, the 1983 depreciation expense was $100,000 greater. The income tax rate was 40% in both years. What should be reported in White's income statement for the year ended December 31, 1983, as the cumulative effect on prior years of changing the estimated useful life of the machinery?
   a. $0
   b. $240,000
   c. $300,000
   d. $400,000

1M84#60. On December 31, 1983, Foster, Inc., appropriately changed to the FIFO cost method from the weighted-average cost method for financial statement and income tax purposes. The change will result in a $150,000 increase in the beginning inventory at January 1, 1983. Assuming a 40% income tax rate, the cumulative effect of this accounting change for the year ended December 31, 1983, is

a. $0
b. $ 60,000
c. $ 90,000
d. $150,000

2N83#7. Patel Co. bought a patent for $300,000 on January 2, 1979, at which time the patent had an estimated useful life of 10 years. On February 2, 1982, it was determined that this patent's useful life would expire at the end of 1985. How much should Patel record as amortization expense for this patent for the year ending December 31, 1983?

a. $70,000
b. $60,000
c. $52,500
d. $30,000

2M83#19. On January 1, 1979, Cabal Company bought a machine for $1,500,000. At January 1, 1979, this machine had an estimated useful life of six years, with no salvage value. Cabal uses straight-line depreciation. As a result of additional information, Cabal determined on January 1, 1982, that the machine had an estimated useful life of eight years from the date it was acquired, with no salvage value. Accordingly, the appropriate accounting change was made in 1982. How much depreciation expense for this machine should Cabal record for the year ended December 31, 1982?

a. $125,000
b. $150,000
c. $187,500
d. $250,000

1N82#15. Effective January 1, 1981, Younger Company adopted the accounting principle of expensing as incurred advertising and promotion costs. Previously, advertising and promotion costs applicable to future periods were recorded in prepaid expenses. Younger can justify the change, which was made for both financial statement and income tax reporting purposes. Younger's prepaid advertising and promotion costs totaled $500,000 at December 31, 1980. Assume that the income tax rate is 40% for 1980 and 1981. The adjustment for the effect of this change in accounting principle should result in a net charge against income in the 1981 income statement of

a. $0
b. $200,000
c. $300,000
d. $500,000

2M82#5. On January 2, 1979, Tiri Corporation acquired machinery at a cost of $150,000. This machinery was being depreciated by the double declining balance method over an estimated useful life of ten years, with no residual value. At the beginning of 1981, it was decided to change to the straight-line method of depreciation. Ignoring income tax considerations, the cumulative effect of this accounting change is

a. $0
b. $24,000
c. $28,200
d. $54,000

1M81#8. Shannon Company was formed on January 1, 1978, and used an accelerated method of depreciation on its machinery until January 1, 1980. At that time, Shannon adopted the straight-line method of depreciation for the machinery previously acquired as well as for any new machinery acquired in 1980.

Information concerning depreciation amounts under each method is as follows:

Year	*Depreciation if accelerated method used*	*Depreciation if straight-line method used*
1978	$400,000	$300,000
1979	530,000	375,000
1980	600,000	400,000

Assume that the direct effects of this change are limited to the effect on depreciation and the related tax provisions, and that the income tax rate was 40% in each of these years. What should be reported in Shannon's income statement for the year ended December 31, 1980, as the cumulative effect on prior years of changing to a different depreciation method?

a. $0
b. $153,000
c. $255,000
d. $273,000

1M81#13. On January 1, 1980, Belmont Company changed its inventory cost flow method to the FIFO cost method from the LIFO cost method. Belmont can justify the change, which was made for both financial statement and income tax reporting purposes. Belmont's inventories aggregated $4,000,000 on the LIFO basis at December 31, 1979. Supplementary records maintained by Belmont showed that the inventories would have totaled $4,800,000 at December 31, 1979, on the FIFO basis. Ignoring income taxes, the adjustment for the effect of changing to the FIFO method from the LIFO method should be reported by Belmont in the 1980

a. Income statement as an $800,000 debit.
b. Retained earnings statement as an $800,000 debit adjustment to the beginning balance.
c. Income statement as an $800,000 credit.
d. Retained earnings statement as an $800,000 credit adjustment to the beginning balance.

1N80#3. On January 1, 1979, Jay Company changed to the weighted-average cost method from the first-in, first-out (FIFO) cost method for inventory cost flow purposes. Jay can justify the change, which was made for both financial statement and income tax reporting purposes. The change will result in a $120,000 decrease in the beginning inventory at January 1, 1979. Ignoring income taxes, the cumulative effect of changing to the weighted-average method from the FIFO method must be reported by Jay in the 1979

a. Income statement as a $120,000 debit.
b. Retained earnings statement as a $120,000 debit adjustment to the beginning balance.
c. Income statement as a $120,000 credit.
d. Retained earnings statement as a $120,000 credit adjustment to the beginning balance.

1M80#1. From inception of operations, Essex Corporation recognized income in its financial statements and for income tax reporting under the completed-contract method of reporting income from long-term construction contracts. On January 1, 1979, Essex changed to the percentage-of-completion method of income recognition for financial statement reporting but **not** for income tax reporting. Essex can justify the change.

As of December 31, 1978, Essex compiled data showing that income under the completed-contract method aggregated $350,000. If the percentage-of-completion method had been used, the accumulated income for these contracts through December 31, 1978, would have been $440,000. Assume that the income tax rate for all years is 50%. The cumulative effect of changing from the completed-contract method to the percentage-of-completion method must be reported by Essex in the 1979

a. Retained earnings statement as a $45,000 credit adjustment to the beginning balance.
b. Income statement as a $45,000 credit.
c. Retained earnings statement as a $90,000 credit adjustment to the beginning balance.
d. Income statement as a $90,000 credit.

G. Earnings Per Share

1N84#57. Fay Corporation's capital structure at December 31, 1982, was as follows

	Shares issued and outstanding
Common stock	200,000
Nonconvertible preferred stock	50,000

On October 1, 1983, Fay issued a 10% stock dividend on its common stock, and paid $100,000 cash dividends on the preferred stock. Net income for the year ended December 31, 1983, was $960,000. Fay's 1983 earnings per common share should be

a. $3.91
b. $4.10
c. $4.36
d. $4.68

1M84#48. On January 1, 1983, Whalen, Inc., had 120,000 shares of common stock outstanding. A 10% stock dividend was issued on April 1, 1983. Whalen issued 40,000 shares of common stock for cash on July 1, 1983. What is the number of shares that should be used in computing earnings per share for the year ended December 31, 1983?

a. 146,000
b. 149,000
c. 152,000
d. 172,000

1M84#49. Cox Corporation had 1,200,000 shares of common stock outstanding on January 1 and December 31, 1983. In connection with the acquisition of a subsidiary company in June 1982, Cox is required to issue 50,000 additional shares of its common stock on July 1, 1984, to the former owners of the subsidiary. Cox paid $200,000 in preferred stock dividends in 1983, and reported net income of $3,400,000 for the year. Cox's fully diluted earnings per share for 1983 should be

a. $2.83
b. $2.72
c. $2.67
d. $2.56

1N83#15. Appling Company had 300,000 shares of common stock issued and outstanding at December 31, 1981. No common stock was issued during 1982. On January 1, 1982, Appling issued 200,000 shares of nonconvertible preferred stock. During 1982 Appling declared and paid $150,000 cash dividends on the common stock and $120,000 on the preferred stock. Net income for the year ended December 31, 1982, was $660,000. What should be Appling's 1982 earnings per common share?

a. $1.30
b. $1.70
c. $1.80
d. $2.20

2N82
Items 17 and 18 are based on the following data:

At December 31, 1981 and 1980, Gravin Corporation had 90,000 shares of common stock and 20,000 shares of convertible preferred stock outstanding, in addition to 9% convertible bonds payable in the face amount of $2,000,000. During 1981, Gravin paid dividends of $2.50 per share on the preferred stock. The preferred stock is convertible into 20,000 shares of common stock, and is considered a common stock equivalent. The 9% convertible bonds are convertible into

30,000 shares of common stock, but are not considered common stock equivalents. Net income for 1981 was $970,000. Assume an income tax rate of 40%.

17. How much is the primary earnings per share for the year ended December 31, 1981?
   a. $ 7.70
   b. $ 8.36
   c. $ 8.82
   d. $10.78

18. How much is the fully diluted earnings per share for the year ended December 31, 1981?
   a. $ 7.70
   b. $ 8.21
   c. $ 9.35
   d. $10.22

1M82#11. At December 31, 1980, Welsch, Inc., had 500,000 shares of common stock outstanding. On October 1, 1981, an additional 120,000 shares of common stock were issued for cash. Welsch also had $4,000,000 of 8% convertible bonds outstanding at December 31, 1981, which are convertible into 100,000 shares of common stock. The bonds were considered common stock equivalents at the time of issuance and are dilutive in the 1981 earnings per share computation. No bonds were issued or converted into common stock during 1981. What is the number of shares that should be used in computing primary earnings per share for the year ended December 31, 1981?
   a. 530,000
   b. 600,000
   c. 630,000
   d. 720,000

1M81#12. Redford Corporation's capital structure at December 31, 1979, was as follows:

	Shares issued and outstanding
Common stock	100,000
Nonconvertible preferred stock	20,000

On July 1, 1980, Redford issued a 10% stock dividend on its common stock, and paid a cash dividend of $2.00 per share on its preferred stock. Net income for the year ended December 31, 1980, was $780,000. What should be Redford's 1980 earnings per common share?
   a. $6.73
   b. $7.05
   c. $7.09
   d. $7.80

1M81#18. At December 31, 1979, Sonic Company had 20,000 shares of common stock issued and outstanding and 5,000 shares of nonconvertible preferred stock issued and outstanding. Sonic's net income for the year ended December 31, 1980, was $120,000. During 1980 Sonic declared and paid $50,000 cash dividends on common stock and $8,000 cash dividends on the nonconvertible preferred stock. There were no common stock or preferred stock transactions during the year. The earnings per common share for the year ended December 31, 1980, should be
   a. $3.50
   b. $4.80
   c. $5.60
   d. $6.00

2M81#23. The following capital stock information pertains to Palisades Corporation:

	Number of shares issued	*Amount*
Common stock, $10 par value; 300,000 shares authorized:		
January 1, 1980	45,000	$450,000
Sold on May 1, 1980	3,000	30,000
Total, December 31, 1980	48,000	$480,000
Preferred stock, 9% cumulative nonconvertible, $100 par value; 10,000 shares authorized	1,000	$100,000

The number of shares on which the 1980 earnings per share computation should be based is
   a. 46,500
   b. 47,000
   c. 48,000
   d. 49,000

1N80#10. Weaver Company had 100,000 shares of common stock issued and outstanding at December 31, 1978. On July 1, 1979, Weaver issued a 10% stock dividend. Unexercised stock options to purchase 20,000 shares of common stock (adjusted for the 1979 stock dividend) at $20 per share were outstanding at the beginning and end of 1979. The average market price of Weaver's common stock (which was not affected by the stock dividend) was $25 per share during 1979. Net income for the year ended December 31, 1979, was $550,000. What should be Weaver's 1979 primary earnings per common share, rounded to the nearest penny?
   a. $4.82
   b. $5.00
   c. $5.05
   d. $5.24

VI. Other Financial Topics

B. Nonmonetary Transactions

2N84#3. On December 1, 1983, Brint Corp. exchanged 4,000 shares of its $25 par value common stock held in treasury, for a parcel of land to be held for a future plant site. These treasury shares, which were acquired by Brint at a cost of $80 per share, had a fair market value of $110 per share on the date of the exchange. At what amount should the land be recorded on Brint's books?

a. $0 (Memorandum entry only)
b. $100,000
c. $320,000
d. $440,000

2N84#8 Lara Co. traded its old computer for a new model. The following information is pertinent to this transaction:

Cost of old computer	$60,000
Accumulated depreciation—old computer	20,000
Fair value of old computer	30,000
List price of new model	80,000
Trade-in allowance for old computer	45,000

How much loss should Lara immediately recognize on this trade-in?

a. $0
b. $ 5,000
c. $10,000
d. $15,000

1M84#50. On December 30, 1983, Diamond Company traded in an old machine with a book value of $10,000 for a similar new machine having a list price of $32,000, and paid a cash difference of $19,000. Diamond should record the new machine at

a. $32,000
b. $29,000
c. $22,000
d. $19,000

1M84#51. On October 10, 1983, Girard, Inc., exchanged 2,000 shares of its $50 par value common stock held in treasury for a patent owned by Waxman Company. The treasury shares were acquired in 1982 at a cost of $80,000. At the exchange date Girard's common stock was quoted at $55 per share and the patent had a net carrying value on Waxman's books of $90,000. Girard should record the patent at

a. $ 80,000
b. $ 90,000
c. $100,000
d. $110,000

1N83#9. In October 1982 Ewing Company exchanged an old packaging machine, which cost $120,000 and was 50% depreciated, for a dissimilar used machine and paid a cash difference of $16,000. The market value of the old packaging machine was determined to be $70,000. For the year ended December 31, 1982, what amount of gain or loss should Ewing recognize on this exchange?

a. $0.
b. $ 6,000 loss.
c. $10,000 loss.
d. $10,000 gain.

1N83#16. Madden Company owns a tract of land which it purchased in 1980 for $100,000. The land is held as a future plant site and has a fair market value of $140,000 on July 1, 1983. Hall Company also owns a tract of land held as a future plant site. Hall paid $180,000 for the land in 1982 and the land has a fair market value of $200,000 on July 1, 1983. On this date Madden exchanged its land and paid $50,000 cash for the land owned by Hall. At what amount should Madden record the land acquired in the exchange?

a. $150,000
b. $160,000
c. $190,000
d. $200,000

2M83#2. On September 1, 1982, Bertz, Inc., exchanged a delivery truck for a parcel of land. Bertz bought this truck in 1980 for $10,000. At September 1, 1982, the truck had a book value of $6,500 and a fair market value of $5,000. Bertz gave $6,000 in cash in addition to the truck as part of this transaction. The previous owner of the land had listed the land for sale at $12,000. At what amount should Bertz record the land?

a. $11,000
b. $11,500
c. $12,000
d. $12,500

1N81#5. In December 1980 Belmont Company exchanged an old bottling machine, which cost $60,000 and was two-thirds depreciated, for a similar used machine having a current fair value of $24,000, and received a cash difference of $8,000. What is the amount of gain that Belmont should recognize on this exchange in the year ended December 31, 1980?

a. $0
b. $3,000
c. $5,000
d. $8,000

2M81#8. On December 1, 1980, Leonard Company exchanged a delivery truck (that was acquired in 1976) for a new delivery truck. The old truck was purchased for $14,000 and had a book value of $5,600. On the date of the exchange the old truck had a market value of $6,000. In addition, Leonard paid $7,000 cash for the new truck, which had a list price of $16,000. At what amount should Leonard record the new truck for financial accounting purposes?

a. $10,000
b. $12,600
c. $13,000
d. $16,000

1N80#6. In January 1980 Kemper Construction Company exchanged an old truck, which cost $54,000 and was one-third depreciated, and paid $35,000 cash for a used crane having a current fair value of $65,000. At what amount should the crane be recorded on the books of Kemper?

a. $54,000
b. $65,000
c. $71,000
d. $89,000

C. Interim Financial Statements

1M84#47. Richland Company uses the retail inventory method to estimate its inventory for interim statement purposes. Data relating to the computation of the inventory at July 31, 1983, are as follows:

	Cost	*Retail*
Inventory, 2/1/83	$ 70,000	$110,000
Purchases	350,000	500,000
Additional markups		90,000
Sales		600,000
Estimated normal shoplifting losses		10,000

Under the approximate lower of average cost or market retail method, Richland's estimated inventory at July 31, 1983, is

a. $90,000
b. $63,000
c. $60,000
d. $54,000

2N83#1. In January 1983 Lee Corp. paid property taxes of $40,000 covering the calendar year 1983. Also in January 1983, Lee estimated that its year-end bonuses to executives would amount to $160,000 for 1983. What is the total amount of expense relating to these two items that should be reflected in Lee's quarterly income statement for the three months ended June 30, 1983?

a. $0
b. $10,000
c. $40,000
d. $50,000

2M83#17. Ross Corporation expects to sustain an operating loss of $100,000 for the full year ending December 31, 1983. Ross operates entirely in one jurisdiction where the tax rate is 40%. Anticipated tax credits for 1983 total $10,000. No permanent differences are expected. Realization of the full tax benefit of the expected operating loss and realization of anticipated tax credits are assured beyond any reasonable doubt because they will be carried back. For the first quarter ended March 31, 1983, Ross reported an operating loss of $20,000. How much of a tax benefit should Ross report for the interim period ended March 31, 1983?

a. $0
b. $ 8,000
c. $10,000
d. $12,500

1N81#15. On January 15, 1980, Forrester Company paid property taxes on its factory building for the calendar year 1980 in the amount of $60,000. The first week of April 1980 Forrester made unanticipated major repairs to its plant equipment at a cost of $240,000. These repairs will benefit operations for the remainder of the calendar year. How should these expenses be reflected in Forrester's quarterly income statements?

	Three months ended			
	March 31, 1980	*June 30, 1980*	*September 30, 1980*	*December 31, 1980*
a.	$15,000	$ 95,000	$95,000	$95,000
b.	$15,000	$255,000	$15,000	$15,000
c.	$60,000	$240,000	$0	$0
d.	$75,000	$ 75,000	$75,000	$75,000

1N80#9. Bailey Company, a calendar year corporation, has the following income before income tax provision and estimated effective annual income tax rates for the first three quarters of 1979:

Quarter	*Income before income tax provision*	*Estimated effective annual tax rate at end of quarter*
First	$60,000	40%
Second	70,000	40%
Third	40,000	45%

Bailey's income tax provision in its interim income statement for the third quarter should be

a. $18,000
b. $24,500
c. $25,500
d. $76,500

1M80#8. On January 1, 1979, Builder Associates entered into a $1,000,000 long-term, fixed-price contract to construct a factory building for Manufacturing Company. Builder accounts for this contract under the percentage-of-completion method. Estimated percentage of completion and estimated costs at completion **at the end of each quarter** for 1979 were as follows:

Quarter	*Estimated Percentage of Completion*	*Estimated Costs at Completion*
1	10%	$750,000
2*	10%	$750,000
3	25%	$960,000
4*	25%	$960,000

*No work performed in the 2nd and 4th quarters.

What amounts should be reported by Builder as "Income on Construction Contract" in its quarterly income statements based on the above information?

	Gain (Loss) for the Three Months Ended			
	March 31, 1979	*June 30, 1979*	*September 30, 1979*	*December 31, 1979*
a.	$0	$0	$0	$10,000
b.	$25,000	$0	$(15,000)	$0
c.	$25,000	$0	$0	$0
d.	$25,000	$0	$ 6,000	$0

D. Historical Cost, Constant Dollar Accounting, and Current Cost

2N84
Items 9 and 10 are based on the following data:

The trial balance of Sosa Corp. at December 31, 1983, when the price index was 160, included the following accounts:

Bonds payable (due in 1988)	$200,000
Sales (made evenly throughout the year)	990,000

During 1983, the average price index was 140. The bonds were issued in 1978 when the price index was 120. Sosa wishes to present December 31, 1983, constant dollar financial statements in end-of-year dollars.

9. What fraction should be used to adjust bonds payable for price-level changes?
   a. 140/160
   b. 160/160
   c. 160/140
   d. 160/120

10. What fraction should be used to adjust sales for price-level changes?
   a. 160/160
   b. 160/150
   c. 160/140
   d. 140/160

1M84#59. Details of Weaver Corporation's fixed assets at December 31, 1983, are as follows:

Year acquired	*Percent depreciated*	*Historical cost*	*Estimated current cost*
1981	30	$100,000	$140,000
1982	20	30,000	38,000
1983	10	40,000	44,000

Weaver calculates depreciation at 10% per annum, using the straight-line method. A full year's depreciation is charged in the year of acquisition. There were no disposals of fixed assets. In Weaver's supplementary information restated into current cost, the net current cost (after accumulated depreciation) of the fixed assets should be stated as
   a. $116,000
   b. $130,000
   c. $168,000
   d. $182,000

1N83#17. On January 1, 1982, Nutley Corporation had monetary assets of $2,000,000 and monetary liabilities of $1,000,000. During 1982 Nutley's monetary inflows and outflows were relatively constant and equal so that it ended the year with net monetary assets of $1,000,000. Assume that the Consumer Price Index was 200 on January 1, 1982, and 220 on December 31, 1982. In end-of-year constant dollars, what is Nutley's purchasing power gain or loss on net monetary items for 1982?
   a. $0.
   b. $ 50,000 gain.
   c. $100,000 gain.
   d. $100,000 loss.

2M83#15. Loy Corp. purchased a machine in 1980 when the average Consumer Price Index (CPI) was 180. The average CPI was 190 for 1981, and 200 for 1982. Loy prepares supplementary constant dollar statements (adjusted for changing prices). Depreciation on this machine is $200,000 a year. In Loy's supplementary constant dollar statement for 1982, the amount of depreciation expense should be stated as
   a. $180,000
   b. $190,000
   c. $210,526
   d. $222,222

2M82#8. Essex Corporation bought a machine for $105,000 on January 3, 1981. The machine has an estimated useful life of ten years, with no salvage value. The current cost of this machine at December 31, 1981, was $135,000. Using straight-line depreciation on an average current cost basis, how much depreciation should be charged to current cost income from continuing operations for 1981?

a. $10,500
b. $12,000
c. $13,500
d. $24,000

1N81#6. Cartwright Corporation prepared the following data needed to compute the purchasing power gain or loss on net monetary items for inclusion in its supplementary information for the year ended December 31, 1980:

	Amount in nominal dollars	
	December 31, 1979	*December 31, 1980*
Monetary assets	$ 600,000	$1,000,000
Monetary liabilities	$1,566,000	$2,449,000
Net monetary liabilities	$ 966,000	$1,449,000
Assumed Consumer Price Index numbers:		
At December 31, 1979	210	
At December 31, 1980	230	
Average for 1980	220	

Cartwright's purchasing power gain or loss (expressed in average 1980 constant dollars) on net monetary items for the year ended December 31, 1980, should be

a. $109,000 gain.
b. $109,000 loss.
c. $111,000 gain.
d. $111,000 loss.

1N81#17. Information with respect to Roundtree Company's cost of goods sold for 1980 is as follows:

	Units	*Historical cost*
Inventory, January 1, 1980	10,000	$ 530,000
Production during 1980	45,000	2,790,000
	55,000	3,320,000
Inventory, December 31, 1980	15,000	945,000
Cost of goods sold	40,000	$2,375,000

Roundtree estimates that the current cost per unit of inventory was $58 at January 1, 1980, and $72 at December 31, 1980. In Roundtree's supplementary information restated into average current cost, the cost of goods sold for the year ended December 31, 1980, should be

a. $2,290,000
b. $2,520,000
c. $2,600,000
d. $2,880,000

2M81#1. The following schedule lists the average consumer price index (all urban consumers) of the indicated year:

1978	100
1979	125
1980	150

Carl Corporation's plant and equipment at December 31, 1980, are as follows:

Date acquired	*Percent depreciated*	*Historical cost*
1978	30	$30,000
1979	20	20,000
1980	10	10,000
		$60,000

Depreciation is calculated at 10% per annum, straight-line. A full year's depreciation is charged in the year of acquisition. There were no disposals in 1980.

What amount of depreciation expense would be included in the income statement adjusted for general inflation (historical cost/constant dollar accounting)?

a. $6,000
b. $7,200
c. $7,900
d. $9,000

1N80#18. Victor Company purchased a machine on December 31, 1977, for $100,000. The machine is being depreciated on the straight-line basis with no salvage value and a five-year life. Assume that there was a rise in current (replacement) cost of the machine of 10% during 1978, and of 10% during 1979 (based on the December 31, 1978, current cost). In a supplementary current cost statement at December 31, 1979, Victor would report accumulated depreciation for the above machine of

a. $42,000
b. $44,000
c. $46,200
d. $48,400

1M80#12. Dart Company was formed on January 1, 1978. Selected balances from the historical cost balance sheet at December 31, 1979, were as follows:

Land (purchased January 1, 1978)	$90,000
Marketable securities, non-convertible bonds (purchased July 1, 1978, and expected to be held to maturity)	50,000
Long-term debt	70,000

The average Consumer Price Index was 100 for 1978, and 110 for 1979. In a supplementary constant dollar balance sheet (adjusted for changing prices) at December 31, 1979, these selected account balances should be shown at

	Land	Marketable Securities	Long-term Debt
a.	$90,000	$50,000	$70,000
b.	$90,000	$55,000	$77,000
c.	$99,000	$50,000	$70,000
d.	$99,000	$55,000	$77,000

E. Loss or Gain Contingencies

2N84#1. Brill Corporation's fire insurance premiums were increased from $90,000 to $300,000 in 1983. To avoid incurring such a substantial additional expense, Brill increased the deductible on its policy from $150,000 to $1,500,000. Brill's effective income tax rate is 40%. At December 31, 1983, how much of a contingent liability should Brill accrue to cover possible future fire losses?

a. $0
b. $ 810,000
c. $ 900,000
d. $1,500,000

2N84#2. On January 3, 1983, Palo Corp. owned a machine that had cost $50,000, on which the accumulated depreciation was $40,000, and which had a fair market value of $80,000. On January 4, 1983, this machine was irreparably damaged by Seco Corp. and became worthless. In October 1983, a court awarded damages of $80,000 against Seco, in favor of Palo. At December 31, 1983, the final outcome of this case was awaiting appeal, and was therefore uncertain. However, in the opinion of Palo's attorney, Seco's appeal will be denied. At December 31, 1983, how much should Palo accrue for this gain contingency?

a. $0
b. $10,000
c. $70,000
d. $80,000

1M84#58. In May 1980 Tooker Company filed suit against Rogers Corporation seeking to recover $1,000,000 for copyright infringement. A court verdict rendered in September 1983 awarded Tooker $700,000 in damages. Rogers appealed the verdict but a final decision is not expected before October 1984. Tooker's counsel believes it is probable that Tooker will be successful against Rogers for an estimated amount of $500,000. What amount should Tooker accrue by a credit to income in the year ended December 31, 1983?

a. $0
b. $500,000
c. $600,000
d. $700,000

1N82#19. A truck owned and operated by Ward Company was involved in an accident with an auto driven by Stillman on January 12, 1981. Ward received notice on April 24, 1981, of a lawsuit for $800,000 damages for a personal injury suffered by Stillman. Ward's counsel believes it is reasonably possible that Stillman will be successful against the company for an estimated amount in the range between $100,000 and $400,000. No amount within this range is a better estimate of potential damages than any other amount. It is expected that the lawsuit will be adjudicated in the latter part of 1982. What amount of loss should Ward accrue at December 31, 1981?

a. $0
b. $100,000
c. $250,000
d. $400,000

1M82#20. In July 1977 Simpson Company filed suit in federal court against White Corporation seeking to recover $750,000 for patent infringement. A court verdict was rendered in August 1981 awarding Simpson $500,000 in damages. White has appealed the verdict but a final decision is not expected before October 1982. Simpson's counsel believes it is probable that Simpson will be successful against White for an estimated amount of $400,000. What amount should Simpson accrue by a credit to income in the year ended December 31, 1981?

a. $0
b. $400,000
c. $500,000
d. $750,000

F. Segments and Lines of Business

2N84#4. Daly Corporation's sales to unaffiliated customers were $3,000,000 for the year ended December 31, 1983. In addition, there were $400,000 of intersegment sales and transfers among Daly's four manufacturing divisions operating in different industries. Daly's reportable industry segments are those divisions with revenues of at least

a. $ 40,000
b. $100,000
c. $300,000
d. $340,000

2N84#5. Orna Corp. operates in six different industries, each of which is appropriately regarded as a reportable segment. Orna's 1983 combined sales for all segments aggregated $10,000,000. Segment No. 4 had sales of $2,000,000 and traceable costs of $900,000. Combined common costs for all segments totaled $3,000,000. Common costs are allocated among the six segments on the basis of each segment's percentage of Orna's total sales, an acceptable allocation method. How much should be reported as Segment No. 4's operating income for 1983?

a. $ 500,000
b. $1,100,000
c. $1,220,000
d. $1,400,000

1M84#53. Eller Company discloses supplemental industry segment information. The following data are available for 1983:

Segment	*Sales*	*Traceable costs*	*Allocable costs*
R	$300,000	$240,000	?
S	400,000	220,000	?
T	200,000	140,000	?
	$900,000	$600,000	$120,000

Costs are appropriately allocated based on the ratio of a segment's income before allocable costs to total income before allocable costs. What is the operating profit for segment R for 1983?

a. $20,000
b. $24,000
c. $36,000
d. $48,000

2N83#4. Kee Co. has five manufacturing divisions, each of which has been determined to be a reportable segment. Common costs are appropriately allocated on the basis of each division's sales in relation to Kee's aggregate sales. Kee's Sigma division comprised 40% of Kee's total sales in 1982. For the year ended December 31, 1982, Sigma had sales of $1,000,000 and traceable costs of $600,000. In 1982 Kee incurred operating expenses of $100,000 that were not directly traceable to any of the five divisions. In addition, Kee incurred interest expense of $80,000 in 1982. In reporting supplementary segment information, how much should be shown as Sigma's operating income for 1982?

a. $300,000
b. $328,000
c. $360,000
d. $400,000

1N82#20. Hines Corporation reports operating profit as to industry segments in its supplementary financial information annually. The following information is available for 1981:

	Sales	*Traceable costs*
Segment A	$ 750,000	$450,000
Segment B	500,000	225,000
Segment C	250,000	125,000
	$1,500,000	$800,000

Additional expenses not included above are as follows:

Indirect operating expenses	$240,000
General corporate expenses	180,000
Interest expense	96,000

Hines allocates common costs based on the ratio of a segment's sales to total sales. What should be the operating profit for segment B for 1981?

a. $103,000
b. $135,000
c. $163,000
d. $195,000

2M82#16. Kaycee Corporation's revenues for the year ended December 31, 1981, were as follows:

Consolidated revenue per income statement	$1,200,000
Intersegment sales	180,000
Intersegment transfers	60,000
Combined revenues of all industry segments	$1,440,000

Kaycee has a reportable segment if that segment's revenues exceed

a. $ 6,000
b. $ 24,000
c. $120,000
d. $144,000

1M81#4. Plains, Inc., engages in three lines of business, each of which is considered to be a significant industry segment. Company sales aggregated $1,800,000 in 1980, of which Segment No. 3 contributed 60%. Traceable costs were $600,000 for Segment No. 3 out of a total of $1,200,000 for the company as a whole. In addition $350,000 of common costs are allocated based on the ratio of a segment's income before common costs to the total income before common costs. What should Plains report as operating profit for Segment No. 3 in 1980?

a. $200,000
b. $270,000
c. $280,000
d. $480,000

G. Long-Term Contracts

1M84#54. On January 3, 1983, Paterson Services, Inc., signed an agreement authorizing Cobb Company to operate as a franchisee over a 20-year period for an initial franchise fee of $50,000 received when the agreement was signed. Cobb commenced operations on July 1, 1983, at which date all of the initial services required of Paterson had been performed. The agreement also provides that Cobb must pay a continuing franchise fee equal to 5% of the revenue from the franchise annually to Paterson. Cobb's franchise revenue for 1983 was $400,000. For the year ended December 31, 1983, how much should Paterson record as revenue from franchise fees in respect of the Cobb franchise?

a. $70,000
b. $50,000
c. $45,000
d. $22,500

H. Employee Benefits

1M84#55. Lenox Company has a retirement savings plan which provides that: (1) eligible employees may deposit up to 5% of their salaries through payroll deduction, and (2) the company is required to make an annual contribution of an amount equal to 50% of the participants' deposits. Data for the year ended December 31, 1983, relating to eligible employees are as follows:

Total salaries	$750,000
Total employee deposits made	25,000

What amount should Lenox report as retirement savings plan expense for 1983?
a. $0
b. $12,500
c. $18,750
d. $25,000

2M83
Items 6 and 7 are based on the following information:

Stevenson Corporation adopted a pension plan in 1981 on a funded, noncontributory basis. Stevenson elected to amortize past service cost over twelve years and to fund past service cost over ten years. Normal cost is to be funded as incurred each year. The following schedule reflects both amortization of past service cost and funding for the years 1982 and 1981:

	1982	*1981*
12-year amortization	$100,000	$100,000
Reduction for interest	1,155	—
Past service cost	98,845	100,000
10-year funding	109,628	109,628
Balance sheet — deferred charge:		
Balance	20,411	9,628
Increase	10,783	9,628

6. If normal cost for 1981 was $90,000, how much pension expense should Stevenson record for 1981?
a. $ 90,000
b. $109,628
c. $190,000
d. $199,628

7. If normal cost in 1982 was $95,000, what entry should Stevenson make in 1982 to record pension expense and funding?

		Debit	*Credit*
a.	Pension expense	$100,000	
	Deferred charge—funding in excess of cost	9,628	
	Cash		$109,628
b.	Pension expense	$193,845	
	Deferred charge—funding in excess of cost	10,783	
	Cash		$204,628
c.	Pension expense	$195,000	
	Deferred charge—funding in excess of cost	9,628	
	Cash		$204,628
d.	Pension expense	$195,000	
	Deferred charge—funding in excess of cost	10,783	
	Cash		$205,783

2M83#13. Lucro Company pays a general manager's bonus based on 10% of Lucro's income after deducting the bonus but before deducting income taxes. For the year ended December 31, 1982, Lucro's income was $110,000 before deducting the bonus and income taxes. Lucro estimated its income tax expense at $40,000 for 1982. How much bonus should Lucro pay the general manager for 1982?
a. $0
b. $ 7,000
c. $10,000
d. $11,000

2N81#3. Malcolm Corporation has an incentive compensation plan under which the sales manager receives a bonus equal to 10% of the company's income after deducting income taxes, but before deducting the bonus. Income before income tax and the bonus is $100,000. The effective income tax rate is 40%. How much is the bonus?
a. $ 5,400
b. $ 6,000
c. $ 6,250
d. $10,000

I. Analysis of Financial Statements

2N84#6. Lyon Company's net accounts receivable were $1,000,000 at December 31, 1982, and $1,200,000 at December 31, 1983. Net cash sales for 1983 were $400,000. The accounts receivable turnover for 1983 was 5.0. Lyon's net sales for 1983 were
a. $11,000,000
b. $ 6,400,000
c. $ 6,000,000
d. $ 5,900,000

2N84#7 The following information pertains to Bass Co. for 1983:

Merchandise purchased	$1,800,000
Cost of goods sold	2,000,000
Inventory at December 31, 1983	400,000

The inventory turnover for 1983 was
a. 10.0
b. 5.0
c. 4.0
d. 3.6

1M84#56. Selected information for Moore Corporation is as follows:

	December 31	
	1982	*1983*
Preferred stock	$180,000	$180,000
Common stock	648,000	840,000
Retained earnings	192,000	360,000
Net income for year ended	144,000	240,000

What is Moore's rate of return on average stockholders' equity for 1983?
a. 16.0%
b. 20.0%
c. 23.5%
d. 26.0%

1N83#18. Selected information from the accounting records of Dalton Manufacturing Company is as follows:

Net sales for 1982	$1,800,000
Cost of goods sold for 1982	1,200,000
Inventories at December 31, 1981	336,000
Inventories at December 31, 1982	288,000

Assuming there are 300 working days per year, what is the number of days' sales in average inventories for 1982?
a. 78
b. 72
c. 52
d. 48

2N83#19. Barr Corporation's capital stock at December 31, 1982, consisted of the following:

Common stock, $2 par value; 100,000 shares authorized, issued, and outstanding

10% noncumulative, nonconvertible preferred stock, $100 par value; 1,000 shares authorized, issued, and outstanding

Barr's common stock, which is listed on a major stock exchange, was quoted at $4 per share on December 31, 1982. Barr's net income for the year ended December 31, 1982, was $50,000. The 1982 preferred dividend was declared. No capital stock transactions occurred during 1982. What was the price-earnings ratio on Barr's common stock at December 31, 1982?
a. 8 to 1.
b. 10 to 1.
c. 16 to 1.
d. 20 to 1.

2N83#20. Ace Company's working capital at December 31, 1981, was $5,000,000. The following additional information pertains to Ace for 1982:

Working capital provided by operations	$ 850,000
Capital expenditures	1,500,000
Short-term borrowings	500,000
Long-term borrowings	1,000,000
Payments on short-term borrowings	250,000
Payments on long-term borrowings	300,000
Proceeds from issuance of common stock	700,000
Dividends paid on common stock	400,000

How much was Ace's working capital at December 31, 1982?
a. $5,350,000
b. $5,600,000
c. $5,750,000
d. $6,000,000

2M83
Items 24 through 30 are based on the following information:

Best Corporation
BALANCE SHEETS

	December 31,	
	1982	*1981*
Assets		
Current assets:		
Cash	$ 480,000	$ 220,000
Accounts receivable — net	840,000	560,000
Merchandise inventory	760,000	470,000
Total current assets	2,080,000	1,250,000
Land, buildings, and fixtures	1,330,000	800,000
Less accumulated depreciation	210,000	150,000
	1,120,000	650,000
Total assets	$3,200,000	$1,900,000

	December 31,	
	1982	*1981*
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 830,000	$ 440,000
Accrued expenses	300,000	130,000
Dividends payable	40,000	—
Total current liabilities	1,170,000	570,000
Stockholders' equity:		
Common stock ($10 par value)	1,200,000	900,000
Additional paid-in capital	200,000	100,000
Retained earnings	630,000	330,000
	2,030,000	1,330,000
Total liabilities and stockholders' equity	$3,200,000	$1,900,000

Best Corporation
INCOME STATEMENTS

	Year ended December 31,	
	1982	*1981*
Credit sales	$6,300,000	$4,000,000
Cost of goods sold	4,900,000	3,200,000
Gross profit	1,400,000	800,000
Expenses (including income taxes)	700,000	630,000
Net income	$ 700,000	$ 170,000

Best Corporation
CHANGES IN STOCKHOLDERS' EQUITY

	Year ended December 31,	
	1982	*1981*
Common stock		
Balance, 1/1	$ 900,000	$900,000
Sold, 4/1/82	100,000	—
20% stock dividend, 6/1/82	200,000	—
Balance, 12/31	$1,200,000	$900,000
Additional paid-in capital		
Balance, 1/1	$ 100,000	$100,000
Sold, 4/1/82	25,000	—
20% stock dividend, 6/1/82	75,000	—
Balance, 12/31	$ 200,000	$100,000

	Year ended December 31,	
	1982	*1981*
Retained earnings		
Balance, 1/1	$ 330,000	$250,000
Net income	700,000	170,000
Cash dividends	(125;000)	(90,000)
Stock dividends	(275,000)	—
Balance, 12/31	$ 630,000	$330,000

Additional available information included the following:

• Although Best will report all changes in financial position, management has adopted a format emphasizing the flow of working capital.

• During 1982, Best sold, at a $10,000 loss, fixtures with a book value of $30,000 ($100,000 cost minus $70,000 accumulated depreciation). This loss was included in the income statement. Depreciation expense for 1982 was $130,000. Best purchased $630,000 of new fixtures during 1982.

• Common stock issued during 1982 was as follows:

Date	*Number of shares*
4/1/82	10,000
6/1/82	20,000

28. Best's current ratio at December 31, 1982, is
 a. 0.56
 b. 0.89
 c. 1.13
 d. 1.78

29. Best's 1982 accounts receivable turnover is
 a. 5.83
 b. 7.00
 c. 7.50
 d. 9.00

30. Best debited retained earnings on June 1, 1982, for the market value of the stock dividend. The market value per share of Best's common stock on June 1, 1982, was
 a. $10.00
 b. $13.75
 c. $25.00
 d. $30.00

2N82
Items 9 and 10 are based on the following data:

Bretton Corporation's books disclosed the following information as of and for the year ended December 31, 1981:

Net credit sales	$2,000,000
Net cash sales	500,000
Merchandise purchases	1,000,000
Inventory at beginning	600,000
Inventory at end	200,000
Accounts receivable at beginning	300,000
Accounts receivable at end	700,000
Net income	100,000

9. Bretton's accounts receivable turnover is
   a. 2.9 times.
   b. 3.6 times.
   c. 4.0 times.
   d. 5.0 times.

10. Bretton's percent of net income on sales is
   a. 4%
   b. 9%
   c. 44%
   d. 56%

1M82

Items 16 and 17 are based on the following information:

Tudor Corporation's condensed financial statements provide the following information:

Balance Sheet
December 31, 1981 and 1980

	1981	*1980*
Cash	$ 60,000	$ 50,000
Accounts receivable (net)	220,000	200,000
Inventories	260,000	230,000
Property, plant and equipment	730,000	650,000
Accumulated depreciation	(330,000)	(260,000)
Total assets	$ 940,000	$ 870,000
Current liabilities	$ 270,000	$ 330,000
Stockholders' equity	670,000	540,000
Total liabilities and stockholders' equity	$ 940,000	$ 870,000

Statement of Income
For the Year Ended December 31, 1981

Net sales	$1,200,000
Cost of goods sold	780,000
Gross profit	420,000
Operating expenses	240,000
Net income	$ 180,000

16. Assuming that all sales are credit sales, what is Tudor's accounts receivable turnover ratio for 1981?
   a. 3.18
   b. 5.45
   c. 5.71
   d. 6.00

17. What is Tudor's rate of return on average assets for 1981?
   a. 14.17%
   b. 19.15%
   c. 19.89%
   d. 29.75%

1N81#10. At December 31, 1979, Richmond Company had 100,000 shares of $10 par value common stock issued and outstanding. There was no change in the number of shares outstanding during 1980. Total stockholders' equity at December 31, 1980, was $2,800,000. The net income for the year ended December 31, 1980, was $800,000. During 1980 Richmond paid $3.00 per share in dividends on its common stock. The quoted market value of Richmond's common stock on a national stock exchange was $24 on December 31, 1980. What was the price-earnings ratio on common stock for 1980?
   a. 3.0 to 1
   b. 3.5 to 1
   c. 4.8 to 1
   d. 8.0 to 1

2M81

Items 15 through 18 are based on the following information:

Alpha Corporation
Selected Financial Data

	As of December 31,	
	1980	*1979*
Cash	$ 10,000	$ 80,000
Accounts receivable (net)	50,000	150,000
Merchandise inventory	90,000	150,000
Short-term marketable securities	30,000	10,000
Land and buildings (net)	340,000	360,000
Mortgage payable (no current portion)	270,000	280,000
Accounts payable (trade)	70,000	110,000
Short-term notes payable	20,000	40,000

	Year ended December 31,	
	1980	*1979*
Cash sales	$1,800,000	$1,600,000
Credit sales	500,000	800,000
Cost of goods sold	1,000,000	1,400,000

15. Alpha's quick (acid test) ratio as of December 31, 1980, is
   a. 0.5 to 1.
   b. 0.7 to 1.
   c. 1.0 to 1.
   d. 2.0 to 1.

16. Alpha's receivable turnover for 1980 is
   a. 5 times.

b. 10 times.
c. 23 times.
d. 46 times.

17. Alpha's merchandise inventory turnover for 1980 is
    a. 8.3 times.
    b. 10.0 times.
    c. 11.1 times.
    d. 13.3 times.

18. Alpha's current ratio at December 31, 1980, is
    a. 0.5 to 1.
    b. 0.7 to 1.
    c. 1.0 to 1.
    d. 2.0 to 1.

1M80#7. Selected information for 1979 for the Prince Company is as follows:

Cost of goods sold	$5,400,000
Average inventory	1,800,000
Net sales	7,200,000
Average receivables	960,000
Net income	720,000

Assuming a business year consisting of 360 days, what was the average number of days in the operating cycle for 1979?
a. 72
b. 84
c. 144
d. 168

1M80#13. Smith Company had net income for 1979 of $5,300,000 and earnings per share on common stock of $2.50. Included in the net income was $500,000 of bond interest expense related to its long-term debt. The income tax rate for 1979 was 50%. Dividends on preferred stock were $300,000. The dividend-payout ratio on common stock was 40%. What were the dividends on common stock in 1979?
a. $1,800,000
b. $1,900,000
c. $2,000,000
d. $2,120,000

K. Personal Financial Statements

1M84#57. Mr. & Mrs. Carson are applying for a bank loan and the bank has requested a personal statement of financial condition as of December 31, 1983. Included in their assets at this date are the following:

- 1,000 shares of Alden Corporation common stock purchased in 1980 at a cost of $50,000. The quoted market value of the stock was $75 per share on December 31, 1983.
- A residence purchased in 1981 at a cost of $120,000. Improvements costing $15,000 were made in 1982. Unimproved similar homes in the area are currently selling at approximately the same price levels as in 1981.

In the Carsons' December 31, 1983, personal statement of financial condition, the above assets should be reported at a total amount of
a. $170,000
b. $185,000
c. $195,000
d. $210,000

VII. Cost Accumulation, Planning, and Control

A. Nature of Cost Elements

2N84#13. Avery Co. uses a predetermined factory overhead rate based on direct labor hours. For the month of October, Avery's budgeted overhead was $300,000 based on a budgeted volume of 100,000 direct labor hours. Actual overhead amounted to $325,000 with actual direct labor hours totaling 110,000. How much was the overapplied or underapplied overhead?
a. $30,000 overapplied.
b. $30,000 underapplied.
c. $ 5,000 overapplied.
d. $ 5,000 underapplied.

1N83#43. Regan Company operates its factory on a two-shift basis and pays a late-shift differential of 15%. Regan also pays a premium of 50% for overtime work. Since Regan manufactures only for stock, the cost system provides for uniform direct-labor hourly charges for production done without regard to shift worked or work done on an over-time basis. Overtime and late-shift differentials are included in Regan's factory overhead application rate. The May 1983 payroll for production workers is as follows:

Wages at base direct-labor rates	$325,000
Shift differentials	25,000
Overtime premiums	10,000

For the month of May 1983, what amount of direct labor should Regan charge to work-in-process?
a. $325,000
b. $335,000
c. $350,000
d. $360,000

1N83#44. Worley Company has underapplied overhead of $45,000 for the year ended December 31, 1982. Before disposition of the underapplied overhead, selected December 31, 1982, balances from Worley's accounting records are as follows:

Sales	$1,200,000
Cost of goods sold	720,000
Inventories:	
Direct materials	36,000
Work-in-process	54,000
Finished goods	90,000

Under Worley's cost accounting system, over or underapplied overhead is allocated to appropriate inventories and cost of goods sold based on year-end balances. In its 1982 income statement, Worley should report cost of goods sold of

a. $682,500
b. $684,000
c. $756,000
d. $757,500

1M83

Items 22 and 23 are based on the following information:

Summit Company provided the following inventory balances and manufacturing cost data for the month of January 1983:

Inventories:	*1/1/83*	*1/31/83*
Direct materials	$30,000	$40,000
Work-in-process	15,000	20,000
Finished goods	65,000	50,000

	Month of January 1983
Cost of goods manufactured	$515,000
Factory overhead applied	150,000
Direct materials used	190,000
Actual factory overhead	144,000

Under Summit's cost system, any over or underapplied overhead is closed to the cost of goods sold account at the end of the calendar year.

22. What was the total amount of direct-material purchases during January 1983?
a. $180,000
b. $190,000
c. $195,000
d. $200,000

23. How much direct-labor cost was incurred during January 1983?
a. $170,000
b. $175,000
c. $180,000
d. $186,000

1M83

Items 26 through 28 are based on the following information:

Wayne Company had the following inventories at the beginning and end of March 1983:

	3/1/83	3/31/83
Direct materials	$36,000	$30,000
Work-in-process	18,000	12,000
Finished goods	54,000	72,000

The following additional manufacturing cost data were available for the month of March 1983:

Direct materials purchased	$84,000
Direct-labor payroll	60,000
Direct-labor rate per hour	7.50
Factory overhead rate per direct-labor hour	10.00

26. During March 1983 prime cóst added to production was
a. $ 90,000
b. $140,000
c. $144,000
d. $150,000

27. During March 1983 conversion cost added to production was
a. $ 60,000
b. $ 80,000
c. $140,000
d. $150,000

28. The cost of goods manufactured for March 1983 was
a. $212,000
b. $218,000
c. $230,000
d. $236,000

2N82

Items 31 and 32 are based on the following data:

Roja Corporation makes aluminum fasteners. Among Roja's 1981 manufacturing costs were the following:

Wages and salaries	
Machine operators	$ 80,000
Factory foremen	30,000
Machine mechanics	20,000
Materials and supplies	
Aluminum	$400,000
Machine parts	18,000
Lubricants for machines	5,000

31. Direct labor amounted to
a. $ 80,000
b. $100,000
c. $110,000
d. $130,000

32. Direct materials amounted to
a. $400,000
b. $405,000
c. $418,000
d. $423,000

2N82

Items 37 and 38 are based on the following data:

Morton Company's manufacturing costs for 1981 were as follows:

Direct materials	$300,000
Direct labor	400,000
Factory overhead:	
Variable	80,000
Fixed	50,000

37. Prime cost totaled
   a. $300,000
   b. $380,000
   c. $700,000
   d. $830,000

38. Conversion cost totaled
   a. $400,000
   b. $480,000
   c. $530,000
   d. $830,000

1M82#21. Hartwell Company distributes the service department overhead costs directly to producing departments without allocation to the other service department. Information for the month of January 1982 is as follows:

	Service departments	
	Maintenance	*Utilities*
Overhead costs incurred	$18,700	$9,000
Service provided to:		
Maintenance department	—	10%
Utilities department	20%	—
Producing department A	40%	30%
Producing department B	40%	60%
Total	100%	100%

The amount of utilities department costs distributed to producing department B for January 1982 should be
   a. $3,600
   b. $4,500
   c. $5,400
   d. $6,000

B. Job Order Costing

1M83#24. Elliott Company manufactures tools to customer specifications. The following data pertain to Job 1501 for February 1983:

Direct materials used	$4,200
Direct-labor hours worked	300
Direct-labor rate per hour	$8.00
Machine hours used	200
Applied factory overhead rate per machine hour	$15.00

What is the total manufacturing cost recorded on Job 1501 for February 1983?
   a. $ 8,800
   b. $ 9,600
   c. $10,300
   d. $11,100

1M83#32. Blackwood uses a job order cost system and applies factory overhead to production orders on the basis of direct-labor cost. The overhead rates for 1982 are 200% for department A and 50% for department B. Job 123, started and completed during 1982, was charged with the following costs:

	Department	
	A	*B*
Direct materials	$25,000	$ 5,000
Direct labor	?	30,000
Factory overhead	40,000	?

The total manufacturing costs associated with Job 123 should be
   a. $135,000
   b. $180,000
   c. $195,000
   d. $240,000

1N82

Items 22 and 23 are based on the following information:

Hamilton Company uses job order costing. Factory overhead is applied to production at a predetermined rate of 150% of direct-labor cost. Any over or underapplied factory overhead is closed to the cost of goods sold account at the end of each month. Additional information is available as follows:

- Job 101 was the only job in process at January 31, 1982, with accumulated costs as follows:

Direct materials	$4,000
Direct labor	2,000
Applied factory overhead	3,000
	$9,000

- Jobs 102, 103, and 104 were started during February.
- Direct materials requisitions for February totaled $26,000.
- Direct-labor cost of $20,000 was incurred for February.
- Actual factory overhead was $32,000 for February.
- The only job still in process at February 28, 1982, was Job 104, with costs of $2,800 for direct materials and $1,800 for direct labor.

22. The cost of goods manufactured for February 1982 was
  a. $77,700
  b. $78,000
  c. $79,700
  d. $85,000

23. Over or underapplied factory overhead should be closed to the cost of goods sold account at February 28, 1982, in the amount of
  a. $ 700 overapplied.
  b. $1,000 overapplied.
  c. $1,700 underapplied.
  d. $2,000 underapplied.

1M82#23. Worrell Corporation has a job order cost system. The following debits (credits) appeared in the general ledger account work-in-process for the month of March 1982:

March 1, balance	$ 12,000
March 31, direct materials	40,000
March 31, direct labor	30,000
March 31, factory overhead	27,000
March 31, to finished goods	(100,000)

Worrell applies overhead to production at a predetermined rate of 90% based on the direct-labor cost. Job No. 232, the only job still in process at the end of March 1982, has been charged with factory overhead of $2,250. What was the amount of direct materials charged to Job No. 232?
  a. $2,250
  b. $2,500
  c. $4,250
  d. $9,000

1M81#38. Tillman Corporation uses a job-order cost system and has two production departments, M and A. Budgeted manufacturing costs for 1980 are as follows:

	Department M	*Department A*
Direct materials	$700,000	$100,000
Direct labor	200,000	800,000
Manufacturing overhead	600,000	400,000

The actual material and labor costs charged to Job No. 432 during 1980 were as follows:

Direct material		$25,000
Direct labor:		
Department M	$ 8,000	
Department A	12,000	20,000

Tillman applies manufacturing overhead to production orders on the basis of direct-labor cost using departmental rates predetermined at the beginning of the year based on the annual budget. The total manufacturing cost associated with Job No. 432 for 1980 should be
  a. $50,000
  b. $55,000
  c. $65,000
  d. $75,000

C. Process Costing

1N83#45. Department A is the first stage of Mann Company's production cycle. The following information is available for conversion costs for the month of April 1983:

	Units
Work-in-process, beginning (60% complete)	20,000
Started in April	340,000
Completed in April and transferred to department B	320,000
Work-in-process, ending (40% complete)	40,000

Using the FIFO method, the equivalent units for the conversion cost calculation are
  a. 320,000
  b. 324,000
  c. 336,000
  d. 360,000

1N83#46. Barnett Company adds materials at the beginning of the process in department M. Conversion costs were 75% complete as to the 8,000 units in work-in-process at May 1, 1983, and 50% complete as to the 6,000 units in work-in-process at May 31. During May 12,000 units were completed and transferred to the next department. An analysis of the costs relating to work-in-process at May 1 and to production activity for May is as follows:

	Costs	
	Materials	*Conversion*
Work-in-process, 5/1	$ 9,600	$ 4,800
Costs added in May	15,600	14,400

Using the weighted-average method, the total cost per equivalent unit for May was
  a. $2.47
  b. $2.50
  c. $2.68
  d. $3.16

1M83#21. Walden Company has a process cost system using the FIFO cost flow method. All materials are introduced at the beginning of the process in department One. The following information is available for the month of January 1983:

	Units
Work-in-process, 1/1/83 (40% complete as to conversion costs)	500
Started in January	2,000

Transferred to department Two during January	2,100
Work-in-process, 1/31/83 (25% complete as to conversion costs)	400

What are the equivalent units of production for the month of January 1983?

	Materials	*Conversion*
a.	2,500	2,200
b.	2,500	1,900
c.	2,000	2,200
d.	2,000	2,000

1M83#29. During April 1983 Clayton Company's department B equivalent unit product costs, computed under the weighted-average method, were as follows:

Materials	$1
Conversion	3
Transferred-in	5

Materials are introduced at the end of the process in department B. There were 2,000 units (40% complete as to conversion costs) in work-in-process at April 30, 1983. The total costs assigned to the April 30, 1983, work-in-process inventory should be

a. $12,400
b. $13,600
c. $14,400
d. $18,000

1N82
Items 32 and 33 are based on the following information:

Bronson Company had 6,000 units in work-in-process at January 1, 1982, which were 60% complete as to conversion costs. During January 20,000 units were completed. At January 31, 1982, 8,000 units remained in work-in-process which were 40% complete as to conversion costs. Materials are added at the beginning of the process.

32. Using the weighted-average method, the equivalent units for January for conversion costs were
a. 19,600
b. 22,400
c. 23,200
d. 25,600

33. How many units were started during January?
a. 18,000
b. 19,600
c. 20,000
d. 22,000

1M82#26. Information for the month of January 1982 concerning department A, the first stage of Ogden Corporation's production cycle, is as follows:

	Materials	Conversion
Work-in-process, beginning	$ 8,000	$ 6,000
Current costs	40,000	32,000
Total costs	$48,000	$38,000
Equivalent units using weighted-average method	100,000	95,000
Average unit costs	$ 0.48	$ 0.40

Goods completed	90,000 units
Work-in-process, end	10,000 units

Materials are added at the beginning of the process. The ending work-in-process is 50% complete as to conversion costs. How would the total costs accounted for be distributed, using the weighted-average method?

	Goods completed	*Work-in-process, end*
a.	$79,200	$6,800
b.	$79,200	$8,800
c.	$86,000	$0
d.	$88,000	$6,800

1M82#28. Richardson Company computed the flow of physical units completed for department M for the month of March 1982 as follows:

Units completed:	
From work-in-process on March 1, 1982	15,000
From March production	45,000
	60,000

Materials are added at the beginning of the process. The 12,000 units of work-in-process at March 31, 1982, were 80% complete as to conversion costs. The work-in-process at March 1, 1982, was 60% complete as to conversion costs. Using the FIFO method, the equivalent units for March conversion costs were

a. 55,200
b. 57,000
c. 60,600
d. 63,600

1N81#21. Materials are added at the start of the process in Cedar Company's blending department, the first stage of the production cycle. The following information is available for the month of July 1981:

	Units
Work-in-process, July 1 (60% complete as to conversion costs)	60,000
Started in July	150,000
Transferred to the next department	110,000
Lost in production	30,000
Work-in-process, July 31 (50% complete as to conversion costs)	70,000

Under Cedar's cost accounting system, the costs incurred on the lost units are absorbed by the remaining

good units. Using the weighted-average method, what are the equivalent units for the materials unit cost calculation?
a. 120,000
b. 145,000
c. 180,000
d. 210,000

1M81#32. Information concerning department A of Stover Company for the month of June is as follows:

	Units	*Materials costs*
Work-in-process, beginning	17,000	$12,800
Started in June	82,000	69,700
Units completed	85,000	
Work-in-process, end	14,000	

All materials are added at the beginning of the process. Using the weighted-average method, the cost per equivalent unit for materials costs is
a. $0.83
b. $0.85
c. $0.97
d. $1.01

1N80#28. Sussex Corporation's production cycle starts in the Mixing Department. The following information is available for the month of April 1980:

	Units
Work-in-process, April 1 (50% complete)	40,000
Started in April	240,000
Work-in-process, April 30 (60% complete)	25,000

Materials are added in the beginning of the process in the Mixing Department. Using the weighted-average method, what are the equivalent units of production for the month of April 1980?

	Materials	*Conversion*
a.	240,000	250,000
b.	255,000	255,000
c.	270,000	280,000
d.	280,000	270,000

1N80#33. The Cutting Department is the first stage of Mark Company's production cycle. Conversion costs for this department were 80% complete as to the beginning work-in-process and 50% complete as to the ending work-in-process. Information as to conversion costs in the Cutting Department for January 1980 is as follows:

	Units	*Conversion costs*
Work-in-process at January 1, 1980	25,000	$ 22,000
Units started and costs incurred during January	135,000	143,000
Units completed and transferred to next department during January	100,000	

Using the FIFO method, what was the conversion cost of the work-in-process in the Cutting Department at January 31, 1980?
a. $33,000
b. $38,100
c. $39,000
d. $45,000

1M80#32. Milton, Inc., had 8,000 units of work in process in its Department M on March 1, 1980, which were 50% complete as to conversion costs. Materials are introduced at the beginning of the process. During March 17,000 units were started, 18,000 units were completed and there were 2,000 units of normal spoilage. Milton had 5,000 units of work in process at March 31, 1980, which were 60% complete as to conversion costs. Under Milton's cost accounting system, spoiled units reduce the number of units over which total cost can be spread. Using the weighted-average method, the equivalent units for March for conversion costs were
a. 17,000
b. 19,000
c. 21,000
d. 23,000

1M80#33. Roy Company manufactures product X in a two-stage production cycle in Departments A and B. Materials are added at the beginning of the process in Department B. Roy uses the weighted-average method. Conversion costs for Department B were 50% complete as to the 6,000 units in the beginning work in process and 75% complete as to the 8,000 units in the ending work in process. 12,000 units were completed and transferred out of Department B during February 1980. An analysis of the costs relating to work in process (WIP) and production activity in Department B for February 1980 is as follows:

	Costs		
	Transferred In	*Materials*	*Conversion*
WIP, February 1:			
Costs attached	$12,000	$2,500	$1,000
February activity:			
Costs added	29,000	5,500	5,000

The total cost per equivalent unit transferred out for February 1980 of product X, rounded to the nearest penny, was

a. $2.75
b. $2.78
c. $2.82
d. $2.85

D. Standard Costing and Variance Analysis

2N84
Items 16 and 17 are based on the following data:

The following information pertains to Nell Company's production of one unit of its manufactured product during the month of June:

Standard quantity of materials	5 lbs.
Standard cost per lb.	$.20
Standard direct labor hours	.4
Standard wage rate per hour	$7.00
Materials purchased	100,000 lbs.
Cost of materials purchased	$.17 per lb.
Materials consumed for manufacture of 10,000 units	60,000 lbs.
Actual direct labor hours required for 10,000 units	3,900
Actual direct labor cost per hour	$7.20

The materials price variance is recognized when materials are purchased.

16. Nell's materials price variance for June was
    a. $3,000 favorable.
    b. $3,000 unfavorable.
    c. $2,000 favorable.
    d. $2,000 unfavorable.

17. Nell's labor efficiency variance for June was
    a. $780 favorable.
    b. $780 unfavorable.
    c. $700 favorable.
    d. $700 unfavorable

1N83#47. Geyer Company uses a standard cost system. For the month of April 1983, total overhead is budgeted at $80,000 based on the normal capacity of 20,000 direct-labor hours. At standard each unit of finished product requires 2 direct-labor hours. The following data are available for the April 1983 production activity:

Equivalent units of product	9,500
Direct-labor hours worked	19,500
Actual total overhead incurred	$79,500

What amount should Geyer credit to the applied factory overhead account for the month of April 1983?

a. $76,000
b. $78,000
c. $79,500
d. $80,000

1N83#48. Information on Cox Company's direct-material costs for the month of January 1983 was as follows:

Actual quantity purchased	18,000
Actual unit purchase price	$ 3.60
Materials purchase price variance—unfavorable (based on purchases)	$ 3,600
Standard quantity allowed for actual production	16,000
Actual quantity used	15,000

For January 1983 there was a favorable direct-material usage variance of

a. $3,360
b. $3,375
c. $3,400
d. $3,800

1N83#49. Harper Company uses a standard cost system. Data relating to direct labor for the month of August 1983 is as follows:

Direct-labor efficiency variance—favorable	$5,250
Standard direct-labor rate	$ 7.00
Actual direct-labor rate	$ 7.50
Standard hours allowed for actual production	9,000

What are the actual hours worked for the month of August 1983?

a. 9,750
b. 8,400
c. 8,300
d. 8,250

1M83#39. Universal Company uses a standard cost system and prepared the following budget at normal capacity for the month of January 1983:

Direct-labor hours	24,000
Variable factory overhead	$ 48,000
Fixed factory overhead	$108,000
Total factory overhead per direct-labor hour	$ 6.50

Actual data for January 1983 were as follows:

Direct-labor hours worked	22,000
Total factory overhead	$147,000
Standard direct-labor hours allowed for capacity attained	21,000

Using the two-way analysis of overhead variances, what is the budget (controllable) variance for January 1983?
a. $ 3,000 favorable.
b. $ 5,000 favorable.
c. $ 9,000 favorable.
d. $10,500 unfavorable.

2N82#22. The following information pertains to Bates Company's direct labor for March 1982:

Standard direct-labor hours	21,000
Actual direct-labor hours	20,000
Favorable direct-labor rate variance	$8,400
Standard direct-labor rate per hour	$ 6.30

What was Bates' total actual direct labor cost for March 1982?
a. $117,600
b. $118,000
c. $134,000
d. $134,400

2N82#24. Perkins Company, which has a standard cost-system, had 500 units of raw material X in its inventory at June 1, 1982, purchased in May for $1.20 per unit and carried at a standard cost of $1.00. The following information pertains to raw material X for the month of June 1982:

Actual number of units purchased	1,400
Actual number of units used	1,500
Standard number of units allowed for actual production	1,300
Standard cost per unit	$1.00
Actual cost per unit	$1.10

The unfavorable materials purchase price variance for raw material X for June was
a. $0
b. $130
c. $140
d. $150

2N82#36. Cannon Cannery, Inc., estimated its factory overhead at $510,000 for 1981, based on a normal capacity of 100,000 direct-labor hours. Standard direct-labor hours for the year totaled 105,000, while the factory overhead control account at the end of the year showed a balance of $540,000. How much was the underapplied factory overhead for 1981?
a. $0
b. $ 4,500
c. $27,000
d. $30,000

1M82#22. Martin Company uses a two-way analysis of overhead variances. Selected data for the April 1982 production activity are as follows:

Actual variable factory overhead incurred	$196,000
Variable factory overhead rate per direct-labor hour	$6.00
Standard direct-labor hours allowed	33,000
Actual direct-labor hours	32,000

Assuming that budgeted fixed overhead costs are equal to actual fixed costs, the budget (controllable) variance for April 1982 is
a. $2,000 favorable.
b. $4,000 unfavorable.
c. $4,000 favorable.
d. $6,000 favorable.

1M82#25. Information on Hanley's direct-labor costs for the month of January 1982 is as follows:

Actual direct-labor rate	$7.50
Standard direct-labor hours allowed	11,000
Actual direct-labor hours	10,000
Direct-labor rate variance—favorable	$5,500

What was the standard direct-labor rate in effect for the month of January 1982?
a. $6.95
b. $7.00
c. $8.00
d. $8.05

1M82#31. Buckler Company manufactures desks with vinyl tops. The standard material cost for the vinyl used per Model S desk is $27.00 based on twelve square feet of vinyl at a cost of $2.25 per square foot. A production run of 1,000 desks in March 1982 resulted in usage of 12,600 square feet of vinyl at a cost of $2.00 per square foot, a total cost of $25,200. The usage variance resulting from the above production run was
a. $1,200 unfavorable.
b. $1,350 unfavorable.
c. $1,800 favorable.
d. $3,150 favorable.

1N81#24. Information on Townsend Company's direct-labor costs for May 1981 is as follows:

Standard direct-labor rate	$ 6.00
Actual direct-labor rate	$ 5.80
Standard direct-labor hours	20,000
Actual direct-labor hours	21,000
Direct-labor rate variance—favorable	$ 4,200

What is Townsend's total direct-labor payroll for May 1981?
a. $116,000
b. $117,600
c. $120,000
d. $121,800

1N81#26. Throop Company had budgeted 50,000 units of output using 50,000 units of raw materials at a total material cost of $100,000. Actual output was 50,000 units of product requiring 45,000 units of raw materials at a cost of $2.10 per unit. The direct-material price variance and usage variance were

	Price	*Usage*
a.	$ 4,500 unfavorable	$10,000 favorable
b.	$ 5,000 favorable	$10,500 unfavorable
c.	$ 5,000 unfavorable	$10,500 favorable
d.	$10,000 favorable	$ 4,500 unfavorable

1N81#27. Union Company uses a standard cost accounting system. The following overhead costs and production data are available for August 1981:

Standard fixed overhead rate per direct-labor hour	$1.00
Standard variable overhead rate per direct-labor hour	$4.00
Budgeted monthly direct-labor hours	40,000
Actual direct-labor hours worked	39,500
Standard direct-labor hours allowed for actual production	39,000
Overall overhead variance — favorable	$2,000

The applied factory overhead for August 1981 should be
a. $195,000
b. $197,000
c. $197,500
d. $199,500

1M81#26. Dickey Company had total underapplied overhead of $15,000. Additional information is as follows:

Variable Overhead:	
Applied based on standard direct-labor hours allowed	$42,000
Budgeted based on standard direct-labor hours	38,000
Fixed Overhead:	
Applied based on standard direct-labor hours allowed	30,000
Budgeted based on standard direct-labor hours	27,000

What is the actual total overhead?
a. $50,000
b. $57,000
c. $80,000
d. $87,000

1M81#27. Information on Barber Company's direct-labor costs for the month of January 1981 is as follows:

Actual direct-labor hours	34,500
Standard direct-labor hours	35,000
Total direct-labor payroll	$241,500
Direct-labor efficiency variance — favorable	$3,200

What is Barber's direct-labor rate variance?
a. $17,250 unfavorable.
b. $20,700 unfavorable.
c. $21,000 unfavorable.
d. $21,000 favorable.

1M81#28. During March 1981 Younger Company's direct-material costs for the manufacture of product T were as follows:

Actual unit purchase price	$6.50
Standard quantity allowed for actual production	2,100
Quantity purchased and used for actual production	2,300
Standard unit price	$6.25

Younger's material usage variance for March 1981 was
a. $1,250 unfavorable.
b. $1,250 favorable.
c. $1,300 unfavorable.
d. $1,300 favorable.

1N80#38. Durable Company installs shingle roofs on residential houses. The standard material cost for a Type R house is $1,250 based on 1,000 units at a cost of $1.25 each. During April 1980 Durable installed roofs on 20 Type R houses, using 22,000 units of material at a cost of $1.20 per unit, and a total cost of $26,400. Durable's material price variance for April 1980 is
a. $1,000 favorable.
b. $1,100 favorable.
c. $1,400 unfavorable.
d. $2,500 unfavorable.

1N80#39. Information on Ripley Company's overhead costs for the January 1980 production activity is as follows:

Budgeted fixed overhead	$ 75,000
Standard fixed overhead rate per direct-labor hour	$3
Standard variable overhead rate per direct-labor hour	$6
Standard direct-labor hours allowed for actual production	24,000
Actual total overhead incurred	$220,000

Ripley has a standard absorption and flexible budgeting system, and uses the two-variance method (two-way analysis) for overhead variances. The volume (denominator) variance for January 1980 is
a. $3,000 unfavorable.
b. $3,000 favorable.
c. $4,000 unfavorable.
d. $4,000 favorable.

1M80#35. Alden Company has a standard absorption and flexible budgeting system and uses a two-way analysis of overhead variances. Selected data for the February 1980 production activity is as follows:

Budgeted fixed factory overhead costs	$ 64,000
Actual factory overhead incurred	$230,000
Variable factory overhead rate per direct-labor hour	$5
Standard direct-labor hours	32,000
Actual direct-labor hours	33,000

The budget (controllable) variance for February 1980 is

a. $1,000 favorable.
b. $1,000 unfavorable.
c. $6,000 favorable.
d. $6,000 unfavorable.

1M80#39. Lion Company's direct-labor costs for the month of January 1980 were as follows:

Actual direct-labor hours	20,000
Standard direct-labor hours	21,000
Direct-labor rate variance — unfavorable	$3,000
Total payroll	$126,000

What was Lion's direct-labor efficiency variance?

a. $6,000 favorable.
b. $6,150 favorable.
c. $6,300 favorable.
d. $6,450 favorable.

E. Joint Costing

1N83

Items 51 and 52 are based on the following information:

Grafton Company produces joint products A and B in department One from a process which also yields by-product W. Product A and by-product W are sold after separation, but product B must be further processed in department Two before it can be sold. The cost assigned to the by-products is its market value less $0.40 per pound for delivery expense (net realizable value method). Information relating to a batch produced in July 1983 is as follows:

Product	*Production (in pounds)*	*Sales price per pound*
A	2,000	$4.50
B	4,000	9.00
W	500	1.50

Joint cost in department One	$18,000
Product B additional process cost in department Two	$10,000

51. For joint cost allocation purposes, what is the net realizable value at the split-off point of product B?

a. $46,000
b. $45,000
c. $36,000
d. $26,000

1M83

Items 35 and 36 are based on the following information:

Warfield Corporation manufactures products C, D, and E from a joint process. Joint costs are allocated on the basis of relative-sales-value at split-off. Additional information is as follows:

	Product			
	C	*D*	*E*	*Total*
Units produced	6,000	4,000	2,000	12,000
Joint costs	$ 72,000	?	?	$120,000
Sales value at split-off	?	?	$30,000	$200,000
Additional costs if processed further	$ 14,000	$10,000	$ 6,000	$ 30,000
Sales value if processed further	$140,000	$60,000	$40,000	$240,000

35. How much of the joint costs should Warfield allocate to product D?

a. $24,000
b. $28,800
c. $30,000
d. $32,000

36. Assuming that the 2,000 units of product E were processed further and sold for $40,000, what was Warfield's gross profit on the sale?

a. $ 4,000
b. $14,000
c. $16,000
d. $22,000

2N82#25. Brill Company manufactures products Y and Z from a joint process. Sales value at split-off was $100,000 for 6,000 units of Y and $50,000 for 2,000 units of Z. The portion of total joint costs properly allocated to Y was $60,000, using the relative-sales-value at split-off approach. How much were the total joint costs?

a. $ 80,000
b. $ 85,000
c. $ 90,000
d. $120,000

2N82#26. Pendall Company manufactures products Dee and Eff from a joint process. Product Dee has been allocated $2,500 of total joint costs of $20,000 for the 1,000 units produced. Dee can be sold at the split-off point for $3 per unit, or it can be processed further with additional costs of $1,000 and sold for $5 per unit. If Dee is processed further and sold, the result would be

a. A break-even situation.
b. An additional gain of $1,000 from further processing.
c. An overall loss of $1,000.
d. An additional gain of $2,000 from further processing.

1N81#22. Ashwood Company manufactures products F, G, and W from a joint process. Joint costs are allocated on the basis of relative-sales-value at split-off. Additional information for the June 1981 production activity is as follows:

	Products			
	F	*G*	*W*	*Total*
Units produced	50,000	40,000	10,000	100,000
Joint costs	?	?	?	$450,000
Sales value at split-off	$420,000	$270,000	$60,000	$750,000
Additional costs if processed further	$ 88,000	$ 30,000	$12,000	$130,000
Sales value if processed further	$538,000	$320,000	$78,000	$936,000

Assuming that the 10,000 units of W were processed further and sold for $78,000, what was Ashwood's gross profit on this sale?

a. $21,000
b. $28,500
c. $30,000
d. $66,000

1M81#37. Stayman, Inc., manufactures products F, G, and H from a joint process. Additional information is as follows:

	Product			
	F	*G*	*H*	*Total*
Units produced	8,000	4,000	2,000	14,000
Joint costs	?	?	$18,000	$120,000
Sales value at split-off	$120,000	?	?	$200,000
Additional costs if processed further	$ 14,000	$10,000	$ 6,000	$ 30,000
Sales value if processed further	$140,000	$60,000	$50,000	$250,000

Assuming that joint product costs are allocated using the relative-sales-value at split-off approach, what were the joint costs allocated to product G?

a. $28,800
b. $30,000
c. $34,000
d. $51,000

1M81#39. Stowe, Inc., produces two joint products, PEL and VEL. The joint production costs for March 1981 were $15,000. During March 1981 further processing costs beyond the split-off point, needed to convert the products into salable form, were $8,000 and $12,000 for 800 units of PEL and 400 units of VEL, respectively. PEL sells for $25 per unit and VEL sells for $50 per unit. Assuming that Stowe uses the net realizable value method for allocating joint product costs, what were the joint costs allocated to product PEL for March 1981?

a. $ 5,000
b. $ 6,000
c. $ 9,000
d. $10,000

1N80#24. Jonathan Company manufactures products N, P, and R from a joint process. The following information is available:

	Product			
	N	*P*	*R*	*Total*
Units produced	6,000	?	?	12,000
Sales value at split-off	?	?	$25,000	$100,000
Joint costs	$ 24,000	?	?	$ 60,000
Sales value if processed further	$ 55,000	$45,000	$30,000	$130,000
Additional costs if processed further	$ 9,000	$ 7,000	$ 5,000	$ 21,000

Assuming that joint product costs are allocated using the relative-sales-value at split-off approach, what was the sales value at split-off for product N?

a. $33,000
b. $40,000
c. $46,000
d. $50,000

1N80#32. Ohio Corporation manufactures liquid chemicals A and B from a joint process. Joint costs are allocated on the basis of relative-sales-value at split-off. It costs $4,560 to process 500 gallons of product A and 1,000 gallons of product B to the split-off point. The sales value at split-off is $10 per gallon for product A and $14 for product B. Product B requires an additional process beyond split-off at a cost of $1 per gallon before it can be sold. What is Ohio's cost to produce 1,000 gallons of product B?

a. $3,360
b. $3,660
c. $4,040
d. $4,360

2M80#28. Stellar Corporation manufactures products R and S from a joint process. Additional information is as follows:

	Product		
	R	*S*	*Total*
Units produced	4,000	6,000	10,000
Joint costs	$36,000	$ 54,000	$ 90,000
Sales value at split-off	?	?	?
Additional costs if processed further	$ 3,000	$ 26,000	$ 29,000
Sales value if processed further	$63,000	$126,000	$189,000
Additional margin if processed further	$12,000	?	$ 40,000

Assuming that joint costs are allocated on the basis of relative-sales-value at split-off, what was the sales value at split-off for product S?

a. $ 72,000
b. $ 82,000
c. $ 98,000
d. $100,000

F. By-Product Costing

1N83#52

Items 51 and 52 are based on the following information:

Grafton Company produces joint products A and B in department One from a process which also yields by-product W. Product A and by-product W are sold after separation, but product B must be further processed in department Two before it can be sold. The cost assigned to the by-product is its market value less $0.40 per pound for delivery expense (net realizable value method). Information relating to a batch produced in July 1983 is as follows:

Product	*Production (in pounds)*	*Sales price per pound*
A	2,000	$4.50
B	4,000	9.00
W	500	1.50

Joint cost in department One	$18,000
Product B additional process cost in department Two	$10,000

52. How much of the joint cost incurred in department One should be allocated to the joint products?

a. $17,250
b. $17,450
c. $17,800
d. $18,550

1M83#38. Crowley Company produces joint products A and B from a process which also yields a by-product, Y. The by-product requires additional processing before it can be sold. The cost assigned to the by-product is its market value less additional costs incurred after split-off (net realizable value method). Information concerning a batch produced in January 1983 at a joint cost of $40,000 is as follows:

Product	*Units produced*	*Market value*	*Costs after split-off*
A	800	$44,000	$4,500
B	700	32,000	3,500
Y	500	4,000	1,000

How much of the joint cost should be allocated to the joint products?

a. $35,000
b. $36,000
c. $37,000
d. $39,000

2N82

Items 39 and 40 are based on the following data:

Earl Corporation manufactures a product that gives rise to a by-product called "Zafa." The only costs associated with Zafa are selling costs of $1 for each unit sold. Earl accounts for Zafa sales by deducting its separable costs from such sales, and then deducting this net amount from cost of sales of the major product. In 1981, 1,000 units of Zafa were sold at $4 each.

39. If Earl changes its method of accounting for Zafa sales by showing the net amount as additional sales revenue, then Earl's gross margin would

a. Be unaffected.
b. Increase by $3,000.
c. Decrease by $3,000.
d. Increase by $4,000.

40. If Earl changes its method of accounting for Zafa sales by showing the net amount as "Other Income," then Earl's gross margin would

a. Be unaffected.
b. Increase by $3,000.
c. Decrease by $3,000.
d. Decrease by $4,000.

1M80#27. Superior Company manufactures products A and B from a joint process which also yields a by-product, X. Superior accounts for the revenues from its by-product sales as a deduction from the cost of goods sold of its main products. Additional information is as follows:

	Products			
	A	*B*	*X*	*Total*
Units produced	15,000	9,000	6,000	30,000
Joint costs	?	?	?	$264,000
Sales value at split-off	$290,000	$150,000	$10,000	$450,000

Assuming that joint product costs are allocated using the relative-sales-value at split-off approach, what was the joint cost allocated to product B?

a. $79,200
b. $88,000
c. $90,000
d. $99,000

G. Spoilage, Waste, and Scrap

1N83#54. During March 1983 Hart Company incurred the following costs on Job 109 for the manufacture of 200 motors:

Original cost accumulation:	
Direct materials	$ 660
Direct labor	800
Factory overhead (150% of direct labor)	1,200
	$2,660
Direct costs of reworking 10 units:	
Direct materials	$100
Direct labor	160
	$260

The rework costs were attributable to exacting specifications of Job 109 and the full rework costs were charged to this specific job. The cost per finished unit of Job 109 was

a. $15.80
b. $14.60
c. $14.00
d. $13.30

1M83#30. Barkley Company adds materials at the beginning of the process in department M. Data concerning the materials used in March 1983 production are as follows:

	Units
Work-in-process at March 1	16,000
Started during March	34,000
Completed and transferred to next department during March	36,000
Normal spoilage incurred	4,000
Work-in-process at March 31	10,000

Using the weighted-average method, the equivalent units for the materials unit cost calculation are

a. 30,000
b. 34,000
c. 40,000
d. 46,000

1M83#37. Simpson Company manufactures electric drills to the exacting specifications of various customers. During April 1983, Job 403 for the production of 1,100 drills was completed at the following costs per unit:

Direct materials	$10
Direct labor	8
Applied factory overhead	12
	$30

Final inspection of Job 403 disclosed 50 defective units and 100 spoiled units. The defective drills were reworked at a total cost of $500 and the spoiled drills were sold to a jobber for $1,500. What would be the unit cost of the good units produced on Job 403?

a. $33
b. $32
c. $30
d. $29

1N82
Items 28 and 29 are based on the following information:

Harper Company's Job 501 for the manufacture of 2,200 coats was completed during August 1982 at the following unit costs:

Direct materials	$20
Direct labor	18
Factory overhead (includes an allowance of $1 for spoiled work)	18
	$56

Final inspection of Job 501 disclosed 200 spoiled coats which were sold to a jobber for $6,000.

28. Assume that spoilage loss is charged to all production during August 1982. What would be the unit cost of the good coats produced on Job 501?

a. $53.00
b. $55.00
c. $56.00
d. $58.60

29. Assume, instead, that the spoilage loss is attributable to exacting specifications of Job 501 and is

charged to this specific job. What would be the unit cost of the good coats produced on Job 501?

a. $55.00
b. $57.50
c. $58.60
d. $61.60

1M82#27. Under Heller Company's job order cost system, estimated costs of defective work (considered normal in the manufacturing process) are included in the predetermined factory overhead rate. During March 1982, Job No. 210 for 2,000 handsaws was completed at the following costs per unit:

Direct materials	$ 5
Direct labor	4
Factory overhead (applied at 150% of direct-labor cost)	6
	$15

Final inspection of Job No. 210 disclosed 100 defective saws which were reworked at a cost of $2 per unit for direct labor, plus overhead at the predetermined rate. The defective units on Job No. 210 fall within the normal range. What is the total rework cost and to what account should it be charged?

	Rework cost	*Account charged*
a.	$200	Work-in-process
b.	$200	Factory overhead control
c.	$500	Work-in-process
d.	$500	Factory overhead control

1M82#29. Tooker Company adds materials at the beginning of the process in department A. Information concerning the materials used in April 1982 production is as follows:

	Units
Work-in-process at April 1	10,000
Started during April	50,000
Completed and transferred to next department during April	36,000
Normal spoilage incurred	3,000
Abnormal spoilage incurred	5,000
Work-in-process at April 30	16,000

Under Tooker's cost accounting system, costs of normal spoilage are treated as a part of the costs of the good units produced. However, the costs of abnormal spoilage are charged to factory overhead. Using the weighted-average method, what are the equivalent units for the materials unit cost calculation for the month of April?

a. 47,000
b. 52,000
c. 55,000
d. 57,000

H. Absorption and Direct Costing

2N84
Items 19 and 20 are based on the following data:

Lina Co. produced 100,000 units of Product Zee during the month of June. Costs incurred during June were as follows:

Direct materials used	$100,000
Direct labor used	80,000
Variable manufacturing overhead	40,000
Fixed manufacturing overhead	50,000
Variable selling and general expenses	12,000
Fixed selling and general expenses	45,000
	$327,000

19. What was Product Zee's unit cost under absorption costing?

a. $3.27
b. $2.70
c. $2.20
d. $1.80

20. What was Product Zee's unit cost under variable (direct) costing?

a. $2.82
b. $2.70
c. $2.32
d. $2.20

2N83
Items 15 and 16 are based on the following data:

Bates Co. incurred the following costs:

Direct materials and direct labor	$600,000
Variable factory overhead	80,000
Straight-line depreciation:	
Production machinery	70,000
Factory building	50,000

15. Under absorption costing, the inventoriable costs are

a. $680,000
b. $730,000
c. $750,000
d. $800,000

16. Under variable (direct) costing, the inventoriable costs are

a. $600,000
b. $680,000
c. $720,000
d. $750,000

1M83
Items 33 and 34 are based on the following information:

Gordon Company began its operations on January 1, 1982, and produces a single product that sells for $10 per unit. Gordon uses an actual (historical) cost system.

In 1982, 100,000 units were produced and 80,000 units were sold. There was no work-in-process inventory at December 31, 1982.

Manufacturing costs and selling and administrative expenses for 1982 were as follows:

	Fixed costs	*Variable costs*
Raw materials	—	$2.00 per unit produced
Direct labor	—	1.25 per unit produced
Factory overhead	$120,000	.75 per unit produced
Selling and administrative	70,000	1.00 per unit sold

33. What would be Gordon's operating income for 1982 under the variable (direct) costing method?
   a. $114,000
   b. $210,000
   c. $234,000
   d. $330,000

34. What would be Gordon's finished goods inventory at December 31, 1982, under the absorption costing method?
   a. $ 80,000
   b. $104,000
   c. $110,000
   d. $124,000

1N82

Items 24 and 25 are based on the following information:

Selected information concerning the operations of Kern Company for the year ended December 31, 1981, is available as follows:

Units produced	10,000
Units sold	9,000
Direct materials used	$40,000
Direct labor incurred	$20,000
Fixed factory overhead	$25,000
Variable factory overhead	$12,000
Fixed selling and administrative expenses	$30,000
Variable selling and administrative expenses	$ 4,500
Finished goods inventory, January 1, 1981	None

There were no work-in-process inventories at the beginning and end of 1981.

24. What would be Kern's finished goods inventory cost at December 31, 1981, under the variable (direct) costing method?
   a. $7,200
   b. $7,650
   c. $8,000
   d. $9,700

25. Which costing method, absorption or variable costing, would show a higher operating income for 1981 and by what amount?

	Costing method	*Amount*
a.	Absorption costing	$2,500
b.	Variable costing	$2,500
c.	Absorption costing	$5,500
d.	Variable costing	$5,500

2N82#30. Keller Company, a manufacturer of rivets, uses absorption costing. Keller's 1981 manufacturing costs were as follows:

Direct materials and direct labor	$800,000
Depreciation of machines	100,000
Rent for factory building	60,000
Electricity to run machines	35,000

How much of these costs should be inventoried?
   a. $800,000
   b. $835,000
   c. $935,000
   d. $995,000

1M82

Items 39 and 40 are based on the following information:

Information from Peterson Company's records for the year ended December 31, 1981, is available as follows:

Net sales	$1,400,000
Cost of goods manufactured:	
Variable	$ 630,000
Fixed	$ 315,000
Operating expenses:	
Variable	$ 98,000
Fixed	$ 140,000
Units manufactured	70,000
Units sold	60,000
Finished goods inventory, January 1, 1981	None

There were no work-in-process inventories at the beginning and end of 1981.

39. What would be Peterson's finished goods inventory cost at December 31, 1981, under the variable (direct) costing method?
   a. $ 90,000
   b. $104,000
   c. $105,000
   d. $135,000

40. Under the absorption costing method, Peterson's operating income for 1981 would be
   a. $217,000
   b. $307,000
   c. $352,000
   d. $374,500

1M81#23. During January 1981 Gable, Inc., produced 10,000 units of product F with costs as follows:

Direct materials	$40,000
Direct labor	22,000
Variable overhead	13,000
Fixed overhead	10,000
	$85,000

What is Gable's unit cost of product F for January 1981 calculated on the direct costing basis?

a. $6.20
b. $7.20
c. $7.50
d. $8.50

I. Transfer Pricing

1N83
Items 57 and 58 are based on the following information:

Ajax Division of Carlyle Corporation produces electric motors, 20% of which are sold to Bradley Division of Carlyle and the remainder to outside customers. Carlyle treats its divisions as profit centers and allows division managers to choose their sources of sale and supply. Corporate policy requires that all interdivisional sales and purchases be recorded at variable cost as a transfer price. Ajax Division's estimated sales and standard cost data for the year ending December 31, 1982, based on the full capacity of 100,000 units, are as follows:

	Bradley	*Outsiders*
Sales	$ 900,000	$ 8,000,000
Variable costs	(900,000)	(3,600,000)
Fixed costs	(300,000)	(1,200,000)
Gross margin	$(300,000)	$ 3,200,000
Unit sales	20,000	80,000

Ajax has an opportunity to sell the above 20,000 units to an outside customer at a price of $75 per unit during 1982 on a continuing basis. Bradley can purchase its requirements from an outside supplier at a price of $85 per unit.

57. Assuming that Ajax Division desires to maximize its gross margin, should Ajax take on the new customer and drop its sales to Bradley for 1982, and why?

a. No, because the gross margin of the corporation as a whole would decrease by $200,000.
b. Yes, because Ajax Division's gross margin would increase by $300,000.
c. Yes, because Ajax Division's gross margin would increase by $600,000.
d. No, because Bradley Division's gross margin would decrease by $800,000.

58. Assume, instead, that Carlyle permits the division managers to negotiate the transfer price for 1982. The managers agreed on a tentative transfer price of $75 per unit, to be reduced based on an equal sharing of the additional gross margin to Ajax resulting from the sale to Bradley of 20,000 motors at $75 per unit. The actual transfer price for 1982 would be

a. $52.50
b. $55.00
c. $60.00
d. $67.50

K. Budgeting and Flexible Budgeting

1N83#41. Walman Company is budgeting sales of 42,000 units of product Y for March 1983. To make one unit of finished product, three pounds of raw material A are required. Actual beginning and desired ending inventories of raw material A and product Y are as follows:

	3/1/83	*3/31/83*
Raw material A	100,000 pounds	110,000 pounds
Product Y	22,000 units	24,000 units

There is no work-in-process inventory for product Y at the beginning and end of March. For the month of March, how many pounds of raw material A is Walman planning to purchase?

a. 126,000
b. 132,000
c. 136,000
d. 142,000

1N83#55. In preparing its cash budget for July 1983, Reed Company made the following projections:

Sales	$1,500,000
Gross profit (based on sales)	25%
Decrease in inventories	$ 70,000
Decrease in accounts payable for inventories	$ 120,000

For July 1983 what were the estimated cash disbursements for inventories?

a. $ 935,000
b. $1,050,000
c. $1,055,000
d. $1,175,000

1N83#56. Fawcett Company uses a flexible budget system and prepared the following information for 1982:

	Normal capacity	*Maximum capacity*
Percent of capacity	80%	100%
Direct-labor hours	32,000	40,000
Variable factory overhead	$ 64,000	$ 80,000
Fixed factory overhead	$160,000	$160,000
Total factory overhead rate per direct-labor hour	$7	$6

Fawcett operated at 90% of capacity during 1982. The actual factory overhead for 1982 was $252,000. What was the budget (controllable) overhead variance for the year?
a. $36,000 unfavorable.
b. $20,000 unfavorable.
c. $18,000 unfavorable.
d. $0.

1M83#31. Lawton Company produces canned tomato soup and is budgeting sales of 250,000 units for the month of January 1983. Actual inventory units at January 1 and budgeted inventory units at January 31 are as follows:

	Units
Actual inventory at January 1:	
Work-in-process	None
Finished goods	75,000
Budgeted inventory at January 31:	
Work-in-process (75% processed)	16,000
Finished goods	60,000

How many equivalent units of production is Lawton budgeting for January 1983?
a. 235,000
b. 247,000
c. 251,000
d. 253,000

1N82#21. Dean Company is preparing a flexible budget for 1982 and the following maximum capacity estimates for department M are available:

	At maximum capacity
Direct-labor hours	60,000
Variable factory overhead	$150,000
Fixed factory overhead	$240,000

Assume that Dean's normal capacity is 80% of maximum capacity. What would be the total factory overhead rate, based on direct-labor hours, in a flexible budget at normal capacity?
a. $6.00
b. $6.50
c. $7.50
d. $8.13

1N82#27. Reid Company is budgeting sales of 100,000 units of product R for the month of September 1982. Production of one unit of product R requires two units of material A and three units of material B. Actual inventory units at September 1 and budgeted inventory units at September 30 are as follows:

	Actual inventory at September 1	*Budgeted inventory at September 30*
Product R	20,000	10,000
Material A	25,000	18,000
Material B	22,000	24,000

How many units of material B is Reid planning to purchase during September 1982?
a. 328,000
b. 302,000
c. 298,000
d. 272,000

1N82#30. Eriksen Company has budgeted its activity for October 1982 based on the following information:

- Sales are budgeted at $300,000. All sales are credit sales and a provision for doubtful accounts is made monthly at the rate of 3% sales.
- Merchandise inventory was $70,000 at September 30, 1982, and an increase of $10,000 is planned for the month.
- All merchandise is marked up to sell at invoice cost plus 50%.
- Estimated cash disbursements for selling and administrative expenses for the month are $40,000.
- Depreciation for the month is projected at $5,000.

Eriksen is projecting operating income for October 1982 in the amount of
a. $96,000
b. $56,000
c. $55,000
d. $46,000

1N82#34. Brooks Company uses the following flexible budget formula for the 1982 annual maintenance cost in department T:

Total cost = $7,200 + $0.60 per machine hour

The July 1982 operating budget is based upon 20,000 hours of planned machine time. Maintenance cost included in this flexible budget is
a. $11,400
b. $12,000
c. $12,600
d. $19,200

1N82#38. In preparing its budget for July 1982, Robinson Company has the following accounts receivable information available:

Accounts receivable at June 30, 1982	$350,000
Estimated credit sales for July	400,000
Estimated collections in July for credit sales in July and prior months	320,000
Estimated write-offs in July for uncollectible credit sales	16,000
Estimated provision for doubtful accounts for credit sales in July	12,000

What is the projected balance of accounts receivable at July 31, 1982?
a. $402,000
b. $414,000
c. $426,000
d. $430,000

2N82#23. Pratt Company is preparing its cash budget for the month ending November 30, 1982. The following information pertains to Pratt's past collection experience from its credit sales:

Current month's sales	12%
Prior month's sales	75%
Sales two months prior to current month	6%
Sales three months prior to current month	4%
Cash discounts (2/30, net 90)	2%
Doubtful accounts	1%

Credit sales:	
November — estimated	$200,000
October	180,000
September	160,000
August	190,000

How much is the estimated credit to accounts receivable as a result of collections expected during November?
a. $170,200
b. $174,200
c. $176,200
d. $180,200

2N82#28. Betz Company's sales budget shows the following projections for the year ending December 31, 1983:

Quarter	*Units*
First	60,000
Second	80,000
Third	45,000
Fourth	55,000
Total	240,000

Inventory at December 31, 1982, was budgeted at 18,000 units. The quantity of finished goods inventory at the end of each quarter is to equal 30% of the next quarter's budgeted sales of units. How much should the production budget show for units to be produced during the first quarter?
a. 24,000
b. 48,000
c. 66,000
d. 72,000

1N81#25. Jackson, Inc., is preparing a flexible budget for 1981 and requires a breakdown of the cost of steam used in its factory into the fixed and variable elements. The following data on the cost of steam used and direct-labor hours worked are available for the last six months of 1980:

Month	*Cost of steam*	*Direct-labor hours*
July	$ 15,850	3,000
August	13,400	2,050
September	16,370	2,900
October	19,800	3,650
November	17,600	2,670
December	18,500	2,650
Total	$101,520	16,920

Assuming that Jackson uses the high-low points method of analysis, the estimated variable cost of steam per direct-labor hour should be
a. $4.00
b. $5.42
c. $5.82
d. $6.00

1N81#28. Sussex Company has budgeted its operations for February 1981. No change in inventory level during the month is planned. Selected data from estimated amounts are as follows:

Net loss	$100,000
Increase in accounts payable	40,000
Depreciation expense	35,000
Decrease in gross amount of trade accounts receivable	60,000
Purchase of office equipment on 45-day credit terms	15,000
Provision for estimated warranty liability	10,000

How much change in cash position is expected for February?
a. $15,000 decrease.
b. $25,000 decrease.
c. $30,000 increase.
d. $45,000 increase.

1N81#33. Juniper Company is preparing its cash budget for the month of August 1981. Projections for the month include the following:

Sales	$400,000
Gross profit (based on sales)	25%
Increase in inventories	$ 30,000
Decrease in trade accounts payable	$ 12,000

What are the estimated cash disbursements for inventories in August 1981?
a. $142,000
b. $312,000
c. $318,000
d. $342,000

1M81#24. Fields Corporation projects the following transactions for 1981, its first year of operations:

Proceeds from issuance of common stock	$1,000,000
Sales on account	2,200,000
Collections of accounts receivable	1,800,000
Cost of goods sold	1,400,000
Disbursements for purchases of merchandise and expenses	1,200,000
Disbursements for income taxes	250,000
Disbursements for purchase of fixed assets	800,000
Depreciation on fixed assets	150,000
Proceeds from borrowings	700,000
Payments on borrowings	80,000

The projected cash balance at December 31, 1981, is

a. $1,170,000
b. $1,220,000
c. $1,370,000
d. $1,820,000

1M81#25. Peters Company uses a flexible budget system and prepared the following information for 1980:

Percent of capacity	*80%*	*90%*
Direct-labor hours	24,000	27,000
Variable factory overhead	$ 48,000	$ 54,000
Fixed factory overhead	$108,000	$108,000
Total factory overhead rate per direct-labor hour	$6.50	$6.00

Peters operated at 80% of capacity during 1980, but applied factory overhead based on the 90% capacity level. Assuming that actual factory overhead was equal to the budgeted amount for the attained capacity, what is the amount of overhead variance for the year?

a. $ 6,000 overabsorbed.
b. $ 6,000 underabsorbed.
c. $12,000 overabsorbed.
d. $12,000 underabsorbed.

1M81#34. Mapes Corporation has estimated its activity for January 1981. Selected data from these estimated amounts are as follows:

- Sales $1,400,000
  Gross profit (based on sales) 30%
  Increase in trade accounts receivable during month $ 40,000
  Change in accounts payable during month $ 0
  Increase in inventory during month $ 20,000

- Variable selling, general and administrative expenses (S, G & A) include a charge for uncollectible accounts of 1% of sales.

- Total S, G & A is $142,000 per month plus 15% of sales.

- Depreciation expense of $80,000 per month is included in fixed S, G & A.

What are the estimated cash disbursements for January 1981?

a. $1,238,000
b. $1,252,000
c. $1,258,000
d. $1,272,000

1N80#23. Reid Company is developing a forecast of March 1980 cash receipts from credit sales. Credit sales for March 1980 are estimated to be $320,000. The accounts receivable balance at February 29, 1980, is $300,000; one-quarter of the balance represents January credit sales and the remainder is from February sales. All accounts receivable from months prior to January 1980 have been collected or written off. Reid's history of accounts receivable collections is as follows:

In the month of sale	20%
In the first month after month of sale	50%
In the second month after month of sale	25%
Written off as uncollectible at the end of the second month after month of sale	5%

Based on the above information, Reid is forecasting March 1980 cash receipts from credit sales of

a. $176,500
b. $195,250
c. $253,769
d. $267,125

1N80#25. Anthony Company has projected cost of goods sold as $4,000,000, including fixed costs of $800,000. Variable costs are expected to be 75% of net sales. What will be the projected net sales?

a. $4,266,667
b. $4,800,000
c. $5,333,333
d. $6,400,000

1M80#23. Davis Company has budgeted its activity for April 1980. Selected data from estimated amounts are as follows:

Net income	$120,000
Increase in gross amount of trade accounts receivable during month	35,000
Decrease in accounts payable during month	25,000
Depreciation expense	65,000
Provision for income taxes	80,000
Provision for doubtful accounts receivable	45,000

On the basis of the above data, Davis has budgeted a cash increase for the month in the amount of
a. $ 90,000
b. $195,000
c. $250,000
d. $300,000

L. Breakeven and Cost-Volume-Profit Analysis

2N84
Items 14 and 15 are based on the following data:

The following information pertains to Rica Company:

Sales (50,000 units)	$1,000,000
Direct materials and direct labor	300,000
Factory overhead:	
Variable	40,000
Fixed	70,000
Selling and general expenses:	
Variable	10,000
Fixed	60,000

14. How much was Rica's break-even point in number of units?
a. 9,848
b. 10,000
c. 18,571
d. 26,000

15. What was Rica's contribution margin ratio?
a. 66%
b. 65%
c. 59%
d. 35%

2N83
Items 10 and 11 are based on the following data:

Kalik Co. sells radios for $60 each. Variable expenses are $40 per unit, while fixed expenses total $30,000.

10. How many radios must Kalik sell to earn an operating income of $70,000?
a. 5,000
b. 3,500
c. 2,500
d. 1,500

11. What total dollar amount must Kalik sell to break even?
a. $ 40,000
b. $ 75,000
c. $ 90,000
d. $120,000

2N83#12. Koby Co. has sales of $200,000 with variable expenses of $150,000, fixed expenses of $60,000, and an operating loss of $10,000. By how much would Koby have to increase its sales in order to achieve an operating income of 10% of sales?
a. $400,000
b. $251,000
c. $231,000
d. $200,000

1N82#31. During March 1982 Adams Company had sales of $5,000,000, variable costs of $3,000,000 and fixed costs of $1,500,000 for product M. Assume that cost behavior and unit selling price remain unchanged during April. In order for Adams to realize operating income of $300,000 from product M for April, sales would have to be
a. $3,750,000
b. $4,050,000
c. $4,500,000
d. $4,800,000

1N82#39. Wilson Company prepared the following preliminary forecast concerning product G for 1982 assuming no expenditure for advertising:

Selling price per unit	$10
Unit sales	100,000
Variable costs	$600,000
Fixed costs	$300,000

Based on a market study in December 1981, Wilson estimated that it could increase the unit selling price by 15% and increase the unit sales volume by 10% if $100,000 were spent on advertising. Assuming that Wilson incorporates these changes in its 1982 forecast, what should be the operating income from product G?
a. $175,000
b. $190,000
c. $205,000
d. $365,000

2N82#27. Marling Company is contemplating an expansion program based on the following budget data:

Expected sales	$600,000
Variable costs	420,000
Fixed expenses	120,000

What is the amount of break-even sales?
a. $400,000
b. $420,000
c. $540,000
d. $660,000

2N82#29. Spencer Company's regular selling price for its product is $10 per unit. Variable costs are $6 per unit. Fixed costs total $1 per unit based on 100,000 units, and remain unchanged within the relevant range of 50,000 units to total capacity of 200,000 units. After sales of 80,000 units were projected for 1982, a special order was received for an additional 10,000 units. To

increase its operating income by $10,000, what price per unit should Spencer charge for this special order?
a. $ 7
b. $ 8
c. $10
d. $11

2N82#33. Purvis Company manufactures a product that has a variable cost of $50 per unit. Fixed costs total $1,000,000, allocated on the basis of the number of units produced. Selling price is computed by adding a 10% markup to full cost. How much should the selling price be per unit for 100,000 units?
a. $55
b. $60
c. $61
d. $66

1M82#33. Kern Company prepared the following tentative forecast concerning product A for 1982:

Sales	$500,000
Selling price per unit	$5.00
Variable costs	$300,000
Fixed costs	$150,000

A study made by the sales manager disclosed that the unit selling price could be increased by 20%, with an expected volume decrease of only 10%. Assuming that Kern incorporates these changes in its 1982 forecast, what should be the operating income from product A?
a. $ 66,000
b. $ 90,000
c. $120,000
d. $145,000

1M82#34. Singer, Inc., sells product R for $5 per unit. The fixed costs are $210,000 and the variable costs are 60% of the selling price. What would be the amount of sales if Singer is to realize a profit of 10% of sales?
a. $700,000
b. $525,000
c. $472,500
d. $420,000

1N81#30. Pitt Company is considering a proposal to replace existing machinery used for the manufacture of product A. The new machines are expected to cause increased annual fixed costs of $120,000; however, variable costs should decrease by 20% due to a reduction in direct-labor hours and more efficient usage of direct materials. Before this change was under consideration, Pitt had budgeted product A sales and costs for 1981 as follows:

Sales	$2,000,000
Variable costs	70% of sales
Fixed costs	$400,000

Assuming that Pitt implemented the above proposal by January 1, 1981, what would be the increase in budgeted operating profit for product A for 1981?
a. $160,000
b. $280,000
c. $360,000
d. $480,000

1N81#32. Lindsay Company reported the following results from sales of 5,000 units of product A for the month of June 1981:

Sales	$200,000
Variable costs	120,000
Fixed costs	60,000
Operating income	20,000

Assume that Lindsay increases the selling price of product A by 10% on July 1, 1981. How many units of product A would have to be sold in July 1981 in order to generate an operating income of $20,000?
a. 4,000
b. 4,300
c. 4,500
d. 5,000

1N81#34. Birney Company is planning its advertising campaign for 1981 and has prepared the following budget data based on a zero advertising expenditure:

Normal plant capacity	200,000 units
Sales	150,000 units
Selling price	$25.00 per unit
Variable manufacturing costs	$15.00 per unit
Fixed costs:	
Manufacturing	$800,000
Selling and administrative	$700,000

An advertising agency claims that an aggressive advertising campaign would enable Birney to increase its unit sales by 20%. What is the maximum amount that Birney can pay for advertising and obtain an operating profit of $200,000?
a. $100,000
b. $200,000
c. $300,000
d. $550,000

1N81#35. In planning its operations for 1981 based on a sales forecast of $6,000,000, Wallace, Inc., prepared the following estimated data:

	Costs and expenses	
	Variable	*Fixed*
Direct materials	$1,600,000	
Direct labor	1,400,000	
Factory overhead	600,000	$ 900,000
Selling expenses	240,000	360,000
Administrative expenses	60,000	140,000
	$3,900,000	$1,400,000

What would be the amount of sales dollars at the break-even point?

a. $2,250,000
b. $3,500,000
c. $4,000,000
d. $5,300,000

1M81#35. Warfield Company is planning to sell 100,000 units of product I for $12.00 a unit. The fixed costs are $280,000. In order to realize a profit of $200,000, what would the variable costs be?

a. $480,000
b. $720,000
c. $900,000
d. $920,000

1M81#36. Sun Company's tentative budget for product H for 1981 is as follows:

Sales	$600,000
Variable manufacturing costs	360,000
Fixed costs:	
Manufacturing	90,000
Selling and administrative	110,000

Mr. Johnston, the marketing manager, proposes an aggressive advertising campaign costing an additional $50,000 and resulting in a 30% unit sales increase for product H. Assuming that Johnston's proposal is incorporated into the budget for product H, what should be the increase in the budgeted operating profit for 1981?

a. $ 12,000
b. $ 22,000
c. $ 72,000
d. $130,000

1M81#40. Gerber Company is planning to sell 200,000 units of product O for $2.00 a unit. The contribution margin is 25%. Gerber will break even at this level of sales. What would be the fixed costs?

a. $100,000
b. $160,000
c. $200,000
d. $300,000

1N80#29. Thomas Company sells products X, Y, and Z. Thomas sells three units of X for each unit of Z, and two units of Y for each unit of X. The contribution margins are $1.00 per unit of X, $1.50 per unit of Y, and $3.00 per unit of Z. Fixed costs are $600,000. How many units of X would Thomas sell at the breakeven point?

a. 40,000
b. 120,000
c. 360,000
d. 400,000

1M80#21. The Insulation Corporation sells two products, D and W. Insulation sells these products at a rate of 2 units of D to 3 units of W. The contribution margin is $4 per unit for D and $2 per unit for W. Insulation has fixed costs of $420,000. What would be the total units sold at the breakeven point?

a. 140,000
b. 150,000
c. 168,000
d. 180,000

1M80#26. Day Company is a medium-sized manufacturer of lamps. During 1979 a new line called "Twilight" was made available to Day's customers. The break-even point for sales of Twilight is $400,000 with a contribution margin of 40%. Assuming that the operating profit for the Twilight line for 1979 amounted to $200,000, total sales for 1979 amounted to

a. $600,000
b. $840,000
c. $900,000
d. $950,000

1M80#29. Moon Company sells product Q at $6 a unit. In 1980 fixed costs are expected to be $200,000 and variable costs are estimated at $4 a unit. How many units of product Q must Moon sell to generate operating income of $40,000?

a. 50,000
b. 60,000
c. 100,000
d. 120,000

M. Gross Profit Analysis

2N83#5. Balan Co.'s pricing structure has been formulated to yield a gross margin of 40%. The following data pertain to the year ended December 31, 1982:

Sales	$600,000
Beginning inventory	100,000
Purchases	400,000
Physical inventory at year-end	100,000

Balan is satisfied that all sales and purchases have been fully and properly recorded. How much might Balan reasonably estimate as missing inventory at December 31, 1982?

a. $0
b. $ 40,000
c. $140,000
d. $160,000

1N81#31. Garfield Company, which sells a single product, provided the following data from its income statements for the calendar years 1980 and 1979:

	1980
Sales (150,000 units)	$750,000
Cost of goods sold	525,000
Gross profit	$225,000

	1979 (Base year)
Sales (180,000 units)	$720,000
Cost of goods sold	575,000
Gross profit	$145,000

In an analysis of variation in gross profit between the two years, what would be the effects of changes in sales price and sales volume?

	Sales price	*Sales volume*
a.	$150,000 favorable	$120,000 unfavorable
b.	$150,000 unfavorable	$120,000 favorable
c.	$180,000 favorable	$150,000 unfavorable
d.	$180,000 unfavorable	$150,000 favorable

N. Differential Cost Analysis

1N83#50. The manufacturing capacity of Jordan Company's facilities is 30,000 units of product a year. A summary of operating results for the year ended December 31, 1982, is as follows:

Sales (18,000 units @ $100)	$1,800,000
Variable manufacturing and selling costs	990,000
Contribution margin	810,000
Fixed costs	495,000
Operating income	$ 315,000

A foreign distributor has offered to buy 15,000 units at $90 per unit during 1983. Assume that all of Jordan's costs would be at the same levels and rates in 1983 as in 1982. If Jordan accepted this offer and rejected some business from regular customers so as not to exceed capacity, what would be the total operating income for 1983?

a. $390,000
b. $705,000
c. $840,000
d. $855,000

1N83#59. Rice Corporation currently operates two divisions which had operating results for the year ended December 31, 1982, as follows:

	West Division	*Troy Division*
Sales	$600,000	$300,000
Variable costs	310,000	200,000
Contribution margin	290,000	100,000
Fixed costs for the Division	110,000	70,000
Margin over direct costs	180,000	30,000
Allocated corporate costs	90,000	45,000
Operating income (loss)	$ 90,000	$(15,000)

Since the Troy Division also sustained an operating loss during 1981, Rice's president is considering the elimination of this division. Assume that the Troy Division fixed costs could be avoided if the division were eliminated. If the Troy Division had been eliminated on January 1, 1982, Rice Corporation's 1982 operating income would have been

a. $15,000 higher.
b. $30,000 lower.
c. $45,000 lower.
d. $60,000 higher.

1N82#35. Jordan Company budgeted sales of 400,000 calculators at $40 per unit for 1982. Variable manufacturing costs were budgeted at $16 per unit, and fixed manufacturing costs at $10 per unit. A special order offering to buy 40,000 calculators for $23 each was received by Jordan in March 1982. Jordan has sufficient plant capacity to manufacture the additional quantity; however, the production would have to be done on an overtime basis at an estimated additional cost of $3 per calculator. Acceptance of the special order would not affect Jordan's normal sales and no selling expenses would be incurred. What would be the effect on operating profit if the special order were accepted?

a. $120,000 decrease.
b. $160,000 increase.
c. $240,000 decrease.
d. $280,000 increase.

2N82#21. Manor Company plans to discontinue a department with a contribution to overhead of $24,000 and allocated overhead of $48,000, of which $21,000 cannot be eliminated. The effect of this discontinuance on Manor's pretax profit would be a (an)

a. Decrease of $3,000.
b. Increase of $3,000.
c. Decrease of $24,000.
d. Increase of $24,000.

2N82#35. The following standard costs pertain to a component part manufactured by Ashby Company:

Direct materials	$ 2
Direct labor	5
Factory overhead	20
Standard cost per unit	$27

Factory overhead is applied at $1 per standard machine hour. Fixed capacity cost is 60% of applied factory overhead, and is not affected by any "make or buy" decision. It would cost $25 per unit to buy the part from an outside supplier. In the decision to "make or buy," what is the total relevant unit manufacturing cost to be considered?

a. $ 2
b. $15
c. $19
d. $27

1M82#24. Wagner Company sells product A at a selling price of $21 per unit. Wagner's cost per unit based on the full capacity of 200,000 units is as follows:

Direct materials	$ 4
Direct labor	5
Overhead (two-thirds of which is fixed)	6
	$15

A special order offering to buy 20,000 units was received from a foreign distributor. The only selling costs that would be incurred on this order would be $3 per unit for shipping. Wagner has sufficient existing capacity to manufacture the additional units. In negotiating a price for the special order, Wagner should consider that the minimum selling price per unit should be

a. $14
b. $15
c. $16
d. $18

1M82#30. Gandy Company has 5,000 obsolete desk lamps that are carried in inventory at a manufacturing cost of $50,000. If the lamps are reworked for $20,000, they could be sold for $35,000. Alternatively, the lamps could be sold for $8,000 to a jobber located in a distant city. In a decision model analyzing these alternatives, the sunk cost would be

a. $ 8,000
b. $15,000
c. $20,000
d. $50,000

1N81#23. Lincoln Company, a glove manufacturer, has enough idle capacity available to accept a special order of 20,000 pairs of gloves at $12.00 a pair. The normal selling price is $20.00 a pair. Variable manufacturing costs are $9.00 a pair, and fixed manufacturing costs are $3.00 a pair. Lincoln will not incur any selling expenses as a result of the special order. What would be the effect on operating income if the special order could be accepted without affecting normal sales?

a. $0.
b. $ 60,000 increase.
c. $180,000 increase.
d. $240,000 increase.

1N81#40. Kingston Company needs 10,000 units of a certain part to be used in its production cycle. The following information is available:

Cost to Kingston to make the part:	
Direct materials	$ 6
Direct labor	24
Variable overhead	12
Fixed overhead applied	15
	$57
Cost to buy the part from Utica Company	$53

If Kingston buys the part from Utica instead of making it, Kingston could not use the released facilities in another manufacturing activity. 60% of the fixed overhead applied will continue regardless of what decision is made.

In deciding whether to make or buy the part, the total relevant costs to make the part are

a. $342,000
b. $480,000
c. $530,000
d. $570,000

1M81#29. Plainfield Company manufactures part G for use in its production cycle. The costs per unit for 10,000 units of part G are as follows:

Direct materials	$ 3
Direct labor	15
Variable overhead	6
Fixed overhead	8
	$32

Verona Company has offered to sell Plainfield 10,000 units of part G for $30 per unit. If Plainfield accepts Verona's offer, the released facilities could be used to save $45,000 in relevant costs in the manufacture of part H. In addition $5 per unit of the fixed overhead applied to part G would be totally eliminated. What alternative is more desirable and by what amount is it more desirable?

	Alternative	*Amount*
a.	Manufacture	$10,000
b.	Manufacture	$15,000
c.	Buy	$35,000
d.	Buy	$65,000

1N80#31. The Blade Division of Dana Company produces hardened steel blades. One-third of the Blade Division's output is sold to the Lawn Products Division of Dana; the remainder is sold to outside customers. The Blade Division's estimated sales and standard cost data for the fiscal year ending June 30, 1981, are as follows:

	Lawn Products	*Outsiders*
Sales	$15,000	$40,000
Variable costs	(10,000)	(20,000)
Fixed costs	(3,000)	(6,000)
Gross margin	$ 2,000	$14,000
Unit sales	10,000	20,000

The Lawn Products Division has an opportunity to purchase 10,000 identical quality blades from an outside supplier at a cost of $1.25 per unit on a continuing basis. Assume that the Blade Division cannot sell any additional products to outside customers. Should Dana allow its Lawn Products Division to purchase the blades from the outside supplier, and why?

a. Yes, because buying the blades would save Dana Company $500.
b. No, because making the blades would save Dana Company $1,500.
c. Yes, because buying the blades would save Dana Company $2,500.
d. No, because making the blades would save Dana Company $2,500.

1M80#37. Motor Company manufactures 10,000 units of Part M-1 for use in its production annually. The following costs are reported:

Direct materials	$ 20,000
Direct labor	55,000
Variable overhead	45,000
Fixed overhead	70,000
	$190,000

Valve Company has offered to sell Motor 10,000 units of Part M-1 for $18 per unit. If Motor accepts the offer, some of the facilities presently used to manufacture Part M-1 could be rented to a third party at an annual rental of $15,000. Additionally, $4 per unit of the fixed overhead applied to Part M-1 would be totally eliminated. Should Motor accept Valve's offer, and why?

a. No, because it would be $5,000 cheaper to make the part.
b. Yes, because it would be $10,000 cheaper to buy the part.
c. No, because it would be $15,000 cheaper to make the part.
d. Yes, because it would be $25,000 cheaper to buy the part.

1M80#40. Light Company has 2,000 obsolete light fixtures that are carried in inventory at a manufacturing cost of $30,000. If the fixtures are reworked for $10,000, they could be sold for $18,000. Alternately, the light fixtures could be sold for $3,000 to a jobber located in a distant city. In a decision model analyzing these alternatives, the opportunity cost would be

a. $ 3,000
b. $10,000
c. $13,000
d. $30,000

O. Capital Budgeting Techniques

2N84#18. Axel Corp. is planning to buy a new machine with the expectation that this investment should earn a discounted rate of return of at least 15%. This machine, which costs $150,000, would yield an estimated net cash flow of $30,000 a year for 10 years, after income taxes. In order to determine the net present value of buying the new machine, Axel should first multiply the $30,000 by which of the following factors?

a. 20.304 (Future amount of an ordinary annuity of $1).
b. 5.019 (Present value of an ordinary annuity of $1).
c. 4.046 (Future amount of $1).
d. 0.247 (Present value of $1).

2N83

Items 17 and 18 are based on the following data:

Amaro Hospital, a nonprofit institution not subject to income taxes, is considering the purchase of new equipment costing $20,000, in order to achieve cash savings of $5,000 per year in operating costs. The equipment's estimated useful life is ten years, with no net residual value. Amaro's cost of capital is 14%. For ten periods at 14%, the present value of $1 is 0.270, while the present value of an ordinary annuity of $1 is 5.216.

17. What factor contained in or developed from the above information should be used in computing the internal rate of return for Amaro's proposed investment in the new equipment?

a. 5.216
b. 4.000
c. 1.400
d. 0.270

18. How much is the accounting rate of return based on Amaro's initial investment in the new equipment?

a. 27%
b. 25%
c. 15%
d. 14%

1M83#40. Dillon, Inc., purchased a new machine for $60,000 on January 1, 1983. The machine is being depreciated on the straight-line basis over five years with no salvage value. The accounting (book value) rate of return is expected to be 15% on the initial increase in required investment. Assuming a uniform cash flow, this investment is expected to provide annual cash flow from operations, net of income taxes, of

a. $ 7,200
b. $12,000
c. $13,800
d. $21,000

1N82#26. Heller Company purchased a machine for $500,000 with a useful life of five years and no salvage value. The machine is being depreciated using the straight-line method and it is expected to produce annual cash flow from operations, net of income taxes, of $150,000. The present value of an ordinary annuity of $1 for five periods at 14% is 3.43. The present value of $1 for five periods at 14% is 0.52. Assuming that Heller uses a time-adjusted rate of return of 14%, what is the net present value?

a. $280,000
b. $250,000
c. $180,000
d. $ 14,500

1N82

Items 36 and 37 are based on the following information:

Hanley Company purchased a machine for $125,000 which will be depreciated on the straight-line basis over a five-year period with no salvage value. The related cash flow from operations, net of income taxes, is expected to be $45,000 a year. Assume that Hanley's effective income tax rate is 40% for all years.

36. What is the payback period?
  a. 2.1 years.
  b. 2.3 years.
  c. 2.8 years.
  d. 4.2 years.

37. What is the accounting (book value) rate of return on the initial increase in required investment?
  a. 16%
  b. 24%
  c. 28%
  d. 36%

1N82#40. Kipling Company invested in an eight-year project. It is expected that the annual cash flow from the project, net of income taxes, will be $20,000. Information on present value factors is as follows:

Present value of $1 at 12% for eight periods	0.404
Present value of an ordinary annuity of $1 at 12% for eight periods	4.968

Assuming that Kipling based its investment decision on an internal rate of return of 12%, how much did the project cost?

a. $160,000
b. $ 99,360
c. $ 80,800
d. $ 64,640

1M82#36. Womark Company purchased a new machine on January 1, 1981, for $90,000 with an estimated useful life of five years and a salvage value of $10,000. The machine will be depreciated using the straight-line method. The machine is expected to produce cash flow from operations, net of income taxes, of $36,000 a year in each of the next five years. The payback period would be

a. 2.2 years.
b. 2.5 years.
c. 4.0 years.
d. 4.5 years.

1M82#37. On January 1, 1981, Studley Company purchased a new machine for $100,000 with an estimated useful life of five years and no salvage value. For book and tax purposes, the machine will be depreciated using the straight-line method and it is expected to produce annual cash flow from operations, before income taxes, of $40,000. Assume that Studley uses a time-adjusted rate of 12% and that its income tax rate will be 40% for all years. The present value of $1 at 12% for five periods is 0.57, and the present value of an ordinary annuity of $1 at 12% for five periods is 3.61. The net present value of the machine should be

a. $15,520 positive.
b. $15,520 negative.
c. $14,000 positive.
d. $13,680 negative.

1M82#38. Hamilton Company invested in a two-year project having an internal rate of return of 12%. The project is expected to produce cash flow from operations, net of income taxes, of $60,000 in the first year and $70,000 in the second year. The present value of $1 for one period at 12% is 0.893 and for two periods at 12% is 0.797. How much will the project cost?

a. $103,610
b. $109,370
c. $116,090
d. $122,510

1N81#36. Nelson Company is planning to purchase a new machine for $500,000. The new machine is expected to produce cash flow from operations, before income taxes, of $135,000 a year in each of the next five years. Depreciation of $100,000 a year will be charged to income for each of the next five years. Assume that the income tax rate is 40%. The payback period would be approximately

a. 2.2 years.
b. 3.4 years.
c. 3.7 years.
d. 4.1 years.

1N81#37. Hillsdale Company purchased a machine for $480,000. The machine has a useful life of six years and no salvage value. Straight-line depreciation is to be used. The machine is expected to generate cash flow from operations, net of income taxes, of $140,000 in each of the six years. Hillsdale's desired rate of return is 14%. Information on present value factors is as follows:

Period	*Present value of $1 at 14%*	*Present value of ordinary annuity of $1 at 14%*
1	.877	.877
2	.769	1.647
3	.675	2.322
4	.592	2.914
5	.519	3.433
6	.456	3.889

What would be the net present value?
a. $ 63,840
b. $ 64,460
c. $218,880
d. $233,340

1N81#38. Saratoga Company is planning to purchase a new machine for $600,000. The new machine will be depreciated on the straight-line basis over a six-year period with no salvage, and a full year's depreciation will be taken in the year of acquisition. The new machine is expected to produce cash flow from operations, net of income taxes, of $150,000 a year in each of the next six years. The accounting (book value) rate of return on the initial investment is expected to be
a. 8.3%
b. 12.0%
c. 16.7%
d. 25.0%

1N81#39. Garwood Company purchased a machine which will be depreciated on the straight-line basis over an estimated useful life of seven years and no salvage value. The machine is expected to generate cash flow from operations, net of income taxes, of $80,000 in each of the seven years. Garwood's expected rate of return is 12%. Information on present value factors is as follows:

Present value of $1 at 12% for seven periods	0.452
Present value of an ordinary annuity of $1 at 12% for seven periods	4.564

Assuming a positive net present value of $12,720, what was the cost of the machine?
a. $240,400
b. $253,120
c. $352,400
d. $377,840

1M81#21. Tracy Corporation is planning to invest $80,000 in a three-year project. Tracy's expected rate of return is 10%. The present value of $1 at 10% for one year is .909, for two years is .826, and for three years is .751. The cash flow, net of income taxes, will be $30,000 for the first year (present value of $27,270) and $36,000 for the second year (present value of $29,736). Assuming the rate of return is exactly 10%, what will the cash flow, net of income taxes, be for the third year?
a. $17,268
b. $22,000
c. $22,994
d. $30,618

1M81#22. On January 1, 1981, Jenkins, Inc., purchased for $520,000 a new machine with a useful life of eight years and no salvage value. The machine will be depreciated using the straight-line method and it is expected to produce annual cash flow from operations, net of income taxes, of $120,000. The present value of an ordinary annuity of $1 for eight periods at 14% is 4.639. The present value of $1 for eight periods at 14% is 0.351. Assuming that Jenkins uses a time-adjusted rate of return of 14%, what is the net present value?
a. $ 36,680
b. $ 94,848
c. $154,440
d. $255,145

1M81#30. Brunswick Company is planning to purchase a new machine. The payback period will be six years. The new machine is expected to produce cash flow from operations, net of income taxes, of $3,500 a year for each of the first three years of the payback period and $2,500 a year for each of the last three years of the payback period. Depreciation of $2,000 a year will be charged to income for each of the six years of the payback period. How much will the machine cost?
a. $ 6,000
b. $12,000
c. $18,000
d. $21,000

1M81#31. On January 1, 1981, Welling Company purchased 100 of the $1,000 face value, 8%, ten-year bonds of Mann, Inc. The bonds mature on January 1, 1991, and pay interest annually on January 1. Welling purchased the bonds to yield 10% interest. Information on present value factors is as follows:

Present value of $1 at 8% for 10 periods	0.4632
Present value of $1 at 10% for 10 periods	0.3855
Present value of an annuity of $1 at 8% for 10 periods	6.7101
Present value of an annuity of $1 at 10% for 10 periods	6.1446

How much did Welling pay for the bonds?
a. $ 87,707
b. $ 92,230
c. $ 95,477
d. $100,000

1N80#21. Jarvis, Inc., a calendar year company, purchased a new machine for $28,000 on January 1, 1980. The machine has an estimated useful life of eight years with no salvage value and is being depreciated on the straight-line basis. The accounting (book value) rate of return is expected to be 15% on the initial increase in required investment. On the assumption of a uniform cash inflow, this investment is expected to provide annual cash flow from operations, net of income taxes, of
a. $3,500
b. $4,025
c. $4,200
d. $7,700

1N80#22. Energy Company is planning to spend $84,000 for a new machine which it will depreciate on the straight-line basis over ten years with no salvage value. The related cash flow from operations, net of income taxes, is expected to be $10,000 a year for each of the first six years and $12,000 for each of the next four years. What is the payback period?

a. 4.4 years.
b. 7.6 years.
c. 7.8 years.
d. 8.0 years.

1N80#26. Scott, Inc., is planning to invest $120,000 in a ten-year project. Scott estimates that the annual cash inflow, net of income taxes, from this project will be $20,000. Scott's desired rate of return on investments of this type is 10%. Information on present value factors is as follows:

	At 10%	*At 12%*
Present value of $1 for ten periods	0.386	0.322
Present value of an annuity of $1 for ten periods	6.145	5.650

Scott's expected rate of return on this investment is

a. Less than 10%, but more than 0%.
b. 10%.
c. Less than 12%, but more than 10%.
d. 12%.

1N80#27. Hilltop Company invested $100,000 in a two-year project. Hilltop's expected rate of return was 12%. The cash flow, net of income taxes, was $40,000 for the first year. Information on present value and future value factors is as follows:

Period	*Present value of $1 at 12%*	*Future value of $1 at 12%*
1	.8929	1.1200
2	.7972	1.2544

Assuming that the rate of return was exactly 12%, what was the cash flow, net of income taxes, for the second year of the project?

a. $51,247
b. $60,000
c. $64,284
d. $80,638

1M80#22. Virginia Company invested in a four-year project. Virginia's expected rate of return is 10%. Additional information on the project is as follows:

Year	*Cash inflow from operations, net of income taxes*	*Present value of $1 at 10%*
1	$4,000	.909
2	4,400	.826
3	4,800	.751
4	5,200	.683

Assuming a positive net present value of $1,000, what was the amount of the original investment?

a. $ 2,552
b. $ 4,552
c. $13,427
d. $17,400

1M80
Items 24 and 25 are based on the following information:

Plastics, Inc., is considering the purchase of a $40,000 machine which will be depreciated on a straight-line basis over an eight-year period with no salvage value. The machine is expected to generate net cash income before income taxes of $12,000 a year. Assume that the income tax rate is 50%.

24. What is the pay-back period?
a. 2.4 years.
b. 2.6 years.
c. 3.3 years.
d. 4.7 years.

25. What is the accounting (book value) rate of return on the initial increase in required investment?
a. 8.75%
b. 17.50%
c. 23.75%
d. 30.00%

P. Performance Analysis

2N83
Items 13 and 14 are based on the following data:

The following selected data pertain to the belt division of Allen Corp. for 1982:

Sales	$2,000,000
Average invested capital	500,000
Operating income	300,000
Capital turnover	4.0
Imputed interest rate	18%

13. How much is the return on investment?
a. 60%
b. 33%
c. 18%
d. 15%

14. How much is the residual income?
a. $0
b. $200,000
c. $210,000
d. $246,000

Q. Quantitative Techniques for Planning and Control

2N84#11. A cumulative average learning curve of 80% is applicable to the assembly of the Neal widgeter.

Assembly time for the first widgeter is two hours. How many hours should the assembly time be for the second widgeter?

a. 2.00
b. 1.80
c. 1.28
d. 1.20

2N84#12. Boaz Co. manufactures two models, medium (X) and large (Y). The contribution margin expected is $24 for the medium model and $40 for the large model. The medium model is processed two hours in the machining department and four hours in the polishing department. The large model is processed three hours in the machining department and six hours in the polishing department. If total contribution margin is to be maximized, using linear programming, how would the objective function be expressed?

a. 24X(2+4) + 40Y(3+6)
b. 24X + 40Y
c. 6X + 9Y
d. 5X + 10Y

1N83#42. Bolton Company produces a food product in 50 gallon batches. The basic ingredients used are material X costing $8 per gallon and material Y costing $12 per gallon. No more than 16 gallons of X can be used, and at least 18 gallons of Y must be used. How would the objective function (minimization of product cost) be expressed?

a. 8 X + 12 Y
b. 8 X + 18 Y
c. 16 X + 18 Y
d. 16 X + 34 Y

1N83#53. Barclay Company sells 20,000 pocket calculators evenly throughout the year. The cost of carrying one unit in inventory for one year is $4 and the purchase order cost per order is $64. What is the economic order quantity?

a. 400
b. 566
c. 800
d. 1,250

1N83#60. Gandy Company is considering a proposal to introduce a new product, RLX. An outside marketing consultant prepared the following payoff probability distribution describing the relative likelihood of monthly sales volume levels and related income (loss) for RLX:

Monthly sales volume	*Probability*	*Income (loss)*
6,000	0.10	$(70,000)
12,000	0.20	10,000
18,000	0.40	60,000
24,000	0.20	100,000
30,000	0.10	140,000

The expected value of the monthly income from RLX is

a. $ 48,000
b. $ 53,000
c. $ 60,000
d. $240,000

1M83#25. The following information is available for Trencher Company's material B:

Annual usage in units	10,000
Working days per year	250
Safety stock in units	400
Normal lead time in working days	30

Assuming that the units of material B will be required evenly throughout the year, the order point would be

a. 400
b. 800
c. 1,200
d. 1,600

2N82#34. Mori Company plans to begin production of a new product on July 1, 1983. An 80% learning curve is applicable to Mori's manufacturing operations. If it is expected to take 1,000 direct labor hours to produce the first unit, how many direct labor hours should it take to produce a total of four units?

a. 4,000
b. 3,200
c. 2,560
d. 2,048

1M82#35. In planning its budget for 1982, King Company prepared the following payoff probability distribution describing the relative likelihood of monthly sales volume levels and related contribution margins for product A:

Monthly sales volume	*Contribution margin*	*Probability*
4,000	$ 80,000	.20
6,000	120,000	.25
8,000	160,000	.30
10,000	200,000	.15
12,000	240,000	.10

What is the expected value of the monthly contribution margin for product A?

a. $140,000
b. $148,000
c. $160,000
d. $180,000

1N81#29. Ridgefield, Inc., is considering a three-phase research project. The time estimates for completion of Phase 1 of the project are:

	Months
Optimistic	4
Most likely	8
Pessimistic	18

Using the Program Evaluation Review Technique (PERT), the expected time for completion of Phase 1 should be

a. 8 months.
b. 9 months.
c. 10 months.
d. 18 months.

1N80#30. Johnson, Inc., manufactures product X and product Y, which are processed as follows:

	Type A machine	*Type B machine*
Product X	6 hours	4 hours
Product Y	9 hours	5 hours

The contribution margin is $12 for product X and $7 for product Y. The available time daily for processing the two products is 120 hours for machine Type A and 80 hours for machine Type B. How would the restriction (constraint) for machine Type B be expressed?

a. $4X + 5Y$
b. $4X + 5Y \leq 80$
c. $6X + 9Y \leq 120$
d. $12X + 7Y$

1N80#36. Duguid Company is considering a proposal to introduce a new product, XPL. An outside marketing consultant prepared the following payoff probability distribution describing the relative likelihood of monthly sales volume levels and related income (loss) for XPL:

Monthly sales volume	*Probability*	*Income (loss)*
3,000	0.10	$(35,000)
6,000	0.20	5,000
9,000	0.40	30,000
12,000	0.20	50,000
15,000	0.10	70,000

If Duguid decides to market XPL, the expected value of the added monthly income will be

a. $ 24,000
b. $ 26,500
c. $ 30,000
d. $120,000

1N80#40. The following information is available for Digby Company's material Y:

Annual usage in units	10,000
Working days per year	250
Normal lead time in working days	30
Maximum lead time in working days	70

Assuming that the units of material Y will be required evenly throughout the year, the order point would be

a. 1,200
b. 1,600
c. 2,000
d. 2,800

1M80#31. The following information relates to the Gerald Company:

Optimal production run	500
Average inventory in units	250
Number of production runs	10
Cost per unit produced	$5
Desired annual return on inventory investment	10%
Set up costs per production run	$10

Assuming that the units will be required evenly throughout the year, what are the total annual relevant costs using the economic-order-quantity approach?

a. $ 225
b. $ 350
c. $1,350
d. $2,625

1M80#36. The Beauty Company produces a cosmetic product in 60 gallon batches. The basic ingredients used are material X costing $7 per gallon and material Y costing $17 per gallon. No more than 18 gallons of X can be used, and at least 15 gallons of Y must be used. How would the objective function (minimization of product cost) be expressed?

a. $7X + 17Y$
b. $17X + 7Y$
c. $18X + 15Y$
d. $18X + 42Y$

1M80#38. The following information related to Eagle Company's material A:

Annual usage in units	7,200
Working days per year	240
Normal lead time in working days	20
Maximum lead time in working days	45

Assuming that the units of material A will be required evenly throughout the year, the safety stock and order point would be

	Safety Stock	*Order Point*
a.	600	750
b.	600	1,350
c.	750	600
d.	750	1,350

VIII. Not-for-Profit and Governmental Accounting

A. Fund Accounting

2M84

Items 52 through 54 are based on the following data:

The Board of Commissioners of Vane City adopted its budget for the year ending July 31, 1985, comprising estimated revenues of $30,000,000 and appropriations of $29,000,000. Vane formally integrates its budget into the accounting records.

52. What entry should be made for budgeted revenues?
   a. Memorandum entry only.
   b. Debit estimated revenues receivable control, $30,000,000.
   c. Debit estimated revenues control, $30,000,000.
   d. Credit estimated revenues control, $30,000,000.

53. What entry should be made for budgeted appropriations?
   a. Memorandum entry only.
   b. Credit estimated expenditures payable control, $29,000,000.
   c. Credit appropriations control, $29,000,000.
   d. Debit estimated expenditures control, $29,000,000.

54. What entry should be made for the budgeted excess of revenues over appropriations?
   a. Memorandum entry only.
   b. Credit budgetary fund balance, $1,000,000.
   c. Debit estimated excess revenues control, $1,000,000.
   d. Debit excess revenues receivable control, $1,000,000.

2M84

Items 59 and 60 are based on the following data:

Albee Township's fiscal year ends on June 30. Albee uses encumbrance accounting. On April 5, 1984, an approved $1,000 purchase order was issued for supplies. Albee received these supplies on May 2, 1984, and the $1,000 invoice was approved for payment.

59. What journal entry should Albee make on April 5, 1984, to record the approved purchase order?

		Debit	*Credit*
a.	Memorandum entry only	—	—
b.	Encumbrances control	$1,000	
	Fund balance reserved for encumbrances		$1,000
c.	Supplies	1,000	
	Vouchers payable		1,000
d.	Encumbrances control	1,000	
	Appropriations control		1,000

60. What journal entry or entries should Albee make on May 2, 1984, upon receipt of the supplies and approval of the invoice?

		Debit	*Credit*
a.	Appropriations control	$1,000	
	Encumbrances control		$1,000
	Supplies	1,000	
	Vouchers payable		1,000
b.	Supplies	1,000	
	Vouchers payable		1,000
c.	Fund balance reserved for encumbrances	1,000	
	Encumbrances control		1,000
	Expenditures control	1,000	
	Vouchers payable		1,000
d.	Encumbrances control	1,000	
	Appropriations control		1,000
	Fund balance	1,000	
	Vouchers payable		1,000

2M82#25. The following balances are included in the subsidiary records of Burwood Village's Parks and Recreation Department at March 31, 1982:

Appropriations - supplies	$7,500
Expenditures - supplies	4,500
Encumbrances - supply orders	750

How much does the Department have available for additional purchases of supplies?
   a. $0
   b. $2,250
   c. $3,000
   d. $6,750

2M82#28. The Board of Commissioners of the City of Rockton adopted its budget for the year ending July 31, 1982, which indicated revenues of $1,000,000 and appropriations of $900,000. If the budget is formally integrated into the accounting records, what is the required journal entry?

		Dr.	*Cr.*
a.	Memorandum entry only		
b.	Appropriations	$ 900,000	
	General fund	100,000	
	Estimated revenues		$1,000,000
c.	Estimated revenues	$1,000,000	
	Appropriations		$ 900,000
	Fund balance		100,000
d.	Revenues receivable	$1,000,000	
	Expenditures payable		$ 900,000
	General fund balance		100,000

2M82#29. Kingsford City incurred $100,000 of salaries and wages for the month ended March 31, 1982. How should this be recorded at that date?

		Dr.	*Cr.*
a.	Expenditures - salaries and wages	$100,000	
	Vouchers payable		$100,000
b.	Salaries and wages expense	$100,000	
	Vouchers payable		$100,000
c.	Encumbrances - salaries and wages	$100,000	
	Vouchers payable		$100,000
d.	Fund balance	$100,000	
	Vouchers payable		$100,000

B. Types of Funds and Fund Accounts

2M84
Items 41 through 43 are based on the following data:

Under Abbey Hospital's established rate structure, the hospital would have earned patient service revenue of $6,000,000 for the year ended December 31, 1983. However, Abbey did not expect to collect this amount because of charity allowances of $1,000,000 and discounts of $500,000 to third-party payors. In May 1983, Abbey purchased bandages from Lee Supply Co. at a cost of $1,000. However, Lee notified Abbey that the invoice was being cancelled and that the bandages were being donated to Abbey. At December 31, 1983, Abbey had board-designated assets consisting of cash $40,000, and investments $700,000.

43. How much of Abbey's board-designated assets should be included in the unrestricted fund grouping?
 a. $0
 b. $ 40,000
 c. $700,000
 d. $740,000

2M84#47. Fred Bosin donated a building to Palma City in 1983. Bosin's original cost of the property was $100,000. Accumulated depreciation at the date of the gift amounted to $60,000. Fair market value at the date of the gift was $300,000. In the general fixed assets account group, at what amount should Palma record this donated fixed asset?
 a. $300,000
 b. $100,000
 c. $ 40,000
 d. $0

2M84
Items 48 through 50 are based on the following data relating to Lely Township:

Printing and binding equipment used for servicing all of Lely's departments and agencies, on a cost-reimbursement basis	$100,000
Equipment used for supplying water to Lely's residents	900,000
Receivables for completed sidewalks to be paid for in installments by affected property owners	950,000
Cash received from federal government, dedicated to highway maintenance, which must be accounted for in a separate fund	995,000

48. How much should be accounted for in a special revenue fund or funds?
 a. $ 995,000
 b. $1,050,000
 c. $1,095,000
 d. $2,045,000

49. How much could be accounted for in an internal service fund?
 a. $100,000
 b. $900,000
 c. $950,000
 d. $995,000

50. How much could be accounted for in an enterprise fund?
 a. $100,000
 b. $900,000
 c. $950,000
 d. $995,000

2M84#57. The following items were among Payne Township's general fund expenditures during the year ended July 31, 1983:

Minicomputer for tax collector's office	$44,000
Equipment for Township Hall	80,000

How much should be classified as fixed assets in Payne's general fund balance sheet at July 31, 1983?
 a. $124,000
 b. $ 80,000
 c. $ 44,000
 d. $0

2M84#58. Ariel Village issued the following bonds during the year ended June 30, 1983:

For installation of street lights, to be assessed against properties benefitted	$300,000

For construction of public swimming pool; bonds to be paid from pledged fees collected from pool users	400,000

How much should be accounted for through debt service funds for payments of principal over the life of the bonds?

a. $0
b. $300,000
c. $400,000
d. $700,000

2M82#22. The following assets are among those owned by the City of Foster:

Apartment building (part of the principal of a nonexpendable trust fund)	$ 200,000
City Hall	800,000
Three fire stations	1,000,000
City streets and sidewalks	5,000,000

How much should be included in Foster's general fixed assets account group?

a. $1,800,000 or $6,800,000.
b. $2,000,000 or $7,000,000.
c. $6,800,000, without election of $1,800,000.
d. $7,000,000, without election of $2,000,000.

2M82

Items 26 and 27 are based on the following information:

The following events relating to the City of Albury's debt service funds occurred during the year ended December 31, 1981:

Debt principal matured	$2,000,000
Unmatured (accrued) interest on outstanding debt at Jan. 1, 1981	50,000
Interest on matured debt	900,000
Unmatured (accrued) interest on outstanding debt at Dec. 31, 1981	100,000
Interest revenue from investments	600,000
Cash transferred from general fund for retirement of debt principal	1,000,000
Cash transferred from general fund for payment of matured interest	900,000

All principal and interest due in 1981 were paid on time.

26. What is the total amount of expenditures that Albury's debt service funds should record for the year ended December 31, 1981?

a. $ 900,000
b. $ 950,000
c. $2,900,000
d. $2,950,000

27. How much revenue should Albury's debt service funds record for the year ended December 31, 1981?

a. $ 600,000
b. $1,600,000
c. $1,900,000
d. $2,500,000

2M82

Items 32 and 33 are based on the following information:

During the year ended December 31, 1981, Leyland City received a state grant of $500,000 to finance the purchase of buses, and an additional grant of $100,000 to aid in the financing of bus operations in 1981. Only $300,000 of the capital grant was used in 1981 for the purchase of buses, but the entire operating grant of $100,000 was spent in 1981.

32. If Leyland's bus transportation system is accounted for as part of the city's general fund, how much should Leyland report as grant revenues for the year ended December 31, 1981?

a. $100,000
b. $300,000
c. $400,000
d. $500,000

33. If Leyland's bus transportation system is accounted for as an enterprise fund, how much should Leyland report as grant revenues for the year ended December 31, 1981?

a. $100,000
b. $300,000
c. $400,000
d. $500,000

2M82#35. Ariel Village issued the following bonds during the year ended June 30, 1981:

Revenue bonds to be repaid from admission fees collected by the Ariel Zoo enterprise fund	$200,000
General obligation bonds issued for the Ariel water and sewer enterprise fund which will service the debt	300,000

How much of these bonds should be accounted for in Ariel's general long-term debt account group?

a. $0
b. $200,000
c. $300,000
d. $500,000

2M82

Items 36 and 37 are based on the following information:

On December 31, 1981, Madrid Township paid a contractor $2,000,000 for the total cost of a new fire-house built in 1981 on Township-owned land. Financing was by means of a $1,500,000 general obligation bond issue sold at face amount on December 31, 1981, with the remaining $500,000 transferred from the general fund.

36. What should be reported on Madrid's 1981 financial statements for the capital project fund?
   a. Revenues, $1,500,000; Expenditures, $1,500,000.
   b. Revenues, $1,500,000; Other financing sources, $500,000; Expenditures, $2,000,000.
   c. Revenues, $2,000,000; Expenditures, $2,000,000.
   d. Other financing sources, $2,000,000; Expenditures, $2,000,000.

37. What should be reported on Madrid's 1981 financial statements for the general fund?
   a. Expenditures, $500,000.
   b. Other financing uses, $500,000.
   c. Revenues, $1,500,000; Expenditures, $2,000,000.
   d. Revenues, $1,500,000; Other financing uses, $2,000,000.

C. Presentation of Financial Statements for Various Not-for-Profit and Governmental Organizations

2M82
Items 38 and 39 are based on the following information:

The following balances appeared in the City of Reedsbury's general fund at June 30, 1981:

Account	*Balance Dr. (Cr.)*
Encumbrances — current year	$ 200,000
Expenditures:	
Current year	3,000,000
Prior year	100,000
Fund balance reserved for encumbrances:	
Current year	(200,000)
Prior year	None

Reedsbury maintains its general fund books on a legal budgetary basis, requiring revenues and expenditures to be accounted for on a modified accrual basis. In addition, the sum of current year expenditures and encumbrances cannot exceed current year appropriations.

39. What total amount of expenditures (and encumbrances, if appropriate) should Reedsbury report in the general fund "actual" column of its combined statement of revenues, expenditures, and changes in fund balance — budget and actual — for the year ended June 30, 1981?
   a. $3,000,000
   b. $3,100,000
   c. $3,200,000
   d. $3,300,000

D. Various Types of Not-for-Profit and Governmental Organizations

2M84
Items 41 through 43 are based on the following data:

Under Abbey Hospital's established rate structure, the hospital would have earned patient service revenue of $6,000,000 for the year ended December 31, 1983. However, Abbey did not expect to collect this amount because of charity allowances of $1,000,000 and discounts of $500,000 to third-party payors. In May 1983, Abbey purchased bandages from Lee Supply Co. at a cost of $1,000. However, Lee notified Abbey that the invoice was being cancelled and that the bandages were being donated to Abbey. At December 31, 1983, Abbey had board-designated assets consisting of cash $40,000, and investments $700,000.

41. For the year ended December 31, 1983, how much should Abbey record as patient service revenue?
   a. $6,000,000
   b. $5,500,000
   c. $5,000,000
   d. $4,500,000

42. For the year ended December 31, 1983, Abbey should record the donation of bandages as
   a. A $1,000 reduction in operating expenses.
   b. Nonoperating revenue of $1,000.
   c. Other operating revenue of $1,000.
   d. A memorandum entry only.

2M84#46. Cura Foundation, a voluntary health and welfare organization supported by contributions from the general public, included the following costs in its statement of functional expenses for the year ended December 31, 1983:

Fund-raising	$500,000
Administrative (including data processing)	300,000
Research	100,000

Cura's functional expenses for 1983 program services included
   a. $900,000
   b. $500,000
   c. $300,000
   d. $100,000

2M84#51. For the spring semester of 1984, Lane University assessed its students $3,400,000 (net of refunds), covering tuition and fees for educational and general purposes. However, only $3,000,000 was expected to be realized because scholarships totaling $300,000 were granted to students, and tuition remissions of $100,000 were allowed to faculty members' children attending Lane. How much should Lane include in educational and general current funds revenues from student tuition and fees?

a. $3,400,000
b. $3,300,000
c. $3,100,000
d. $3,000,000

2M84#55. The following funds were among those on Kery University's books at April 30, 1984:

Funds to be used for acquisition of additional properties for University purposes (unexpended at 4/30/84)	$3,000,000
Funds set aside for debt service charges and for retirement of indebtedness on University properties	5,000,000

How much of the above-mentioned funds should be included in plant funds?

a. $0
b. $3,000,000
c. $5,000,000
d. $8,000,000

2M84#56. On May 1, 1984, Lila Lee established a $50,000 endowment fund, the income from which is to be paid to Waller Hospital for general operating purposes. Waller does not control the fund's principal. Anders National Bank was appointed by Lee as trustee of this fund. What journal entry is required on Waller's books?

		Debit	*Credit*
a.	Memorandum entry only	—	—
b.	Nonexpendable endowment fund	$50,000	
	Endowment fund balance		$50,000
c.	Cash	50,000	
	Endowment fund balance		50,000
d.	Cash	50,000	
	Nonexpendable endowment fund		50,000

2M82#21. Glenmore Hospital's property, plant, and equipment (net of depreciation) consists of the following:

Land	$ 500,000
Buildings	10,000,000
Movable equipment	2,000,000

What amount should be included in the restricted fund grouping?

a. $0
b. $ 2,000,000
c. $10,500,000
d. $12,500,000

2M82#24. During the years ended June 30, 1980 and 1981, Sonata University conducted a cancer research project financed by a $2,000,000 gift from an alumnus. This entire amount was pledged by the donor on July 10, 1979, although he paid only $500,000 at that date. The gift was restricted to the financing of this particular research project. During the two-year research period, Sonata's related gift receipts and research expenditures were as follows:

	Year Ended June 30	
	1980	*1981*
Gift receipts	$1,200,000	$ 800,000
Cancer research expenditures	900,000	1,100,000

How much gift revenue should Sonata report in the restricted column of its statement of current funds revenues, expenditures, and other changes for the year ended June 30, 1981?

a. $0
b. $ 800,000
c. $1,100,000
d. $2,000,000

2M82#30. During the year ended December 31, 1981, Melford Hospital received the following donations stated at their respective fair values:

Employee services from members of a religious group	$100,000
Medical supplies from an association of physicians. These supplies were restricted for indigent care, and were used for such purpose in 1981	30,000

How much revenue (both operating and nonoperating) from donations should Melford report in its 1981 statement of revenues and expenses?

a. $0
b. $ 30,000
c. $100,000
d. $130,000

2M82#31. On January 2, 1982, John Reynolds established a $500,000 trust, the income from which is to be paid to Mansfield University for general operating purposes. The Wyndham National Bank was appointed by Reynolds as trustee of the fund. What journal entry is required on Mansfield's books?

		Dr.	Cr.
a.	Memorandum entry only		
b.	Cash	$500,000	
	Endowment fund balance		$500,000
c.	Nonexpendable endowment fund	$500,000	
	Endowment fund balance		$500,000
d.	Expendable funds	$500,000	
	Endowment fund balance		$500,000

2M82#34. For the fall semester of 1981, Cranbrook College assessed its students $2,300,000 for tuition and fees. The net amount realized was only $2,100,000 because of the following revenue reductions:

Refunds occasioned by class cancellations and student withdrawals	$ 50,000
Tuition remissions granted to faculty members' families	10,000
Scholarships and fellowships	140,000

How much should Cranbrook report for the period for unrestricted current funds revenues from tuition and fees?

a. $2,100,000
b. $2,150,000
c. $2,250,000
d. $2,300,000

2M82#40. On July 1, 1981, Lilydale Hospital's Board of Trustees designated $200,000 for expansion of outpatient facilities. The $200,000 is expected to be expended in the fiscal year ending June 30, 1984. In Lilydale's balance sheet at June 30, 1982, this cash should be classified as a $200,000

a. Restricted current asset.
b. Restricted noncurrent asset.
c. Unrestricted current asset.
d. Unrestricted noncurrent asset.

IX. Federal Taxation — Individuals

A. Inclusions for Gross Income and Adjusted Gross Income

2N84#21. Mike Karp owns machinery, with an adjusted basis of $50,000, for use in his car-washing business. In addition, Karp owns his personal residence and furniture, which together cost him $100,000. The capital assets amount to

a. $0
b. $ 50,000
c. $100,000
d. $150,000

2N84#29. During the current year Alfred Allen sustained a serious injury in the course of his employment. As a result of this injury, Allen received the following amounts during the same year:

Workers' compensation	$2,400
Reimbursement from employer's accident and health plan for medical expenses paid by Allen	1,800
Damages for personal injuries	8,000

How much of the above amounts should Allen include in his gross income for the current year?

a. $12,200
b. $ 8,000
c. $ 1,800
d. $0

2N84
Items 30 through 33 are based on the following data:

Carl Tice, an employee of Canova Corp., received a salary of $50,000 from Canova in 1983. Also in 1983, Carl bought 100 shares of Nolan Corp. common stock from Canova for $30 a share, when the market value of the Nolan stock was $50 a share. Canova had paid $20 a share for the Nolan stock in 1975.

In addition, Carl owned a building which he leased to Boss Co. on January 1, 1983, for a five-year term at $500 a month. Boss paid Carl $8,000 in 1983 to cover the following:

Rent for January to December 1983	$6,000
Advance rent for January 1984	500
Security deposit, to be applied against the final three months' rent in the fifth year of the lease	1,500

Carl also received the following dividends in 1983, from:

Mutual Life Insurance Co., on Carl's life insurance policy	$300
General Merchandise Corp., a Texas corporation, on preferred stock	400
Second National Bank, on bank's common stock	800

On July 1, 1983, Carl sold for $9,500, on the open market, a $10,000 face value 10-year, noncallable, Doe Corp. bond. This bond was part of an original issue by Doe on July 1, 1981, and was purchased by Carl on that date, at a discount of $1,200, for a net price of $8,800.

30. How much should Carl report on his 1983 income tax return as compensation income received from Canova?
  a. $50,000
  b. $51,000
  c. $52,000
  d. $53,000

31. How much rent income should Carl report in his 1983 income tax return for the amounts paid to him by Boss?
  a. $6,000
  b. $6,500
  c. $7,500
  d. $8,000

32. Before the dividend exclusion, how much dividend income should Carl report in his 1983 income tax return?
  a. $ 400
  b. $1,100
  c. $1,200
  d. $1,500

33. What is Carl's long-term capital gain in 1983, on the sale of the Doe bond?
  a. $0
  b. $ 460
  c. $ 700
  d. $1,200

2N84#37. Alex Burg, a cash basis taxpayer, earned an annual salary of $80,000 at Ace Corp. in 1983, but elected to take only $50,000. Ace, which was financially able to pay Burg's full salary, credited the unpaid balance of $30,000 to Burg's account on the corporate books in 1983, and actually paid this $30,000 to Burg on April 30, 1984. How much of the salary is taxable to Burg in 1983?
  a. $50,000
  b. $60,000
  c. $65,000
  d. $80,000

2M84
Items 22 through 28 are based on the following data:

Laura Lewis has been legally separated from her husband, Herman, since 1982. Their three-year old son, Ronald, lived with Laura for the entire year 1983. Under the written separation agreement between Laura and Herman, Herman was obligated to pay Laura $300 per month for alimony and $200 per month for child support, or a total of $6,000 annually. However, Laura received a total of only $300 from Herman during 1983. Laura's other income in 1983 was from the following sources:

Salary	$20,000
Interest on insurance dividends left on deposit with a life insurance company	100
Interest on federal income tax refund	60

In addition, Laura's father, Albert, gave Laura a gift of 500 shares of Liba Corporation common stock in 1983. Albert's basis for the Liba stock was $4,000. At the date of this gift, the fair market value of the Liba stock was $3,000.

23. How much alimony was includible in Laura's 1983 taxable income?
  a. $0
  b. $ 300
  c. $3,600
  d. $6,000

24. How much interest was includible in Laura's 1983 taxable income?
  a. $0
  b. $ 60
  c. $100
  d. $160

28. If Laura sells the 500 shares of Liba stock in 1984 for $3,500, what is the reportable gain or loss in 1984 before the long-term capital gain deduction?
  a. $3,500 gain.
  b. $ 500 gain.
  c. $ 500 loss.
  d. $0.

2M84
Items 36 through 40 are based on the following data:

John Budd, who was 58 at the date of his death on July 1, 1983, received $1,000 interest in 1983 on municipal bonds. John's wife, Emma, age 57, received a $300 television set in 1983 as a gift for opening a long-term savings account at a bank. Upon John's death, Emma received life insurance proceeds of $60,000 under a group policy paid for by John's employer. In addition, an employee death benefit of $7,500 was paid to Emma by John's employer. A month before John died, John and Emma sold their house for $225,000. They had lived in this house since 1970 and held the property as tenants by the entirety. Their basis for this property was $100,000. No replacement property was purchased and Emma does not intend to buy another residence. Emma did not remarry in 1983. Emma is executrix of John's estate.

37. How much taxable interest was received by John and Emma in 1983?
   a. $0
   b. $ 300
   c. $1,000
   d. $1,300

2N83#21. Don Mott was the sole proprietor of a high-volume drug store which he owned for 15 years before he sold it to Dale Drug Stores, Inc., in 1982. Besides the $900,000 selling price for the store's tangible assets and goodwill, Mott received a lump sum of $30,000 in 1982 for his agreement not to operate a competing enterprise within ten miles of the store's location, for a period of six years. The $30,000 will be taxed to Mott as
   a. $30,000 ordinary income in 1982.
   b. $30,000 short-term capital gain in 1982.
   c. $30,000 long-term capital gain in 1982.
   d. Ordinary income of $5,000 a year for six years.

2N83#33. In June 1982, Olive Bell bought a house for use partially as a residence and partially for operation of a retail gift shop. In addition, Olive bought the following furniture:

Kitchen set and living room pieces for the residential portion	$ 8,000
Showcases and tables for the business portion	12,000

How much of this furniture comprises capital assets?
   a. $0
   b. $ 8,000
   c. $12,000
   d. $20,000

2N83#36. Dr. Berger, a physician, reports on the cash basis. The following items pertain to Dr. Berger's medical practice in 1982:

Cash received from patients in 1982	$200,000
Cash received in 1982 from third-party reimbursers for services provided by Dr. Berger in 1981	30,000
Salaries paid to employees in 1982	20,000
Year-end 1982 bonuses paid to employees in 1983	1,000
Other expenses paid in 1982	24,000

What is Dr. Berger's net income for 1982 from his medical practice?
   a. $155,000
   b. $156,000
   c. $185,000
   d. $186,000

2N83#37. Morris Babb, CPA, reports on the cash basis. In March 1983, Babb billed a client $1,000 for accounting services rendered in connection with the client's divorce settlement. No part of the $1,000 fee was ever paid. In July 1983, the client went bankrupt and the $1,000 obligation became totally worthless. What loss can Babb deduct on his 1983 tax return?
   a. $0.
   b. $1,000 short-term capital loss.
   c. $1,000 business bad debt.
   d. $1,000 nonbusiness bad debt.

2N83#38. Fred Bly, who is single and does not qualify as head of a household, had taxable income of $40,000 for 1982, exclusive of capital gains and losses. After offsetting capital gains, Bly had a net short-term capital loss of $5,000 for 1982. How much of this net short-term capital loss can Bly offset against his ordinary income for 1982?
   a. $1,000
   b. $1,500
   c. $3,000
   d. $5,000

2N83#40. Ernest Sosa files a joint return with his wife. Sosa's employer pays 100% of the cost of all employees' group-term life insurance under a qualified plan. What is the maximum amount of tax-free coverage that may be provided for Sosa by his employer under this plan?
   a. $ 5,000
   b. $ 10,000
   c. $ 50,000
   d. $100,000

1M83#41. Dr. Chester is a cash basis taxpayer. His office visit charges are usually paid on the date of visit or within one month. However, services rendered outside the office are billed weekly, and are usually paid within two months as patients collect from insurance companies. Information relating to 1982 is as follows:

Cash received at the time of office visits	$ 35,000
Collections on accounts receivable	130,000
Accounts receivable, January 1	16,000
Accounts receivable, December 31	20,000

Dr. Chester's gross income from his medical practice for 1982 is
   a. $165,000
   b. $169,000
   c. $181,000
   d. $185,000

1M83#42. Paul Bristol, a cash basis taxpayer, owns an apartment building. The following information was available for 1982:

- An analysis of the 1982 bank deposit slips showed recurring monthly rents received totaling $50,000.
- On March 1, 1982, the tenant in apartment 2B paid Bristol $2,000 to cancel the lease expiring on December 31, 1982.

- The lease of the tenant in apartment 3A expired on December 31, 1982, and the tenant left improvements valued at $1,000. The improvements were not in lieu of any rent required to have been paid.

In computing net rental income for 1982, Bristol should report gross rents of
a. $50,000
b. $51,000
c. $52,000
d. $53,000

1M83#44. For the year 1982 Diana Clark had salary income of $38,000. In addition she had the following capital transactions during the year:

Long-term capital gain	$14,000
Short-term capital gain	6,000
Long-term capital loss	(4,000)
Short-term capital loss	(8,000)

There were no other items includible in her gross income. What is her adjusted gross income for 1982?
a. $38,000
b. $41,200
c. $42,800
d. $46,000

1M83#45. The following information is available for Ann Drury for 1982:

Salary	$36,000
Premiums paid by employer on group-term life insurance in excess of $50,000	500
Proceeds from state lottery	5,000

How much should Drury report as gross income on her 1982 tax return?
a. $36,000
b. $36,500
c. $41,000
d. $41,500

1N82#42. In 1980, Jack Bard loaned $1,500 to his cousin, Milton, for a wedding ring. Milton gave Jack a 10% interest-bearing note for $1,500, maturing in 1982. Milton made timely interest payments on the note, but declared bankruptcy in 1982 and defaulted on the principal. What loss can Jack claim on his 1982 tax return?
a. $0.
b. $1,400 casualty loss.
c. $1,500 short-term capital loss.
d. $1,500 long-term capital loss.

1N82#47. David Hetnar is covered by a $90,000 group-term life insurance policy of which his wife is the beneficiary. Hetnar's employer pays the entire cost of the policy, for which the uniform annual premium is $8 per $1,000 of coverage. How much of this premium is taxable to Hetnar?
a. $0
b. $320
c. $360
d. $720

1N82#50. Edward Ryan, who is single, had adjusted gross income, other than unemployment compensation, of $25,000 in 1981. Ryan had no disability income exclusion, but received $3,000 in unemployment compensation benefits during the year. How much of the unemployment compensation is taxable in 1981?
a. $0
b. $1,500
c. $2,500
d. $3,000

1M82#41. James Harper, a self-employed individual, owned a truck driven exclusively for business use. The truck had an original cost of $8,000 and had an adjusted basis on December 31, 1980, of $3,600. On January 2, 1981, he traded it in for a new truck costing $10,000 and was given a trade-in allowance of $2,000. The new truck will also be used exclusively for business purposes and will be depreciated with no salvage value. The basis of the new truck is
a. $ 8,000
b. $ 8,400
c. $10,000
d. $11,600

1M82#42. On July 1, 1978, William Greene paid $45,000 for 450 shares of Acme Corporation common stock. Greene received a nontaxable stock dividend of 50 new common shares in December 1979. On December 15, 1981, Greene sold the 50 new shares of common stock for $5,500. In respect of this sale Greene should report on his 1981 tax return
a. No gain or loss since the stock dividend was nontaxable.
b. $500 of long-term capital gain before capital gain deduction.
c. $1,000 of long-term capital gain before capital gain deduction.
d. $5,500 of long-term capital gain before capital gain deduction.

1M82#47. Howard O'Brien, an employee of Ogden Corporation, died on June 30, 1981. During July Ogden made employee death payments of $10,000 to his widow, and $10,000 to his 15-year-old son. What amounts should be included in gross income by the widow and son in their respective tax returns for 1981?

	Widow	*Son*
a.	$0	$0
b.	$5,000	$ 5,000
c.	$5,000	$10,000
d.	$7,500	$ 7,500

1M82#48. William Linnett, a cash basis sole proprietor, had the following receipts and disbursements for 1981:

Gross receipts	$60,000
Dividend income (on personal investment)	400
Cost of sales	30,000
Other operating expenses	6,000
State business tax	600
Federal self-employment tax	1,600

What amount should Linnett report as net earnings from self-employment for 1981?

a. $24,000
b. $23,800
c. $23,400
d. $21,800

1M82#58. Harold Crowe had the following capital transactions for the year 1981:

$3,000 long-term capital loss
9,000 long-term capital gain
2,000 net short-term capital gain

What is the amount of Crowe's reportable capital gain in the 1981 Schedule D summary?

a. $4,400
b. $5,200
c. $5,600
d. $7,400

2N81#41. Paul Beyer, who is unmarried, has taxable income of $30,000 exclusive of capital gains and losses and his personal exemption. In 1980, Paul incurred a $1,000 net short-term capital loss and a $5,000 net long-term capital loss. His long-term capital loss carryover to 1981 is

a. $0
b. $1,000
c. $2,500
d. $5,000

2N81

Items 47 and 48 are based on the following data:

Donald Duval owns a two-family home. He rents out the first floor and resides on the second floor. The following expenses attributable to the building were incurred by Duval for the year ended December 31, 1980:

	Expenses for		
	Entire building	*First floor*	*Second floor*
Depreciation	$2,000		
Realty taxes	1,800		
Mortgage interest	1,200		
Utilities	1,000		
Repairs		$300	
Painting			$400

47. What portion of the expenses can Duval deduct on Schedule E of Form 1040?

a. $1,800
b. $3,300
c. $6,000
d. $6,300

2N81#59. During 1980, Harry Gibbs, a resident of Florida, received the following dividends:

Source	*Amount*
Real estate investment trust	$1,000
Delaware corporation operating exclusively in Puerto Rico	500

The total amount of gross dividends eligible for the dividend exclusion on Gibbs' 1980 federal income tax return is

a. $0
b. $ 500
c. $1,000
d. $1,500

1M81#42. Richard and Alice Kelley lived apart during 1980 and did not file a joint tax return for the year. Under the terms of the written separation agreement they signed on July 1, 1980, Richard was required to pay Alice $1,500 per month of which $600 was designated as child support. He made six such payments in 1980. Additionally, Richard paid Alice $1,200 per month for the first six months of 1980, no portion of which was designated as child support. Assuming that Alice has no other income, her tax return for 1980 should show gross income of

a. $0
b. $ 5,400
c. $ 9,000
d. $12,600

1M81#45. Henry Adams, an unmarried taxpayer, received the following amounts during 1980:

Interest on savings accounts	$1,000
Interest on municipal bonds	500
Dividends on General Steel common stock	750
Dividends on life insurance policies	200

Adams should report taxable income, after exclusions, if any, from dividends and interest for 1980 in the total amount of

a. $1,650
b. $1,750
c. $1,850
d. $2,150

1M81#51. Alan Kupper had the following transactions during 1980:

- Gain of $7,000 on sale of common stock purchased on June 15, 1978, and sold on April 15, 1980.

- Gain of $5,000 on sale of common stock purchased on October 15, 1979, and sold on July 25, 1980.
- Receipt of a $10,000 installment payment on an installment contract created in 1977 when Kupper sold for $100,000 (exclusive of 6% interest on installments) land acquired in 1975 for $20,000. The contract provides for ten equal annual principal payments of $10,000 beginning on July 1, 1977, and ending on July 1, 1986.

What is the taxable amount of Kupper's long-term capital gain for 1980?

a. $8,000
b. $7,500
c. $6,800
d. $6,000

2N80#21. On January 1, 1979, James Davis was awarded a post-doctorate fellowship grant of $4,500 by a tax-exempt educational organization. Davis is not a candidate for a degree and was awarded the grant to continue his research. The grant was awarded for the period March 1, 1979, through July 31, 1980.

On March 1, 1979, Davis elected to receive the full amount of the grant. What amount should be included in his gross income for 1979?

a. $0
b. $1,500
c. $3,000
d. $4,500

2N80#25. During 1979 John Bulvon had the following capital losses on security transactions:

$2,000 net short-term capital loss
$1,200 net long-term capital loss

In addition, for 1979 he reported ordinary income of $36,000. How much of this loss can Bulvon offset against ordinary income in 1979?

a. $2,600
b. $2,720
c. $3,000
d. $3,200

2N80#28. Seymour Thomas named his wife Penelope the beneficiary of a $100,000 (face amount) insurance policy on his life. The policy provided that upon his death, the proceeds would be paid to Penelope with interest over her present life expectancy, which was calculated at 25 years. Seymour died during 1979 and Penelope received a payment of $5,200 from the insurance company. What amount should she include in her gross income for 1979?

a. $ 200
b. $1,200
c. $4,200
d. $5,200

2N80#40. Grace Allen is the owner of a two-family house which contains two identical apartments. Allen lives in one apartment and rents out the other. During the current year, the rental apartment was fully occupied and she received $4,800 in rent. During the year she paid the following amounts:

Real estate taxes	$2,200
Painting of rental apartment	600
Annual fire insurance premium	400

For the current year depreciation for the entire house was determined to be $3,000. Allen should include in her adjusted gross income for the current year

a. Income of $500.
b. Loss of $1,000.
c. Loss of $1,400.
d. Income of $1,400.

1M80#42. For the year 1979 Peter Paul had the following capital transactions:

$3,000 net long-term capital gain
$1,000 net short-term capital loss

What is the amount of Paul's long-term capital gain deduction for 1979?

a. $ 600
b. $ 800
c. $1,200
d. $1,800

1M80#44. During 1979 John and Mary Leonard received the following dividends on their jointly held investments:

- Dividends of $1,400 from Dominion, Ltd., an Australian corporation.
- Capital gain distribution of $600 from Apollo Mutual Fund.
- Dividends of $1,000 from United Utilities Corporation, which constitutes a return of capital.
- Dividends of $100 from Truck Company, a taxable domestic corporation.

Assuming that the Leonards file a joint return for 1979, what amount should they report as dividend income after the allowable exclusion?

a. $1,300
b. $1,400
c. $2,900
d. $3,100

1M80#48. In 1979 Uriah Stone received the following interest payments:

- Interest of $400 on refund of federal income tax for 1976.
- Interest of $300 on award for personal injuries sustained in an automobile accident during 1978.

- Interest of $1,500 on municipal bonds.
- Interest of $1,000 on United States savings bonds (Series H).

What amount, if any, should Stone report as interest income on his 1979 tax return?
  a. $0
  b. $ 700
  c. $1,700
  d. $3,200

B. Exclusions and Other Deductions (Including Adjustments to Arrive at Adjusted Gross Income)

2M84#21. Earl Cook, who worked as a machinist for Precision Corp., loaned Precision $1,000 in 1980. Cook did not own any of Precision's stock, and the loan was not a condition of Cook's employment by Precision. In 1984, Precision declared bankruptcy, and Cook's note receivable from Precision became worthless. What loss can Cook claim on his 1984 income tax return?
  a. $0.
  b. $ 500 long-term capital loss.
  c. $1,000 short-term capital loss.
  d. $1,000 business bad debt.

2M84
Items 29 through 34 are based on the following data:

Roger Efron, who is single and has no dependents, earned a salary of $50,000 in 1983, and had an adjusted gross income of $60,000. Roger has been an active participant in a qualified noncontributory pension plan since 1972. Roger itemized his deductions on his 1983 income tax return. Among Roger's 1983 cash expenditures were the following:

Real estate taxes on Roger's condominium	$4,000
Contribution to an individual retirement account ($200 interest was earned on this IRA in 1983)	2,000
Dental expenses	700
Premium on Roger's life insurance policy	600
Medical insurance premiums	500
Contribution to candidate for public office	300
Legal fee for preparation of Roger's will	200
Customs duties	80
City dog license fee	10

In addition, Roger suffered a casualty loss of $400 in 1983 due to storm damage.

29. How much could Roger deduct for the contribution to his individual retirement account in arriving at his 1983 adjusted gross income?
  a. $0
  b. $1,500
  c. $1,800
  d. $2,000

2M84#35. For the year ended December 31, 1983, Elmer Shaw earned $3,000 interest at Prestige Savings Bank, on a time savings account scheduled to mature in 1985. In January 1984, before filing his 1983 income tax return, Shaw incurred a forfeiture penalty of $1,500 for premature withdrawal of the funds from his account. Shaw should treat this $1,500 forfeiture penalty as a
  a. Penalty **not** deductible for tax purposes.
  b. Deduction from gross income in arriving at 1984 adjusted gross income.
  c. Deduction from 1984 adjusted gross income, deductible only if Shaw itemizes his deductions for 1984.
  d. Reduction of interest earned in 1983, so that only $1,500 of such interest is taxable on Shaw's 1983 return.

2M84
Items 36 through 40 are based on the following data:

John Budd, who was 58 at the date of his death on July 1, 1983, received $1,000 interest in 1983 on municipal bonds. John's wife, Emma, age 57, received a $300 television set in 1983 as a gift for opening a long-term savings account at a bank. Upon John's death, Emma received life insurance proceeds of $60,000 under a group policy paid for by John's employer. In addition, an employee death benefit of $7,500 was paid to Emma by John's employer. A month before John died, John and Emma sold their house for $225,000. They had lived in this house since 1970 and held the property as tenants by the entirety. Their basis for this property was $100,000. No replacement property was purchased and Emma does not intend to buy another residence. Emma did not remarry in 1983. Emma is executrix of John's estate.

38. How much of the group life insurance proceeds should be excluded from 1983 taxable income?
  a. $0
  b. $ 5,000
  c. $50,000
  d. $60,000

39. How much of the employee death benefit should be excluded from 1983 taxable income?
  a. $0
  b. $4,500
  c. $5,000
  d. $7,500

40. How much of the gain on sale of the residence should be excluded from 1983 taxable income?
   a. $125,000
   b. $100,000
   c. $ 75,000
   d. $0

2N83#35. Mr. and Mrs. Carl Nido own 5,000 shares of common stock of Niagara Power Corporation, a qualified domestic public utility. Instead of receiving their dividends in cash on the Niagara stock, the Nidos have elected to receive common stock under Niagara's qualified dividend reinvestment plan. The Nidos earned $2,000 in dividends on their Niagara stock in 1982. What portion of these dividends could the Nidos exclude from gross dividend income (before other allowable dividend exclusions) on their 1982 joint return?
   a. $2,000
   b. $1,800
   c. $1,500
   d. $0

1M83#46. Charles Gilbert, a corporate executive, incurred business-related, unreimbursed expenses in 1982 as follows:

Entertainment	$900
Travel	700
Education	400

Assuming that Gilbert does not itemize deductions, how much of these expenses should he deduct on his 1982 tax return?
   a. $ 700
   b. $1,100
   c. $1,300
   d. $1,600

1M83#53. Mary and Robert Allen were granted a divorce in 1982. In accordance with the decree, Robert made the following payments to Mary in 1982:

Lump-sum cash settlement	$20,000
Indefinite periodic payments	12,000

How much of the payments should Robert deduct in arriving at his adjusted gross income for 1982?
   a. $0
   b. $12,000
   c. $20,000
   d. $32,000

1N82#44. Daniel Kelly received interest income from the following sources in 1981:

New York Port Authority bonds	$1,000
Puerto Rico Commonwealth bonds	1,800

What portion of such interest is tax exempt?
   a. $0
   b. $1,000
   c. $1,800
   d. $2,800

1N82#45. Martin Dawson, who resided in Detroit, was unemployed for the last six months of 1981. In January 1982, he moved to Houston to seek employment, and obtained a full-time job there in February. He kept this job for the balance of the year. Martin paid the following expenses in 1982 in connection with his move:

Rental of truck to move his personal belongings to Houston	$ 800
Penalty for breaking the lease on his Detroit apartment	300
Total	$1,100

How much can Martin deduct in 1982 for moving expenses?
   a. $0
   b. $ 300
   c. $ 800
   d. $1,100

1N82#48. Lila Lux retired on December 31, 1980, with a monthly pension of $300. Her contributions to the pension plan totaled $6,000, while her employer's contributions to the plan totaled $12,000. How much of the pension is taxable in 1981?
   a. $0
   b. $1,800
   c. $2,400
   d. $3,600

1N82#58. Ronald Birch, who is single, earned a salary of $30,000 in 1982 as a plumber employed by Lupo Company. Birch was covered for the entire year 1982 under Lupo's qualified pension plan for employees. In addition, Birch had a net income of $10,000 from self-employment in 1982. What is the maximum amount that Birch can deduct in 1982 for contributions to an individual retirement account (IRA)?
   a. $4,500
   b. $2,000
   c. $1,500
   d. $0

1M82#49. Herbert Mann is an engineer employed by a major chemical company. During 1981 he paid the following business related expenses:

Travel expenses incurred while away from home overnight	$2,500
Executive search consultant fees paid in securing a new job in same profession	1,500
Professional society dues	600
Transportation expenses	350

Mann received travel expense reimbursements totaling $2,300 from his employer during 1981. How much should Mann deduct as employee business expenses in arriving at his adjusted gross income for 1981?
a. $ 550
b. $2,050
c. $2,650
d. $2,850

2N81#46. Richard Putney, who lived in Idaho for five years, moved to Texas in 1980 to accept a new position. His employer reimbursed him in full for all direct moving costs, but did not pay for any part of the following indirect moving expenses incurred by Putney:

Househunting trips to Texas	$800
Temporary housing in Texas	$900

How much of the indirect expenses can be deducted by Putney as moving expenses?
a. $0
b. $ 900
c. $1,500
d. $1,700

2N81#60. Martin Kohl, who is 67 years old, was permanently and totally disabled when he retired in 1976. He has been receiving disability payments in lieu of wages since his retirement. In 1980, such payments amounted to $6,200. Kohl also had $10,800 of other income. Kohl's maximum disability income exclusion for 1980 is
a. $0
b. $3,200
c. $4,600
d. $5,200

1M81#46. Frank Clarke, an employee of Smithson Company, was covered under a noncontributory pension plan. Frank died on April 15, 1980, at age 64 and pursuant to the plan, his widow received monthly pension payments of $500 beginning May 1, 1980. In addition Mrs. Clarke received an employee death payment of $10,000 in May 1980. What is the total amount of the above receipts that the widow should exclude from her gross income for 1980?
a. $ 5,000
b. $ 9,000
c. $10,000
d. $14,000

1M81#60. Roger Burrows, age 19, is a full-time student at Marshall College and a candidate for a bachelor's degree. During 1980 he received the following payments:

State scholarship for ten months	$3,600
Loan from college financial aid office	1,500
Cash support from parents	3,000
Cash dividends on qualified investments	700
Cash prize awarded in contest	500
	$9,300

What is Burrows's adjusted gross income for 1980?
a. $1,100
b. $1,200
c. $4,800
d. $9,300

2N80#31. Martin Hart, who is not an outside salesman, earned a salary of $30,000 during the current year. During the year he was required by his employer to take several overnight business trips, and he received an expense allowance of $1,500 for travel and lodging. In the course of these trips he incurred the following expenses which were either adjustments to income or deductions from adjusted gross income.

Travel	$1,100
Lodging	500
Entertainment of customers	400

What is Hart's adjusted gross income?
a. $28,000
b. $29,500
c. $29,600
d. $29,900

1M80#49. For the year 1979 Frances Quinn had a time savings account with the Benevolent Savings Bank. The following entries appeared in her passbook for 1979:

March 30, 1979, interest credited	$150
June 29, 1979, interest credited	$160
July 25, 1979, penalty forfeiture because of a premature withdrawal	$125
September 28, 1979, interest credited	$ 80
December 28, 1979, interest credited	$ 85

The above information should be reported by Ms. Quinn on her 1979 tax return as
a. Interest income of $350.
b. Interest income of $475.
c. Interest income of $475 and an itemized deduction for interest expense of $125.
d. Interest income of $475 and a deduction of $125 in arriving at adjusted gross income.

1M80#57. Richard Brown, who retired on May 31, 1979, receives a monthly pension benefit of $700 payable for life. The first pension check was received on June 15, 1979. During his years of employment, Brown contributed $14,700 to the cost of his company's pension plan. How much of the pension amounts received may Brown exclude from taxable income for the years 1979, 1980, and 1981?

	1979	*1980*	*1981*
a.	$ 0	$ 0	$ 0
b.	$4,900	$4,900	$4,900
c.	$4,900	$8,400	$1,400
d.	$4,900	$8,400	$8,400

C. Gain or Loss on Property Transactions

2N84

Items 34 through 36 are based on the following data:

On March 1, 1983, Lois Rice learned that she was bequeathed 1,000 shares of Elin Corp. common stock under the will of her uncle, Pat Prevor. Pat had paid $5,000 for the Elin stock in 1980. Fair market value of the Elin stock on March 1, 1983, the date of Pat's death, was $8,000 and had increased to $11,000 six months later. The executor of Pat's estate elected the alternative valuation date for estate tax purposes. Lois sold the Elin stock for $9,000 on May 1, 1983, the date that the executor distributed the stock to her.

35. Lois' basis for gain or loss on sale of the 1,000 shares of Elin stock is
 a. $ 5,000
 b. $ 8,000
 c. $ 9,000
 d. $11,000

36. Lois should treat the 1,000 shares of Elin stock as a
 a. Short-term Section 1231 asset.
 b. Long-term Section 1231 asset.
 c. Short-term capital asset.
 d. Long-term capital asset.

2N84#40. On July 1, 1984, Louis Herr exchanged an office building having a fair market value of $400,000, for cash of $80,000 plus an apartment building having a fair market value of $320,000. Herr's adjusted basis for the office building was $250,000. How much gain should Herr recognize in his 1984 income tax return?
 a. $0
 b. $ 80,000
 c. $150,000
 d. $330,000

2N83#39. An office building owned by Elmer Bass was condemned by the state on January 2, 1982. Bass received the condemnation award on March 1, 1983. In order to qualify for nonrecognition of gain on this involuntary conversion, what is the last date for Bass to acquire qualified replacement property?
 a. August 1, 1984.
 b. January 2, 1985.
 c. March 1, 1986.
 d. December 31, 1986.

1M83#47. On July 1, 1982, Riley exchanged investment real property, with an adjusted basis of $160,000 and subject to a mortgage of $70,000, and received from Wilson $30,000 cash and other investment real property having a fair market value of $250,000. Wilson assumed the mortgage. What is Riley's recognized gain in 1982 on the exchange?
 a. $ 30,000
 b. $ 70,000
 c. $ 90,000
 d. $100,000

1N82#41. Robert Efron owned an apartment house that he bought in 1970. Depreciation was taken on a straight-line basis. In 1982, when Efron's adjusted basis for this property was $100,000, he traded it for an office building having a fair market value of $300,000. The apartment house has 100 dwelling units, while the office building has 50 units rented to business enterprises. The properties are not located in the same city. What is Efron's reportable gain on this exchange?
 a. $0.
 b. $200,000 long-term capital gain.
 c. $200,000 Section 1231 gain.
 d. $200,000 Section 1250 gain.

1M81#43. On July 1, 1980, Thomas Rich acquired certain stocks with a fair market value of $22,000 by gift from his father. The stocks had been acquired by the father on April 1, 1978, at a cost of $40,000. Thomas sold all the stocks for $28,000 on December 12, 1980. What amount should Thomas report as capital gain or loss on his 1980 tax return as a result of the above?
 a. $0.
 b. $ 2,400 gain.
 c. $ 6,000 gain.
 d. $12,000 loss.

2N80#22. On January 5, 1979, Norman Harris purchased for $6,000, 100 shares of Campbell Corporation common stock. On July 8, 1979, he received a nontaxable stock dividend of 10 shares of Campbell Corporation $100 par value preferred stock. On that date the market values per share of the common and preferred stock were $75 and $150, respectively. Harris's tax basis for the common stock after the receipt of the stock dividend is
 a. $2,000
 b. $4,500
 c. $5,000
 d. $6,000

2N80#23. On June 8, 1979, Sam Meyer, age 62, sold for $210,000 his principal residence which had an adjusted basis of $60,000. On November 1, 1979, he purchased a new residence for $80,000. Meyer elected the exclusion of realized gain available to taxpayers over age 55.

For 1979 Meyer should recognize a gain on the sale of his residence of

a. $0
b. $ 30,000
c. $ 50,000
d. $130,000

1M80#43. Adam King, a self-employed accountant, sold a mahogany executive desk for $1,300 on December 31, 1979. Additional information is as follows:

Original cost	$1,200
Salvage value	$ 100
Purchase date	January 1, 1975
Depreciation on the double-declining method properly deducted over the years held	$ 800
Straight-line depreciation allowable over the years held would have been	$ 550

King would recognize gain on the sale of the desk in 1979 as

	Ordinary Income	*Section 1231 Treatment*
a.	$100	$800
b.	$350	$550
c.	$550	$350
d.	$800	$100

D. Deductions From Adjusted Gross Income

2N84

Items 22 through 26 are based on the following data:

Eric Ross, who is single and has no dependents, had an adjusted gross income of $80,000 in 1983, comprised of the following:

Salary	$74,000
Net investment income	6,000

During 1983, uninsured art objects owned by Eric, with a basis of $50,000 and a fair market value of $70,000, sustained casualty fire damage reducing the fair market value of $60,000. Also during 1983, Eric made the following payments:

Interest on margin account at stockbroker	$18,000
Real estate taxes on condominium owned by Eric's mother, in which Eric resides	3,000
State and city gasoline taxes	180
Medical insurance premiums	300
Unreimbursed dental expenses	4,500
Contribution to political committee of elected public official	500

Eric elected to itemize his deductions for 1983.

22. How much can Eric claim in his itemized deductions for interest on his 1983 return?

a. $ 6,000
b. $12,000
c. $16,000
d. $18,000

23. How much can Eric claim as taxes in itemized deductions on his 1983 return?

a. $0
b. $ 180
c. $3,000
d. $3,180

24. How much can Eric claim in his itemized deductions for medical and dental expenses on his 1983 return?

a. $2,400
b. $ 800
c. $ 300
d. $ 150

25. How much can Eric claim in his itemized deductions for the casualty loss on his 1983 return?

a. $0
b. $1,900
c. $2,000
d. $9,900

2N84#28. Dan Barlow, who itemizes his deductions, had an adjusted gross income of $70,000 in 1983. The following additional information is available for 1983:

Cash contribution to church	$5,000
Purchase of art object at church bazaar (with a fair market value of $1,000 on the date of purchase)	1,600
Donation of used clothing to Salvation Army (fair value evidenced by receipt received)	800

What is the maximum amount Barlow can claim as a deduction for charitable contributions in 1983?

a. $5,600
b. $6,400
c. $6,600
d. $6,800

2M84

Items 29 through 34 are based on the following data:

Roger Efron, who is single and has no dependents, earned a salary of $50,000 in 1983, and had an adjusted gross income of $60,000. Roger has been an active participant in a qualified noncontributory pension plan since 1972. Roger itemized his deductions on his 1983 income tax return. Among Roger's 1983 cash expenditures were the following:

Real estate taxes on Roger's condominium	$4,000
Contribution to an individual retirement account ($200 interest was earned on this IRA in 1983)	2,000
Dental expenses	700
Premium on Roger's life insurance policy	600
Medical insurance premiums	500
Contribution to candidate for public office	300
Legal fee for preparation of Roger's will	200
Customs duties	80
City dog license fee	10

In addition, Roger suffered a casualty loss of $400 in 1983 due to storm damage.

30. How much could Roger deduct in 1983 for medical and dental expenses?
   a. $0
   b. $ 150
   c. $ 700
   d. $1,200

31. How much could Roger deduct in 1983 for taxes?
   a. $4,000
   b. $4,010
   c. $4,080
   d. $4,090

32. How much could Roger deduct in 1983 for miscellaneous deductions?
   a. $0
   b. $200
   c. $600
   d. $800

33. How much could Roger deduct in 1983 for the casualty loss?
   a. $0
   b. $100
   c. $300
   d. $400

2N83

Items 30 and 31 are based on the following data:

Frank Lyon, who itemized his deductions on his 1982 income tax return, paid the following unreimbursed expenses in 1982:

Realty taxes on the house in which he resides with his dependent mother; the house is owned by his mother	$3,000
State and city gasoline taxes	100
Physical examination required by Frank's employer	200
Meals in connection with overtime work	180

In addition, Frank was held up and robbed of $800 cash in June 1982. One month later, Frank had $2,000 cash stolen from him by his housekeeper.

30. How much of the realty and gasoline taxes should be included in Frank's itemized deductions in 1982?
   a. $0
   b. $ 100
   c. $3,000
   d. $3,100

31. How much was deductible by Frank as employee business expenses for 1982?
   a. $0
   b. $180
   c. $200
   d. $380

1M83#49. William Dalton, age 30 and single, provided the following information for his 1982 income tax return:

Salary	$30,000
Payment to an Individual Retirement Account	$ 2,000
Total itemized deductions	$ 3,400
Number of exemptions claimed	1

Dalton should report taxable income for 1982 of
a. $24,600
b. $25,900
c. $26,900
d. $27,900

1M83#50. Robert and Judy Parker made the following payments during 1982:

Interest on a life insurance policy loan (the related policy on Robert's life was purchased in 1950)	$1,200
Interest on home mortgage for period January 1 to October 4, 1982	3,600
Penalty payment for prepayment of home mortgage on October 4, 1982	900

How much can the Parkers utilize as interest expense in calculating excess itemized deductions for 1982?
a. $5,700
b. $4,800
c. $4,500
d. $3,600

1M83#51. Henry Warren did not itemize his deductions on his 1981 and 1980 federal income tax returns. However, Warren plans to itemize his deductions for 1982. The following information relating to his state income taxes is available:

Taxes withheld in 1982	$2,000
Refund received in 1982 of 1981 tax	300
Assessment paid in 1982 of 1980 tax	200

What amount should Warren utilize as state and local income taxes in calculating excess itemized deductions for his 1982 federal income tax return?
a. $1,700
b. $1,900
c. $2,000
d. $2,200

1M83#52. Ruth Lewis has adjusted gross income of $100,000 for 1982 and itemizes her deductions. On September 1, 1982, she made a contribution to her church of stock held for investment for two years which cost $10,000 and had a fair market value of $70,000. The church sold the stock for $70,000 on the same date. Assume that Lewis made no other contributions during 1982 and made no special election in regard to this contribution on her 1982 tax return. How much should Lewis claim as a charitable contribution deduction for 1982?
a. $50,000
b. $30,000
c. $20,000
d. $10,000

1N82#51. Sara Harding is a cash basis taxpayer who itemizes her deductions. The following information pertains to Sara's state income taxes for the taxable year 1981:

Withheld by employer in 1981		$2,000
Payments on 1981 estimate:		
4/15/81	$300	
6/15/81	300	
9/15/81	300	
1/15/82	300	1,200
Total paid and withheld		$3,200
Actual tax, per state return		3,000
Overpayment		$ 200

There was no balance of tax or refund due on Sara's 1980 state tax return. How much is deductible for state income taxes on Sara's 1981 federal income tax return?
a. $2,800
b. $2,900
c. $3,000
d. $3,200

1N82#52. On December 15, 1981, Donald Calder made a contribution of $500 to a qualified charitable organization, by charging the contribution on his bank credit card. Calder paid the $500 on January 20, 1982, upon receipt of the bill from the bank. In addition, Calder issued and delivered a promissory note for $1,000 to another qualified charitable organization on November 1, 1981, which he paid upon maturity six months later. If Calder itemizes his deductions, what portion of these contributions is deductible in 1981?
a. $0
b. $ 500
c. $1,000
d. $1,500

1M82#51. Charles Wolfe purchased the following long-term investments at par during 1981:

$20,000 general obligation bonds of Burlington County (wholly tax exempt)
$10,000 debentures of Arrow Corporation

Wolfe financed these purchases by obtaining a $30,000 loan from the Union National Bank. For the year 1981, Wolfe made the following interest payments:

Union National Bank	$3,600
Interest on home mortgage	3,000
Interest on credit card charges	500

What amount can Wolfe utilize as interest expense in calculating excess itemized deductions for 1981?
  a. $3,500
  b. $4,700
  c. $5,400
  d. $7,100

1M82#52. During 1981 Jack and Mary Bronson paid the following taxes:

Taxes on residence (for period January 1 to September 30, 1981)	$2,700
State motor vehicle tax on value of the car	360

The Bronsons sold their house on June 30, 1981, under an agreement in which the real estate taxes were not prorated between the buyer and sellers. What amount should the Bronsons deduct as taxes in calculating excess itemized deductions for 1981?
  a. $1,800
  b. $2,160
  c. $2,700
  d. $3,060

1M82#54. The following information is available for Seymour and Ruth Atkinson, who reside in Pennsylvania, for 1981:

Adjusted gross income	$31,500
Tax-exempt interest received	$1,500
Exemptions (including exemption claimed for their son John, a full-time student at State University)	3

An abstract from the Optional Sales Tax Table for Pennsylvania is presented below:

	Sales tax	
	Family size	*Family size*
Income	*1 & 2*	*Over 2*
$30,001-$32,000	$219	$248
$32,001-$34,000	$230	$261

Assuming that the Atkinsons elect to use the Optional Sales Tax Table, what is the maximum amount of general sales taxes that they can utilize in calculating excess itemized deductions for 1981?
  a. $219
  b. $230
  c. $248
  d. $261

1M82#55. Frank Lanier is a resident of a state that imposes a tax on income. The following information pertaining to Lanier's state income taxes is available:

Taxes withheld in 1981	$3,500
Refund received in 1981 of 1980 tax	400
Deficiency assessed and paid in 1981 for 1979:	
Tax	600
Interest	100

What amount should Lanier utilize as state and local income taxes in calculating excess itemized deductions for his 1981 federal tax return?
  a. $3,500
  b. $3,700
  c. $4,100
  d. $4,200

2N81

Items 47 and 48 are based on the following data: Donald Duval owns a two-family home. He rents out the first floor and resides on the second floor. The following expenses attributable to the building were incurred by Duval for the year ended December 31, 1980:

	Expenses for		
	Entire building	*First floor*	*Second floor*
Depreciation	$2,000		
Realty taxes	1,800		
Mortgage interest	1,200		
Utilities	1,000		
Repairs		$300	
Painting			$400

48. What portion of the expenses can Duval take as itemized deductions on Schedule A of Form 1040?
  a. $1,500
  b. $1,900
  c. $3,400
  d. $6,400

2N81#51. Mr. and Mrs. Donald Curry's real property tax year is on a calendar-year basis, with payment due annually on August 1. The realty taxes on their home amounted to $1,200 in 1981, but the Currys did not pay any portion of that amount since they sold the house on April 1, 1981, four months before payment was due. However, realty taxes were prorated on the closing statement. Assuming that they owned no other real property during the year, how much can the Currys deduct on Schedule A of Form 1040 for real estate taxes in 1981?
  a. $0
  b. $ 296
  c. $ 697
  d. $1,200

2N81#52. Magda Micale, a public school teacher, paid the following items in 1980, for which she received no reimbursement:

Initiation fee for membership in teachers' union	$100
Dues to teachers' union	180
Voluntary unemployment benefit fund contributions to union-established fund	72

How much can Magda claim in 1980 as allowable miscellaneous deductions on Schedule A of Form 1040?

a. $180
b. $280
c. $252
d. $352

2N81#53. Martin Dale, single, paid the entire cost of maintaining his dependent mother in a home for the aged, for the whole year 1980. How much is Martin's zero bracket amount for 1980?

a. $0
b. $1,700
c. $2,300
d. $3,400

2N81#55. Gabriel Colon, a jet airplane mechanic, paid the following items in 1980, for which he received no reimbursement:

Tools used in connection with his work (bought on July 1, 1980; estimated useful life 5 years; no salvage value)	$600
Union dues	$180
Legal fee in connection with preparation of his will, 25% of which was attributable to income tax advice	$300

How much can Colon claim in 1980 as allowable miscellaneous deductions on Schedule A of Form 1040?

a. $ 315
b. $ 780
c. $ 855
d. $1,080

2N81#56. George Granger sold a plot of land to Albert King on July 1, 1981. Granger had not paid any realty taxes on the land since 1979. Delinquent 1980 taxes amounted to $600, and 1981 taxes amounted to $700. King paid the 1980 and 1981 taxes in full in 1981, when he bought the land. What portion of the $1,300 is deductible by King in 1981?

a. $ 353
b. $ 700
c. $ 953
d. $1,300

1M81#41. Phil and Joan Crawley made the following payments during 1980:

Interest on bank loan (loan proceeds were used to purchase United States savings bonds Series II)	$4,000
Interest on installment charge accounts	500
Interest on home mortgage for period April 1 to December 31, 1980	2,700
Points paid to obtain conventional mortgage loan on April 1, 1980	900

What is the maximum amount that the Crawleys can utilize as interest expense in calculating excess itemized deductions for 1980?

a. $4,100
b. $7,200
c. $7,600
d. $8,100

1M81#50. Don and Cynthia Wallace filed a joint return for 1980 in which they reported adjusted gross income of $35,000. During 1980 they made the following contributions to qualified organizations:

Land (stated at its current fair market value) donated to church for new building site	$22,000
Cash contributions to church	300
Cash contributions to the local community college	200

Assuming that the Wallaces did not elect to reduce the deductible amount of the land contribution by 40% of the property's appreciation in value, how much can they claim as a deduction for charitable contributions in 1980?

a. $10,800
b. $11,000
c. $17,500
d. $22,500

1M81#54. Jon and Connie Cooke, who are filing a joint return for 1980, elect to use the Optional Sales Tax Table which allows them to deduct general sales taxes of $400 based on their gross income and family size. During 1980 they paid general sales taxes on the following large purchases:

	General sales taxes paid
Purchase of a new car for $8,500	$510
Purchase of wearing apparel during year totaling $3,000	180

What is the maximum amount of general sales taxes that the Cookes can utilize in calculating excess itemized deductions for 1980?

a. $ 400
b. $ 580

c. $ 910
d. $1,090

1M81#57. During 1980 Mr. and Mrs. West paid the following taxes:

Property taxes on residence	$1,800
Special assessment for installation of a sewer system in their town	1,000
State personal property tax on their automobile	600
Property taxes on land held for long-term appreciation	300

What amount can the Wests deduct as property taxes in calculating excess itemized deductions for 1980?
a. $2,100
b. $2,700
c. $3,100
d. $3,700

2N80#30. For the year ended December 31, 1979, David Roth, a married taxpayer filing a joint return, reported the following:

Investment income from dividends and interest	$24,000
Long-term capital gains	25,000
Investment expenses	4,000
Interest expense on funds borrowed in 1979 to purchase investment property	70,000

What amount can Roth deduct in 1979 as investment interest expense?
a. $20,000
b. $30,000
c. $45,000
d. $70,000

2N80#38. Harold Brodsky is an electrician employed by a contracting firm. During the current year he incurred and paid the following expenses:

Use of personal auto for company business (reimbursed by employer for $200)	$300
Specialized work clothes	550
Union dues	600
Cost of income tax preparation	150
Preparation of will	100

If Brodsky were to itemize his personal deductions, what amount should he claim as miscellaneous deductible expenses?
a. $1,300
b. $1,400
c. $1,500
d. $1,700

2N80#39. During 1979 William Clark was assessed a deficiency on his 1978 federal income tax return. As a result of this assessment he was required to pay $1,120 determined as follows:

Additional tax	$900
Late filing penalty	60
Negligence penalty	90
Interest	70

What portion of the $1,120 would qualify as itemized deductions for 1979?
a. $0
b. $ 70
c. $150
d. $220

1M80#50. Eugene and Linda O'Brien had adjusted gross income of $30,000 in 1979. Additional information is available for 1979 as follows:

Cash contribution to church	$1,500
Tuition paid to parochial school	1,200
Contribution to a qualified charity made by a bank credit card charge on December 14, 1979. The credit card obligation was paid on January 11, 1980.	250
Cash contribution to needy family	100

What is the maximum amount of the above that they can utilize in calculating excess itemized deductions for 1979?
a. $1,500
b. $1,750
c. $2,700
d. $3,050

1M80#51. Roger Goodfriend's adjusted gross income was $50,000 in 1979. He made the following contributions to qualified charitable organizations during the year:

- $10,000 cash
- 1,000 shares of common stock of Electronics Corporation (bought in 1974 for $5,000) with a fair market value of $17,000 on the date of the contribution.

What is the maximum amount Goodfriend can claim as a deduction for charitable contributions in 1979?
a. $15,000
b. $21,000
c. $22,200
d. $25,000

1M80#55. The following information is available for Jack and Jill Moore, who reside in Indiana, for 1979:

Adjusted gross income	$10,500
Exemptions (including 2 exemptions claimed for being over 65)	4
Social Security benefits received	$3,000

An abstract from the Optional Sales Tax Table for Indiana is presented below:

	Sales Tax	
Income	Family Size 1&2	Family Size 3&4
\$10,001-\$12,000	\$124	\$148
\$12,001-\$14,000	\$138	\$165

Assuming that the Moores elect to use the Optional Sales Tax Table, what is the maximum amount of general sales taxes that they can utilize in calculating excess itemized deductions for 1979?

a. \$124
b. \$138
c. \$148
d. \$165

1M80#56. Robert Weber resides in a state that imposes a tax on income. The following information relating to Weber's state income taxes is available:

Taxes withheld in 1979	\$3,000
Refund received in 1979 of 1978 tax	300
Assessment paid in 1979 of 1977 tax	800
Paid in 1980 with 1979 tax return	200

What amount should Weber utilize as state and local income taxes in calculating excess itemized deductions for his 1979 federal income tax return?

a. \$3,200
b. \$3,500
c. \$3,700
d. \$3,800

1M80#58. Jerry and Ann Parsell paid the following expenses during 1979:

Interest on automobile loan	\$1,500
Interest on bank loan (loan proceeds were used to purchase municipal bonds)	5,000
Interest on home mortgage for period January 1 to June 29, 1979	1,800
Penalty payment for prepayment of home mortgage on June 29, 1979	1,200

What is the maximum amount that the Parsells can utilize as interest expense in calculating excess itemized deductions for 1979?

a. \$3,300
b. \$4,500
c. \$8,300
d. \$9,500

E. Filing Status and Exemptions

2M84

Items 22 through 28 are based on the following data:

Laura Lewis has been legally separated from her husband, Herman, since 1982. Their three-year old son, Ronald, lived with Laura for the entire year 1983. Under the written separation agreement between Laura and Herman, Herman was obligated to pay Laura \$300 per month for alimony and \$200 per month for child support, or a total of \$6,000 annually. However, Laura received a total of only \$300 from Herman during 1983. Laura's other income in 1983 was from the following sources:

Salary	\$20,000
Interest on insurance dividends left on deposit with a life insurance company	100
Interest on federal income tax refund	60

In addition, Laura's father, Albert, gave Laura a gift of 500 shares of Liba Corporation common stock in 1983. Albert's basis for the Liba stock was \$4,000. At the date of this gift, the fair market value of the Liba stock was \$3,000.

22. What was Laura's filing status for 1983?
    a. Single.
    b. Married filing separate return.
    c. Unmarried head of household.
    d. Married head of household.

2M84

Items 36 through 40 are based on the following data:

John Budd, who was 58 at the date of his death on July 1, 1983, received \$1,000 interest in 1983 on municipal bonds. John's wife, Emma, age 57, received a \$300 television set in 1983 as a gift for opening a long-term savings account at a bank. Upon John's death, Emma received life insurance proceeds of \$60,000 under a group policy paid for by John's employer. In addition, an employee death benefit of \$7,500 was paid to Emma by John's employer. A month before John died, John and Emma sold their house for \$225,000. They had lived in this house since 1970 and held the property as tenants by the entirety. Their basis for this property was \$100,000. No replacement property was purchased and Emma does not intend to buy another residence. Emma did not remarry in 1983. Emma is executrix of John's estate.

36. With regard to John's and Emma's filing status for 1983, Emma should file
    a. As a single individual, and a separate return should be filed for John as unmarried head of household.
    b. As a qualifying widow, and a separate return should be filed for John as married head of household.
    c. As a qualifying widow, and a separate return should be filed for John as a single deceased individual.
    d. A joint return including John, as married taxpayers.

2N83#23. Alex Kerr was 65 years old on January 21, 1983, and has been legally blind for the past three years. Alex's wife, Rose, lived with him until her death on January 5, 1982, at the age of 50. Rose had no income of her own. Alex did not remarry in 1982. How many personal exemptions was Alex entitled to on his 1982 income tax return?

a. One
b. Two
c. Three
d. Four

2N83#24. Jill Nolan's filing status for 1982 was that of a single individual. Jill claimed itemized deductions of $5,000 on her 1982 income tax return. How much was Jill's zero bracket amount for 1982?

a. $1,700
b. $2,300
c. $2,700
d. $3,400

1M83#56. During 1982 Robert Moore, who is 50 years old and unmarried, maintained his home in which he and his widower father, age 75, resided. His father had $1,600 interest income from a savings account and also received $2,400 from social security during 1982. Robert provided 60% of his father's total support for 1982. What is Robert's filing status for 1982, and how many exemptions should he claim on his tax return?

a. Head of household and 2 exemptions.
b. Single and 2 exemptions.
c. Head of household and 1 exemption.
d. Single and 1 exemption.

1M83#57. During 1982 Mary Dunn provided 20% of her own support; the remaining 80% was provided by her three sons as follows:

Bill	15%
Jon	25%
Tom	40%
	80%

Assume that a multiple support agreement exists and that the brothers will sign multiple support declarations as required. Which of the brothers is eligible to claim the mother as a dependent for 1982?

a. None of the brothers.
b. Tom only.
c. Jon or Tom only.
d. Bill, Jon or Tom.

1M83#58. John and Mary Arnold are a childless, married couple who lived apart (alone in homes maintained by each) the entire year 1982. On December 31, 1982, they were legally separated under a decree of separate maintenance. Which of the following is the only filing status choice available to them when filing for 1982?

a. Single.
b. Head of household.
c. Married filing separate return.
d. Married filing joint return.

1M82#43. During 1981 Murray Richman, who is 60 years old and unmarried, was the sole support of his aged mother. His mother was a resident of a home for the aged for the entire year and had no income. What is Richman's filing status for 1981, and how many exemptions should he claim on his tax return?

a. Head of household and 2 exemptions.
b. Single and 2 exemptions.
c. Head of household and 1 exemption.
d. Single and 1 exemption.

1M82#60. Mark Erickson, age 46, filed a joint return for 1981 with his wife Helen, age 24. Their son John was born on December 16, 1981. Mark provided 60% of the support for his 72-year-old widowed mother until April 10, 1981, when she died. His mother's only income was from social security benefits totaling $1,100 during 1981. How many exemptions should the Ericksons claim on their 1981 tax return?

a. 2
b. 3
c. 4
d. 5

1M81#44. During 1980 Howard Thomson maintained his home in which he and his sixteen-year-old son resided. The son qualifies as his dependent. Thomson's wife died in 1979, for which year a joint return was appropriately filed. Thomson remarried on March 15, 1981. What is Thomson's filing status for 1980?

a. Single.
b. Head of household.
c. Surviving spouse.
d. Married filing jointly.

1M81#55. Albert and Lois Stoner, age 66 and 64, respectively, filed a joint tax return for 1980. They provided all of the support for their blind 19-year-old son, who has no gross income. Their 23-year-old daughter, a full-time student until her graduation on June 14, 1980, earned $2,000, which was 40% of her total support during 1980. Her parents provided the remaining support. The Stoners also provided the total support of Lois' father, who is a citizen and lifelong resident of Peru. How many exemptions can the Stoners claim on their 1980 income tax return?

a. 4
b. 5
c. 6
d. 7

2N80#33. During 1979 Anita Simms was entirely supported by her three sons Dudley, Carlton, and Isidore, who provided support for her in the following percentages:

Dudley	8%
Carlton	45%
Isidore	47%

Which of the brothers is entitled to claim his mother as a dependent, assuming a multiple support agreement exists?

a. Dudley.
b. Dudley or Carlton.
c. Carlton or Isidore.
d. Dudley, Carlton or Isidore.

1M80#41. John Wolf, who is 45 years old and unmarried, contributed $600 monthly in 1979 to the support of his parents' household. The parents lived alone and their income for 1979 consisted of $1,000 from qualifying dividends and interest, and $3,600 from Social Security. Based on the above information, what is Wolf's filing status for 1979, and how many exemptions should he claim on his tax return?

a. Single and 1 exemption.
b. Head of household and 1 exemption.
c. Single and 3 exemptions.
d. Head of household and 3 exemptions.

1M80#60. Jim Planter, who reached age 65 on January 1, 1980, filed a joint return for 1979 with his wife Rita, age 50. Mary, their 21-year-old daughter, was a full-time student at a college until her graduation on June 2, 1979. The daughter had $6,500 of income and provided 25% of her own support during 1979. In addition, during 1979 the Planters were the sole support for Rita's niece, who had no income. How many exemptions should the Planters claim on their 1979 tax return?

a. 2
b. 3
c. 4
d. 5

F. Tax Determination

2N84
Items 22 through 26 are based on the following data:

Eric Ross, who is single and has no dependents, had an adjusted gross income of $80,000 in 1983, comprised of the following:

Salary	$74,000
Net investment income	6,000

During 1983, uninsured art objects owned by Eric, with a basis of $50,000 and a fair market value of $70,000, sustained casualty fire damage reducing the fair market value to $60,000. Also during 1983, Eric made the following payments:

Interest on margin account at stockbroker	$18,000
Real estate taxes on condominium owned by Eric's mother, in which Eric resides	3,000
State and city gasoline taxes	180
Medical insurance premiums	300
Unreimbursed dental expenses	4,500
Contribution to political committee of elected public official	500

Eric elected to itemize his deductions for 1983.

26. How much of a tax credit can Eric claim on his 1983 return for the $500 political contribution?

a. $250
b. $100
c. $ 50
d. $0

2M84
Items 29 through 34 are based on the following data:

Roger Efron, who is single and has no dependents, earned a salary of $50,000 in 1983, and had an adjusted gross income of $60,000. Roger has been an active participant in a qualified noncontributory pension plan since 1972. Roger itemized his deductions on his 1983 income tax return. Among Roger's 1983 cash expenditures were the following:

Real estate taxes on Roger's condominium	$4,000
Contribution to an individual retirement account ($200 interest was earned on this IRA in 1983)	2,000
Dental expenses	700
Premium on Roger's life insurance policy	600
Medical insurance premiums	500
Contribution to candidate for public office	300
Legal fee for preparation of Roger's will	200
Customs duties	80
City dog license fee	10

In addition, Roger suffered a casualty loss of $400 in 1983 due to storm damage.

34. How much of a credit could Roger offset against his 1983 income tax, for his contribution to a candidate for public office?

a. $0
b. $ 50
c. $100
d. $150

1N82#53. One of the requirements for claiming the earned income credit is that the individual's

a. Earned income must be $10,000 or more.
b. Earned income must be $10,000 or less.

c. Adjusted gross income must be less than $10,000.
d. Adjusted gross income must be equal to earned income.

1N82#57. Nora Hayes, a widow, maintains a home for herself and her two dependent preschool children. In 1982, Nora's earned income and adjusted gross income was $29,000. During 1982, Nora paid work-related expenses of $3,000 for a housekeeper to care for her children. How much can Nora claim for child care credit in 1982?
a. $0
b. $480
c. $600
d. $900

1M82#59. Philip and Joan Sampson, filing a joint tax return for 1981, had a tax liability of $8,000 computed from the tax table. During 1981 Philip contributed $150 to a candidate for a local elective public office. Assuming that the Sampsons do not claim any other credits against their tax, what is the amount of the political contributions tax credit they should claim on their tax return for 1981?
a. $150
b. $100
c. $ 75
d. $ 50

2N81#57. In 1980, Alex Burgos paid $600 to Rita, his ex-wife, for child support. Under the terms of the divorce decree, Alex claims the exemption for his five-year-old son, William, who lived with Rita for the entire year. Alex's only income in 1980 was from wages of $5,500, resulting in an income tax of $172. How much is Alex's earned income credit for 1980?
a. $0
b. $328
c. $378
d. $500

2N81#58. Melvin Crane is 66 years old, and his wife, Matilda, is 65. They filed a joint income tax return for 1980, reporting an adjusted gross income of $7,800, on which they paid a tax of $60. They received $1,250 from social security benefits in 1980. How much can they claim on Schedule R of Form 1040 in 1980, as a credit for the elderly?
a. $0
b. $ 60
c. $315
d. $375

1M81#58. During 1980 William and Jane Conley made the following energy-conserving component additions to their personal residence (a five-year-old house purchased by them in July 1980):

Aluminum siding (on the north side of the house)	$1,000
Insulation	750
Automatic setback thermostat	150
Used storm windows (purchased from an unrelated party)	300

Assuming that the Conleys have a tax liability of $3,000 without any other credits against their tax for 1980, what amount can they claim as a residential energy credit on their 1980 income tax return?
a. $135
b. $180
c. $300
d. $330

G. Statute of Limitations

2N84#38. Ronald Raff filed his 1983 individual income tax return on January 15, 1984. There was no understatement of income on the return, and the return was properly signed and filed. The statute of limitations for Raff's 1983 return expires on
a. January 15, 1987.
b. April 15, 1987.
c. January 15, 1990.
d. April 15, 1990.

H. Effect of Gift and Estate Taxation on Individuals

2N84#27. On March 1, 1984, Harry Beech received a gift of income-producing real estate having a donor's adjusted basis of $50,000 at the date of the gift. Fair market value of the property at the date of the gift was $40,000. Beech sold the property for $46,000 on August 1, 1984. How much gain or loss should Beech report for 1984?
a. No gain or loss.
b. $6,000 short-term capital gain.
c. $4,000 short-term capital loss.
d. $4,000 ordinary loss.

2N84
Items 34 through 36 are based on the following data:

On March 1, 1983, Lois Rice learned that she was bequeathed 1,000 shares of Elin Corp. common stock under the will of her uncle, Pat Prevor. Pat had paid $5,000 for the Elin stock in 1980. Fair market value of the Elin stock on March 1, 1983, the date of Pat's death, was $8,000 and had increased to $11,000 six months later. The executor of Pat's estate elected the alternative valuation date for estate tax purposes. Lois sold the Elin stock for $9,000 on May 1, 1983, the date that the executor distributed the stock to her.

34. How much should Lois include in her 1983 individual income tax return for the inheritance of the 1,000 shares of Elin stock which she received from Pat's estate?
   a. $0
   b. $ 5,000
   c. $ 8,000
   d. $11,000

2M84

Items 22 through 28 are based on the following data:

Laura Lewis has been legally separated from her husband, Herman, since 1982. Their three-year old son, Ronald, lived with Laura for the entire year 1983. Under the written separation agreement between Laura and Herman, Herman was obligated to pay Laura $300 per month for alimony and $200 per month for child support, or a total of $6,000 annually. However, Laura received a total of only $300 from Herman during 1983. Laura's other income in 1983 was from the following sources:

Salary	$20,000
Interest on insurance dividends left on deposit with a life insurance company	100
Interest on federal income tax refund	60

In addition, Laura's father, Albert, gave Laura a gift of 500 shares of Liba Corporation common stock in 1983. Albert's basis for the Liba stock was $4,000. At the date of this gift, the fair market value of the Liba stock was $3,000.

25. How much was includible in Laura's 1983 taxable income for the 500 shares of Liba stock?
   a. $0
   b. $3,000
   c. $3,500
   d. $4,000

26. If Laura sells the 500 shares of Liba stock in 1984 for $5,000, her basis is
   a. $5,000
   b. $4,000
   c. $3,000
   d. $0

27. If Laura sells the 500 shares of Liba stock in 1984 for $2,000, her basis is
   a. $4,000
   b. $3,000
   c. $2,000
   d. $0

2N83#25. Mr. & Mrs. John Hance jointly gave a $100,000 outright gift in 1982 to an unrelated friend, Fred Green, who needed the money to pay medical expenses. In filing their gift tax returns for 1982, Mr. & Mrs. Hance were entitled to exclusions aggregating
   a. $0
   b. $ 6,000
   c. $10,000
   d. $20,000

2N83#26. In 1970, Edwin Ryan bought 100 shares of a listed stock for $5,000. In June 1982, when the stock's fair market value was $7,000, Edwin gave this stock to his sister, Lynn. No gift tax was paid. Lynn died in October 1982, bequeathing this stock to Edwin, when the stock's fair market value was $9,000. Lynn's executor did not elect the alternate valuation. What is Edwin's basis for this stock after he inherits it from Lynn's estate?
   a. $0
   b. $5,000
   c. $7,000
   d. $9,000

2N83#27. Martin Rowe died on January 5, 1982, bequeathing his entire $1,000,000 estate to his brother, Art. The alternate valuation date was elected by the executor of Martin's estate, and the estate tax return was timely filed. Martin's estate included 1,000 shares of a listed stock for which Martin's basis was $190,000. This stock was distributed to Art nine months after Martin's death. Fair market values of this stock were as follows:

As of the date of Martin's death	$200,000
Six months after Martin's death	225,000
Nine months after Martin's death	240,000

What is Art's basis for this stock?
   a. $190,000
   b. $200,000
   c. $225,000
   d. $240,000

2N83#28. In January 1979, Melvin Axel bought 100 shares of a listed stock for $4,000. In March 1980, when the fair market value was $3,000, Melvin gave this stock to his cousin, Ellen. No gift tax was paid. Ellen sold this stock in June 1982 for $3,500. How much is Ellen's reportable gain or loss in 1982 on the sale of this stock?
   a. $0.
   b. $ 500 loss.
   c. $ 500 gain.
   d. $3,500 gain.

1N82

Items 54 through 56 are based on the following data:

In 1978, John Cote bought 100 shares of a listed stock for $2,400. In 1980, when the fair market value was $2,200, John gave the stock to his brother, David. No gift tax was due.

54. If David sells this stock in 1982 for $2,600, his basis is
   a. $0
   b. $2,200
   c. $2,400
   d. $2,600

55. If David sells this stock in 1982 for $2,000, his basis is
   a. $0
   b. $2,000
   c. $2,200
   d. $2,400

56. If David sells this stock in 1982 for $2,300, his reportable gain or loss is
   a. $0.
   b. $100 loss.
   c. $100 gain.
   d. $2,300 gain.

1N82#59. On January 10, 1970, Martin Mayne bought 3,000 shares of Hance Corporation stock for $300,000. The fair market values of this stock on the following dates were as follows:

Dec. 31, 1980	$210,000
Mar. 31, 1981	240,000
June 30, 1981	270,000

Martin died on December 31, 1980, bequeathing this stock to his son, Philip. The stock was distributed to Philip on March 31, 1981. The alternate valuation date was elected for Martin's estate. Philip's basis for this stock is
   a. $210,000
   b. $240,000
   c. $270,000
   d. $300,000

X. Federal Taxation — Corporations and Partnerships

A. Determination of Taxable Income or Loss

2N84
Items 46 through 52 are based on the following data:

Max Finch was the sole stockholder of Burr, Inc., a company engaged principally in manufacturing operations. Burr's retained earnings at December 31, 1982, amounted to $1,000,000. For the year ended December 31, 1983, Burr's book income, before income taxes, was $300,000. Included in the computation of this $300,000 were the following:

Gain on sale of land used in business	$10,000
Loss on sale of long-term investments in marketable securities	15,000
Dividend income from unaffiliated domestic taxable corporations	2,000
Keyman insurance premiums paid on Finch's life (Burr is beneficiary)	3,000
Group life insurance premiums paid on employees' lives (employees' dependents are beneficiaries)	9,000
Advertising Burr's products in the convention program of a political party	5,000
Ticket for Burr's sales manager to attend the state governor's inaugural ball	300
Amortization of organization costs	1,000

Total organization costs of $12,000 were incurred in January 1980, and are being amortized over a 12-year period for financial statement purposes. On July 1, 1983, Burr sold to Finch a plot of land that Burr was not using in its business. The sales price was $90,000, which was also Burr's cost two years earlier. Fair market value of this land was $120,000 on July 1, 1983. In May 1984, Burr sold 100 shares of its $10 par value common stock to Al Hodge for $5,000, the fair market value at that date.

46. In computing taxable income for 1983, Burr should deduct a capital loss of
   a. $0
   b. $2,500
   c. $5,000
   d. $7,500

47. How much dividend income should Burr include in its 1983 taxable income?
   a. $0
   b. $ 300
   c. $1,700
   d. $2,000

48. In computing taxable income for 1983, how much can Burr deduct for keyman and group life insurance premiums?
   a. $0
   b. $ 3,000
   c. $ 9,000
   d. $12,000

49. In computing taxable income for 1983, what is the maximum deduction that Burr can claim for organization costs, assuming that the appropriate election was made on a timely basis?
   a. $0
   b. $ 600
   c. $1,000
   d. $2,400

51. In computing taxable income for 1983, how much can Burr deduct for the ticket to the governor's inaugural ball and for the advertising in the political party's convention program?
   a. $0
   b. $ 300
   c. $5,000
   d. $5,300

52. In 1984, Burr should treat the sale of its stock to Hodge as
   a. Ordinary income of $5,000.
   b. Short-term capital gain of $4,000.
   c. Long-term capital gain of $4,000.
   d. A nontaxable transaction.

2M84#1. Dale Corporation's book income before federal income taxes was $520,000 for the year ended December 31, 1983. Dale was organized three years earlier. Organization costs of $260,000 are being written off over a ten-year period for financial statement purposes. For tax purposes these costs are being written off over the minimum allowable period. For the year ended December 31, 1983, Dale's taxable income was
   a. $468,000
   b. $494,000
   c. $520,000
   d. $546,000

2M84#2. Roper Corp. had operating income of $200,000, after deducting $12,000 for contributions, but not including dividends of $20,000 received from nonaffiliated domestic taxable corporations. How much is the base amount to which the percentage limitation should be applied in computing the maximum allowable deduction for contributions?
   a. $212,000
   b. $215,000
   c. $220,000
   d. $232,000

2M84#3. Rose Budd owns 55% of the outstanding stock of Kee Corp. During 1983, Kee sold a machine to Rose for $80,000. This machine had an adjusted tax basis of $92,000, and had been owned by Kee for three years. What is the allowable loss that Kee can claim in its 1983 income tax return?
   a. $12,000 Section 1245 loss.
   b. $12,000 Section 1231 loss.
   c. $12,000 ordinary loss.
   d. $0.

2M84#5. Arch Corp. sold machinery for $80,000 on December 31, 1983. This machinery was purchased on January 2, 1979, for $68,000, and had an adjusted basis of $40,000 at the date of sale. For 1983 Arch should report
   a. Ordinary income of $12,000 and Section 1231 gain of $28,000.
   b. Ordinary income of $28,000 and Section 1231 gain of $12,000.
   c. Ordinary income of $40,000.
   d. Section 1231 gain of $40,000.

2M84
Items 8 through 10 are based on the following data:

Pym, Inc., which had earnings and profits of $100,000, distributed land to Alex Rowe, a stockholder, as a dividend in kind. Pym's adjusted basis for this land was $3,000. The land had a fair market value of $12,000 and was subject to a mortgage liability of $5,000, which was assumed by Rowe.

8. How much was Pym's gain on the distribution?
   a. $9,000
   b. $4,000
   c. $2,000
   d. $0

2M84#13. Ace Corp. files a consolidated return with its wholly-owned subsidiary, Barr Corp. During 1983, Barr paid a cash dividend of $10,000 to Ace. How much of this dividend is taxable on the 1983 consolidated return?
   a. $0
   b. $ 1,500
   c. $ 8,500
   d. $10,000

2N83#43. Pym Corp. received the following dividends in 1982:

From a mutual savings	$1,000
From an unaffiliated domestic taxable corporation	5,000

How much of these dividends qualifies for the 85% dividends-received deduction?
   a. $0
   b. $1,000
   c. $5,000
   d. $6,000

2N83#44. Yuki Corp., which began business in 1982, incurred the following costs in 1982 in connection with organizing the corporation:

Printing of stock certificates	$ 5,000
Underwriters' commissions on sale of stock	100,000

What portion of these costs qualifies as amortizable organization expenses deductible ratably over a period of not less than 60 months?
   a. $105,000
   b. $100,000
   c. $ 5,000
   d. $0

2N83#45. For the year ended December 31, 1982, Seco Corp. had an operating income of $9,500. In addition, Seco had the following capital gains and losses:

Net short-term capital gain	$1,000
Net long-term capital loss	9,000

How much of the excess of net long-term capital loss over net short-term capital gain could Seco offset against ordinary income in 1982?

a. $0
b. $3,000
c. $3,500
d. $8,000

2N83#47. For the year ended December 31, 1982, Haya Corp. had gross business income of $600,000 and expenses of $800,000. Contributions of $5,000 to qualified charities were included in expenses. In addition to the expenses, Haya had a net operating loss carryover of $9,000. What was Haya's net operating loss for 1982?

a. $209,000
b. $204,000
c. $200,000
d. $195,000

2N83
Items 48 and 49 are based on the following data:

Nilo Corp., a restaurant, commenced operations on January 1, 1982. For the year ended December 31, 1982, Nilo incurred a net operating loss of $100,000. In addition, Nilo had a net capital loss of $7,000 in 1982 from the sale of stock of an unrelated company.

48. What is the maximum carryover period for Nilo's 1982 net operating loss?

a. 15 years.
b. 7 years.
c. 5 years.
d. 3 years.

49. What is the maximum carryover period for Nilo's 1982 net capital loss?

a. 3 years.
b. 5 years.
c. 8 years.
d. Indefinite, until used.

2N83#50. When Kile Corp. was organized in 1975, it received $100,000 from the sale of 10,000 shares of its $10 par value common stock. In 1980, Kile reacquired 300 of these shares as treasury stock, at a cost of $6,000. In 1983, Kile sold the 300 shares of treasury stock to an unrelated party for $7,500. How much capital gain should Kile report in its 1983 tax return in connection with the sale of these 300 shares?

a. $4,500
b. $3,000
c. $1,500
d. $0

2N83#59. During the 1982 holiday season, Palo Corp. gave business gifts to 17 customers. These gifts, which were not of an advertising nature, had the following fair market values:

4 @ $ 10
4 @ $ 25
4 @ $ 50
5 @ $100

How much of these gifts was deductible as a business expense for 1982?

a. $840
b. $365
c. $140
d. $0

2M83#43. During 1983 Wyld Corp., in need of additional factory space, exchanged 10,000 shares of its common stock with a par value of $50,000 for a building with a fair market value of $60,000. On the date of the exchange the stock had a fair market value of $65,000. For 1983, how much and what type of gain or loss should Wyld report on this transaction?

a. $10,000 section 1231 gain.
b. $10,000 capital gain.
c. $ 5,000 capital loss.
d. No gain or loss.

2M83#44. Lonky Corporation's condensed income statement for the year ended December 31, 1982, was as follows:

Business income	$500,000
Business costs and expenses	475,000
Operating income	$ 25,000
Charitable contributions	5,000
Income before income taxes	$ 20,000

The maximum amount deductible by Lonky for charitable contributions in its 1982 income tax return is

a. $1,000
b. $1,250
c. $2,000
d. $2,500

2M83#49. Barbaro Corporation's retained earnings at January 1, 1982, was $600,000. During 1982 Barbaro paid cash dividends of $150,000 and received a federal income tax refund of $26,000 as a result of an IRS audit of Barbaro's 1979 tax return. Barbaro's net income per books for the year ended December 31, 1982, was $274,900 after deducting federal income tax of $183,300. How much should be shown in the reconciliation schedule M-2, of Form 1120, as Barbaro's retained earnings at December 31, 1982?

a. $443,600
b. $600,900
c. $626,900
d. $750,900

2M83#50. The following assets were among those owned by Yolanda Corporation at December 31, 1982:

Delivery truck	$12,000
Land used as parking lot for customers	20,000

The capital assets amount to

a. $0
b. $12,000
c. $20,000
d. $32,000

2M83#52. Claudio Corporation and Stellar Corporation both report on a calendar-year basis. Claudio merged into Stellar on June 30, 1982. Claudio had an allowable net operating loss carryover of $270,000. Stellar's taxable income for the year ended December 31, 1982, was $360,000 before consideration of Claudio's net operating loss carryover. How much of Claudio's net operating loss carryover can be used to offset Stellar's 1982 taxable income?

a. $0
b. $135,000
c. $180,000
d. $270,000

2N82#41. Richards Corporation had taxable income of $280,000 before deducting charitable contributions for its tax year ended December 31, 1982. The dividends received deduction was $34,000. Richards made cash contributions of $35,000 to charitable organizations. How much can Richards deduct as contributions for 1982?

a. $28,000
b. $31,400
c. $32,000
d. $35,000

2N82#42. Anderson Corporation realized taxable income of $72,000 from its regular business operations for calendar year 1981. In addition Anderson had the following capital gains and losses during 1981:

Short-term capital gain	$17,000
Short-term capital loss	(8,000)
Long-term capital gain	3,000
Long-term capital loss	(7,000)

Anderson did not realize any other capital gains or losses since it began operations. What is Anderson's total taxable income for 1981?

a. $77,000
b. $81,000
c. $84,000
d. $92,000

2N82#43. In 1981 Studley Corporation, not a dealer in securities, realized taxable income of $80,000 from the operation of its business. Additionally in 1981, Studley realized a long-term capital loss of $12,000 from the sale of marketable securities. Studley did not realize any other capital gains or losses since it began operations. What is the proper treatment for the $12,000 long-term capital loss in Studley's income tax returns?

a. Use $3,000 of the loss to reduce taxable income for 1981, and carry $9,000 of the long-term capital loss forward five years.
b. Use $6,000 of the loss to reduce taxable income by $3,000 for 1981, and carry $6,000 of the long-term capital loss forward five years.
c. Use $12,000 of the long-term capital loss to reduce taxable income by $6,000 for 1981.
d. Carry the $12,000 long-term capital loss forward five years, treating it as a short-term capital loss.

2N82#46. During 1981 Culbert, Inc., made the following expenditures:

Promotional materials for use on customers' premises (1,000 @ $40)	$40,000
Business gifts to customers (60 @ $100)	6,000
Contribution to a candidate for public office	1,000

How much of the above expenditures should Culbert deduct in determining its taxable income for 1981?

a. $26,500
b. $41,500
c. $42,500
d. $47,000

2N82#50. For the year ended December 31, 1981, Atkinson, Inc., had gross business income of $160,000 and dividend income of $100,000 from unaffiliated domestic corporations. Business deductions for 1981 amounted to $170,000. What is Atkinson's dividends received deduction for 1981?

a. $0
b. $76,500
c. $85,000
d. $90,000

2N82#51. Martin Corporation purchased a machine for $550,000 on January 1, 1979. Martin sold the machine for $450,000 on December 31, 1981, at which date the accumulated depreciation amounted to $270,000. How much should Martin report as a section 1231 gain for the year ended December 31, 1981?

a. $0
b. $ 85,000
c. $100,000
d. $170,000

2N82#53. Bishop Corporation reported taxable income of $700,000 on its federal income tax return for calendar year 1981. Selected information for 1981 is available from Bishop's records as follows:

Provision for federal income tax per books	$280,000
Depreciation claimed on the tax return	130,000
Depreciation recorded in the books	75,000
Life insurance proceeds on death of corporate officer	100,000

Bishop reported net income per books for 1981 of
a. $855,000
b. $595,000
c. $575,000
d. $475,000

2M82#42. Sportsworld, Inc., issued $500,000 face amount of bonds in 1976, and established a sinking fund to pay the debt. An independent trustee was appointed by the bondholders to administer the sinking fund. In 1981, the sinking fund earned $30,000 in interest on bank deposits, and $2,000 in net short-term capital gains. How much of this income is taxable to Sportsworld?
a. $0
b. $ 2,000
c. $30,000
d. $32,000

2M82#49. Monaro Corporation had the following income and expenses for the year ended December 31, 1981:

Gross profit on sales	$300,000
Administrative expenses	700,000
Dividends from nonaffiliated domestic taxable corporations	20,000

How much is Monaro's net operating loss for 1981?
a. $380,000
b. $383,000
c. $397,000
d. $400,000

2M82#50. Olex Corporation's books disclosed the following data for the calendar year 1981:

Retained earnings at beginning of year	$50,000
Net income for year	70,000
Contingency reserve established at end of year	10,000
Cash dividends paid during year	8,000

What amount should appear on the last line of reconciliation Schedule M-2 of Form 1120?
a. $102,000
b. $120,000
c. $128,000
d. $138,000

1N81#42. Paramount Corporation has consistently used the reserve method to compute the bad debt deduction on its tax returns. The year-end reserve for bad debts reported on the 1979 tax return was $11,200. Additional information is available as follows:

	Accounts receivable at end of year	*Bad debt Losses*	*Bad debt Recoveries*
1975	$ 255,000	$12,000	$1,150
1976	265,000	13,500	1,300
1977	270,000	11,500	1,450
1978	250,000	12,000	1,500
1979	280,000	14,000	1,920
1980	300,000	18,000	2,400
Totals	$1,620,000	$81,000	$9,720
% of receivables		5.0%	0.6%

In December 1980 one of Paramount's important customers experienced financial difficulties, which could result in a bad debt write-off of $10,000 during 1981 in respect of this customer. What is the maximum bad debt deduction that Paramount can claim on its tax return for 1980?
a. $13,200
b. $17,600
c. $19,400
d. $27,600

1N81#43. In 1980 Trapp, Inc., had $400,000 of gross profit from operations and $160,000 of dividends from nonaffiliated domestic corporations. Trapp's operating expenses totaled $410,000. What is Trapp's dividends received deduction for 1980?
a. $ 80,000
b. $127,500
c. $136,000
d. $160,000

1N81#45. Bellamy Corporation reported Retained Earnings-Unappropriated of $1,500,000 at December 31, 1979, on its 1979 tax return. Information for 1980 is available as follows:

Net income per books	$600,000
Taxable income	850,000
Dividends paid on common stock	450,000
Debit adjustment to the beginning balance of retained earnings for correction of an accounting error	500,000

What amount should Bellamy report for Retained Earnings-Unappropriated at December 31, 1980, on its 1980 tax return?
a. $1,150,000
b. $1,400,000
c. $1,650,000
d. $1,900,000

1N81#47. Carr, Inc., a calendar-year corporation incorporated in January 1975, had a net operating loss of $75,000 in 1979. For each of the years 1975-1978, Carr reported taxable income (loss) before net operating loss deduction as follows:

1975	$15,000
1976	(20,000)
1977	10,000
1978	30,000

When filing its tax return for 1979, Carr did not elect to give up the carryback of its loss for 1979. Carr's taxable income before net operating loss deduction for 1980 was $80,000. Carr should report a net operating loss deduction on its tax return for 1980 of

a. $30,000
b. $35,000
c. $40,000
d. $55,000

1N81#50. Regan Corporation purchased a machine for $180,000 on January 1, 1977, and established an annual depreciation rate of 10% using the straight-line method, with no salvage value. On December 31, 1980, Regan determined that the actual obsolescence was substantially higher than was anticipated at the time of purchase, and that the machine will not be economically useful after December 31, 1982. Assuming that Regan can justify the change, how much depreciation for this machine should Regan deduct on its tax return for the year ended December 31, 1980?

a. $18,000
b. $30,000
c. $42,000
d. $66,000

1N81#51. In 1980, its first year of operations, Rowley Corporation, not a dealer in securities, realized taxable income of $128,000 from the operation of its business. In addition to its regular business operations, it realized the following gains and losses from the sale of marketable securities:

Short-term capital gain	$ 10,000
Short-term capital loss	(4,000)
Long-term capital gain	12,000
Long-term capital loss	(32,000)

What is Rowley's total taxable income for 1980?

a. $114,000
b. $124,000
c. $128,000
d. $134,000

1N81#52. For the year ended December 31, 1980, Powell, Inc., reported $900,000 income before federal taxes per books which included the following items:

State corporate income tax refunds	$ 8,000
Interest income on tax-exempt municipal securities	30,000
Loss on sale of land acquired in 1975 for investment	40,000
Interest expense on loan to purchase tax-exempt municipal securities	16,000

What is the taxable income of Powell for 1980?

a. $886,000
b. $900,000
c. $918,000
d. $926,000

2M81#41. On October 1, 1980, Derek Corporation sold 4,000 shares of its $10 par value treasury stock for $60,000. These shares were acquired by Derek on January 2, 1980, for $50,000. For 1980 Derek should report

a. Neither income nor capital gain.
b. A long-term capital gain of $10,000.
c. A short-term capital gain of $10,000.
d. A long-term capital gain of $20,000.

2M81#42. For the year ended December 31, 1980, Apollo Corporation had net income per books of $1,200,000. Included in the determination of net income were the following items:

Interest income on municipal bonds	$ 40,000
Gain on settlement of life insurance policy (death of officer)	200,000
Interest paid on loan to purchase municipal bonds	8,000
Provision for federal income tax	524,000

What should Apollo report as its taxable income for 1980?

a. $1,492,000
b. $1,524,000
c. $1,684,000
d. $1,692,000

2M81#44. On December 31, 1960, Homer Corporation issued $2,000,000 of fifty-year bonds for $2,600,000. On December 31, 1980, Homer issued new bonds with a face value of $3,000,000 for which it received $3,400,000 and used part of the proceeds to repurchase for $2,320,000 the bonds issued in 1960. No elections were made to adjust the basis of any property. What is the taxable income to Homer on the repurchase of the 1960 bonds?

a. $0
b. $ 40,000
c. $280,000
d. $360,000

2M81#53. During 1980 Waner Corporation exchanged 10,000 shares of its own common stock with a par value of $10 per share for a building with a fair market value of $150,000. What should Waner report in its 1980 tax return as a result of this transaction?

a. No gain.
b. $50,000 ordinary income.

c. $50,000 Section 1231 gain.
d. $50,000 Section 1245 gain.

2M81#56. Delve Co., Inc., issued $1,000,000 of 8-year convertible bonds on October 1, 1980, for $880,000. The amount of bond discount deductible on Delve's income tax return for the year ended March 31, 1981, is

a. $0
b. $ 7,500
c. $ 15,000
d. $120,000

2M81#58. Elmo Corporation had the following income and expenses for the year ended December 31, 1980:

Gross profit on sales	$150,000
Dividends from domestic taxable corporations	15,000
Salaries and wages	90,000
Interest expense	22,500
Taxes on real estate and payroll	52,500
Depreciation	15,000
Contributions	7,500

Elmo's net operating loss for 1980 is

a. $15,000
b. $17,250
c. $22,500
d. $27,750

1N80#42. Geyer, Inc., a calendar year corporation, had net income per books of $80,000 for the year 1979. For each of the years 1975-1978, Geyer's net income (loss) per books was as follows:

1975	$ 5,000
1976	15,000
1977	10,000
1978	(60,000)

Included in Geyer's gross revenues for 1978 were taxable dividends of $20,000 received from an unrelated domestic corporation. When filing its tax return for 1978 on March 10, 1979, Geyer elected to give up the three-year carryback of the loss for 1978. Geyer should report a net operating loss carryover on its tax return for 1979 of

a. $30,000
b. $47,000
c. $60,000
d. $77,000

1N80#44. Thayer Corporation purchased an apartment building on January 1, 1976, for $200,000. The building was depreciated on the straight-line basis. On December 31, 1979, the building was sold for $220,000, when the asset balance net of accumulated depreciation was $170,000. On its 1979 tax return, Thayer should report

a. Section 1231 gain of $20,000 and ordinary income of $30,000.
b. Section 1231 gain of $30,000 and ordinary income of $20,000.
c. Ordinary income of $50,000.
d. Section 1231 gain of $50,000.

1N80#51. For the year ended December 31, 1979, Canterbury Corporation had dividend income from non-affiliated domestic corporations of $50,000 and gross business income of $30,000. Business deductions for 1979 amounted to $45,000. What is Canterbury's dividends received deduction for 1979?

a. $0
b. $29,750
c. $42,500
d. $50,000

1N80#52. Wright Corporation reported $100,000 of book income before income taxes for the year ended December 31, 1979. The income statement disclosed the following information:

- Christmas gifts to 40 customers at $100 each.
- Dividends of $20,000 received from Morley, Ltd., a corporation not subject to United States income tax.
- Insurance premiums of $15,000 on a policy insuring the life of the president of the corporation, under which Wright Corporation is the beneficiary.

What should Wright report as its taxable income for 1979?

a. $ 98,000
b. $103,000
c. $115,000
d. $118,000

1N80#53. For the year ended December 31, 1979, Marshall Corporation reported book income, before federal income taxes, of $200,000. The following items were included in the determination of income before federal income taxes:

Provision for state corporation income tax	$15,000
Interest on United States obligations	20,000
Net long-term capital loss from the sale of marketable securities	(10,000)
Interest paid on loan to purchase United States obligations	12,000

Marshall's taxable income on its 1979 federal income tax return would be

a. $192,000
b. $193,000
c. $210,000
d. $225,000

1N80#54. Chaucer Corporation reported taxable income of $350,000 on its federal income tax return for the 1979 calendar year. Selected information for 1979 is available from Chaucer's records as follows:

Interest income on municipal bonds	$20,000
Depreciation claimed on the tax return based on the double-declining-balance method	75,000
Depreciation recorded on the books based on the straight-line method	50,000
Provision for federal income tax per books	140,000

Based on the above information, Chaucer should report net income per books for 1979 in the amount of

a. $235,000
b. $255,000
c. $395,000
d. $445,000

1N80#55. Grady Corporation's book income before income taxes was $300,000 for the year 1979 after recording amortization of organization costs. Organization costs of $140,000 incurred at the organization date two years earlier are being written off over a ten-year period for financial reporting purposes, and over the minimum period for income tax purposes. Assuming that there were no other reconciling items, what is Grady's taxable income for 1979?

a. $272,000
b. $286,000
c. $300,000
d. $314,000

2M80#21. For the year 1979, Morris Corporation reported taxable income of $100,000 **before** any special deductions. Included in taxable income was dividend income of $120,000 received from unaffiliated domestic corporations. What is the dividends received deduction for 1979?

a. $0
b. $ 17,000
c. $ 85,000
d. $102,000

2M80#23. On December 31, 1979, Mark Corporation sold machinery for $48,000. The machinery which had been purchased on January 1, 1975, for $40,000 had an adjusted basis of $28,000 on the date of sale. For 1979 Mark should report

a. A section 1231 gain of $20,000.
b. Ordinary income of $20,000.
c. A section 1231 gain of $12,000 and ordinary income of $8,000.
d. A section 1231 gain of $8,000 and ordinary income of $12,000.

2M80#32. For the year ended December 31, 1979, Murray Corporation, a calendar-year corporation, reported book income before income taxes of $120,000. Included in the determination of this amount were the following items:

Loss on sale of building depreciated on the straight-line method	($12,000)
Gain on sale of land used in business	7,000
Loss on sale of investments in marketable securities (long-term)	(8,000)

For the year ended December 31, 1979, Murray's taxable income was

a. $113,000
b. $120,000
c. $125,000
d. $128,000

2M80#36. During 1979, its first year of operations, Emma Corporation had a loss from operations of $38,000 and short-term capital gains of $12,000. Included in the loss from operations was a fire loss of $7,000. Emma has a net operating loss carryover from 1979 of

a. $19,000
b. $26,000
c. $31,000
d. $38,000

2M80#37. In 1979 Nugent Corporation sold for $21,000, 1,000 shares of its own $10 par value common stock that it had reacquired in 1977. The shares were originally issued for $15 per share, and subsequently reacquired for $19 per share. For 1979 Nugent should report a long-term capital gain of

a. $0
b. $ 2,000
c. $ 6,000
d. $11,000

2M80#38. For the year ended December 31, 1979, Ginny Corporation had gross income of $180,000. Included in this amount was $48,000 of dividend income from non-affiliated domestic corporations. Its deductions for 1979 were $130,000 in business deductions and a net operating loss carryover of $4,000. What is Ginny's 1979 dividends received deduction?

a. $39,100
b. $40,800
c. $42,500
d. $48,000

2M80#39. During 1979 Ashley Corporation charged the following payments to miscellaneous expense:

- Travel expense of $300 for the company president to offer voluntary testimony at the state capital against proposed legislation regarded as unfavorable to its business.
- Christmas gifts to 20 customers at $75 each.
- Contribution of $600 to local political candidate.

The maximum deduction that Ashley can claim for these payments is

a. $ 800
b. $1,400
c. $1,800
d. $2,400

2M80#40. On July 2, 1979, Milford Corporation purchased for $70,000 machinery that was installed in its factory. The machinery was estimated to have a salvage value of $4,000 and Milford elected to depreciate this machinery over eight years using the double-declining balance method of depreciation. Milford in addition elected to take additional first-year depreciation. This acquisition was the only investment in tangible personal property made during 1979. Counting the year of acquisition as one-half year, Milford should deduct depreciation on this machinery for 1979 of

a. $10,000
b. $10,250
c. $10,500
d. $10,750

B. Tax Determination

2N84#59. In computing its 1983 minimum tax, a corporation must include as a tax preference

a. The dividends-received deduction.
b. ACRS excess deduction on 15-year real property.
c. Charitable contributions.
d. Interest expense on investment property.

2N84#60. A corporation may reduce its income tax by taking a tax credit for

a. Foreign taxes.
b. Political contributions.
c. State taxes.
d. Excess charitable contributions.

2M84#11. In computing a corporation's taxable income, a net capital loss is

a. Deductible in full in the year sustained.
b. Deductible to a maximum extent of 50% in the year sustained.
c. Not deductible at all in the year sustained.
d. Limited to a maximum deduction of $3,000 in the year sustained.

2N83#55. Orna Corp., a calendar-year taxpayer, had an unused investment credit of $8,000 at December 31, 1982, its first taxable year. For how many years can Orna carry over this unused investment credit?

a. 15
b. 7
c. 5
d. 3

2N82#48. Dorsett Corporation's income tax return for 1981 shows deductions exceeding gross income by $56,800. Included in the tax return are the following items:

Net operating loss deduction (carryover from 1980)	$15,000
Dividends received deduction	6,800

What is Dorsett's net operating loss for 1981?

a. $56,800
b. $50,000
c. $41,800
d. $35,000

2N82#57. Foster Corporation's tax liability for the year ended December 31, 1981, was $15,000 before claiming an investment tax credit. On July 1, 1981, Foster purchased a new truck for $180,000. The truck is appropriately categorized by Foster as five-year property under the accelerated cost recovery system. Foster's allowed investment tax credit for 1981 is

a. $ 9,000
b. $12,000
c. $15,000
d. $18,000

2M82#54. In 1981, Pianca Corporation bought the following new assets, both of which are in the five-year class under the accelerated cost recovery system:

Asset	*Cost*
Solar panels	$ 8,000
Shredder for recycling of aluminum cans	12,000

Pianca claimed the regular investment credit in 1981 for the qualifying property. What is the total amount of the above-mentioned assets eligible in 1981 for the business energy investment credit?

a. $0
b. $ 8,000
c. $12,000
d. $20,000

2M82#60. On July 1, 1981, Pemberton Corporation bought a new drill press for $20,000, which was placed in service the same day. The drill press qualifies as five-year accelerated cost recovery system property, for which an investment credit of $2,000 was claimed. If Pemberton disposes of this drill press on May 31, 1983, how much of the investment credit must be recaptured in 1983?

a. $0
b. $1,200
c. $1,600
d. $2,000

1N81#55. During 1980 Bell Corporation had worldwide taxable income of $675,000 and a tentative United States income tax of $270,000. Bell's taxable income from business operations in Country A was $300,000, and foreign income taxes imposed were $135,000 stated in United States dollars.

How much should Bell claim as a credit for foreign income taxes on its United States income tax return for 1980?

a. $0
b. $ 75,000
c. $120,000
d. $135,000

2M81#59. Baxter Manufacturers, Inc., a calendar-year corporation, bought the following new assets during 1980:

Property	*Date bought*	*Date placed in service*	*Useful life (years)*	*Cost*
Manuals	Jan. 2	Jan. 4	2	$ 210
Truck	April 1	June 30	3	15,000
Desk and chair	Dec. 1	Dec. 31	7	1,200

Baxter's total qualified investment in 1980 for computation of the investment credit is

a. $2,570
b. $3,920
c. $6,200
d. $6,270

C. S Corporations

2N84#41. An S corporation may

a. Have both common and preferred stock.
b. Have a corporation as a shareholder.
c. Be a member of an affiliated group.
d. Have as many as 35 shareholders.

2M84#16. Lindal Corp., organized in 1984, immediately filed an election for S corporation status under the rules of Subchapter S. What is the maximum amount of passive investment income that Lindal will be allowed to earn and still qualify as an S corporation (Subchapter S)?

a. 80% of gross receipts.
b. 50% of gross receipts.
c. 20% of gross receipts.
d. No limit on passive investment income.

2N83#41. Luba Corp. was organized in 1983 with the intention of operating as an S corporation (Subchapter S). What is the maximum number of stockholders allowable for eligibility as an S corporation (Subchapter S)?

a. 35
b. 15
c. 9
d. 5

2N83#46. Which of the following is **not** a requirement for a corporation to elect S corporation status (Subchapter S)?

a. Must be a member of a controlled group.
b. Must confine stockholders to individuals, estates, and certain qualifying trusts.
c. Must be a domestic corporation.
d. Must have only one class of stock.

2M83#51. For the year ended December 31, 1982, Harlan, Inc., a Subchapter S corporation, had net income per books of $108,000, which included $90,000 from operations and an $18,000 net long-term capital gain. During 1982, $45,000 was distributed to Harlan's three equal shareholders, all of whom are on a calendar-year basis. On what amounts should Harlan compute its income and capital gain taxes?

	Ordinary income	*Long-term capital gain*
a.	$0	$0
b.	$0	$18,000
c.	$45,000	$0
d.	$63,000	$0

2N82#52. Keller, Inc., a Subchapter S corporation, has three equal shareholders. For the year ended December 31, 1981, Keller had taxable income and current earnings and profits of $150,000. Keller made cash distributions totaling $60,000 during 1981. For the calendar year 1981, what amount should be included in each shareholder's gross income from Keller?

a. $20,000
b. $30,000
c. $50,000
d. $70,000

2N82#56. Grant Corporation, a Subchapter S corporation, had taxable income and current earnings and profits of $36,000 for the year ended December 31, 1981. Included in the above is $24,000 excess net long-term capital gain over net short-term capital loss. Cash distributions to Mr. Hamlin, the sole shareholder, totaled $72,000 during 1981. On December 31, 1980, Grant had accumulated earnings and profits of $60,000, none of which had been previously taxed. What amount should Hamlin report on his 1981 individual income tax return as long-term gain passed through from Grant?

a. $0
b. $ 8,000
c. $12,000
d. $24,000

2M82#52. Brooke, Inc., a Subchapter S corporation, was organized on January 2, 1981, with two equal stockholders. Each stockholder invested $5,000 in Brooke's capital stock, and each loaned $15,000 to the corporation. Brooke then borrowed $60,000 from a bank for working capital. Brooke sustained an operating loss of $90,000 for the year ended December 31, 1981. How much of this loss can each stockholder claim on his 1981 income tax return?

a. $ 5,000
b. $20,000
c. $45,000
d. $50,000

2M81#46. For its year ended December 31, 1980, Valor Corporation, a Subchapter S Corporation, had net income per books of $216,000 which included $180,000 from operations and a $36,000 net long-term capital gain. During 1980, $90,000 was distributed to the corporation's nine equal shareholders, all of whom are on a calendar-year basis. Each shareholder should report for 1980

a. $10,000 ordinary income.
b. $20,000 ordinary income.
c. $20,000 ordinary income and $4,000 long-term capital gain.
d. $24,000 ordinary income.

2M81#47. Marina Corporation, a Subchapter S Corporation, had taxable income and current earnings and profits of $390,000 for the year ended December 31, 1980. There were no capital gains or losses during 1980. For the year ended December 31, 1979, Marina had undistributed taxable income of $90,000. During 1980 Marina made the following cash distributions to its ten equal shareholders:

January 31	$50,000
March 1	80,000
October 1	60,000

What is the undistributed taxable income for the year ended December 31, 1980?

a. $200,000
b. $290,000
c. $300,000
d. $330,000

2M81#54. Robert Elk paid $100,000 for all of the issued and outstanding capital stock of Elkom Corp., a Subchapter S corporation established in January 1978. Elkom's operating results and dividend distribution were as follows:

Date	*Taxable income*	*Net operating loss*	*Dividend distribution*
12/31/78		($40,000)	
9/30/79			$20,000
12/31/79	$60,000		
12/31/80	$30,000		

The basis of Elk's stock on December 31, 1980, is

a. $ 50,000
b. $100,000
c. $130,000
d. $150,000

1N80#45. Drury Corporation, a Subchapter S Corporation, had taxable income and current earnings and profits of $45,000 for the year ended December 31, 1979. Included in the above is $42,000 excess net long-term capital gain over net short-term capital losses. Drury paid $4,760 in capital gains taxes for 1979. Cash distributions to Mr. Hoyt, the sole shareholder, totaled $60,000 during 1979. On December 31, 1978, Drury had accumulated earnings and profits of $50,000, none of which had been previously taxed. What amount should Hoyt report on his individual income tax return for 1979 as long-term capital gain passed through from Drury?

a. $37,240
b. $42,000
c. $45,000
d. $46,760

1N80#46. Redco, Inc., a Subchapter S Corporation, has five equal shareholders. For the year ended December 31, 1979, Redco had taxable income and current earnings and profits of $100,000. Redco made cash distributions totaling $40,000 during 1979. For the cal-

endar year 1979, what amount should be included in each shareholder's gross income from Redco?
a. $ 7,900
b. $ 8,000
c. $12,000
d. $20,000

2M80#27. The Vanity Corporation was organized and began operations in January 1979. The corporation's ten equal shareholders elected to have Vanity taxed as a Subchapter S Corporation, and such election was approved. For its year ended December 31, 1979, Vanity had taxable income and current earnings and profits of $80,000 comprised of $64,000 derived from operations and $16,000 from short-term capital gains. During 1979 it distributed $30,000 in cash to its ten shareholders. For 1979 each shareholder should include in his or her respective gross income
a. Ordinary income of $3,000.
b. Ordinary income of $3,400 and short-term capital gain of $1,600.
c. Ordinary income of $6,400 and short-term capital gain of $1,600.
d. Ordinary income of $8,000.

2M80#33. The Robert Corporation, a calendar-year company, has elected Subchapter S status for the past five years. For the year ended December 31, 1979, Robert had taxable income and current earnings and profits of $185,000. At December 31, 1978, Robert had undistributed taxable income of $45,000 earned in 1978. During 1979 Robert made the following cash distributions to its ten equal shareholders who are also on a calendar-year basis:

January 29, 1979	$ 30,000
March 13, 1979	20,000
July 8, 1979	15,000
December 29, 1979	35,000
	$100,000

For the calendar year 1979, what amount should be included in each shareholder's gross income from Robert?
a. $ 8,500
b. $10,000
c. $18,500
d. $19,000

D. Personal Holding Companies

2N84#44. Alston Corp. has three stockholders and derives all of its income from investments in stock and securities. Alston regularly distributes 51% of its taxable income as dividends to its stockholders. Alston is a (an)
a. Corporation subject to the accumulated earnings tax.
b. Personal holding company.
c. Exempt organization.
d. Regulated investment company.

2M84#18. The personal holding company tax
a. Is imposed on corporations having 50 or more equal stockholders.
b. Applies regardless of the extent of dividend distributions.
c. Should be self-assessed by filing a separate schedule along with the regular tax return.
d. May apply if at least 20% of the corporation's gross receipts constitute passive investment income.

2N83
Items 56 and 57 are based on the following statements which pertain *either* to the accumulated earnings tax, *or* to the personal holding company tax, *or* to both:

(1) Imposition of the tax depends on a stock ownership test specified in the statute.
(2) Imposition of the tax can be mitigated by sufficient dividend distributions.
(3) The tax should be self-assessed by filing a separate schedule along with the regular tax return.

57. Which of the foregoing statements pertain to the personal holding company tax?
a. (1) only.
b. (2) only.
c. (3) only.
d. (1), (2), and (3).

2M83#41. Hedge Holding Corporation has 100 unrelated stockholders, each of whom owns 100 shares of Hedge stock. For the year ended December 31, 1982, Hedge's adjusted gross income consisted of the following:

Dividends from domestic taxable corporations	$20,000
Interest earned on U.S. Treasury notes	12,000
Net rental income	6,000

Deductible expenses for 1982 totaled $8,000. Hedge paid no dividends in 1982. Hedge's liability for personal holding company tax for 1982 will be based on undistributed personal holding company income of
a. $0
b. $ 7,000
c. $13,000
d. $30,000

2M81#60. Cromwell Investors, Inc., has ten unrelated equal stockholders. For the year ended June 30, 1980, Cromwell's adjusted gross income comprised the following:

Dividends from domestic taxable corporations	$10,000
Dividends from savings and loan associations on passbook savings accounts	1,000
Interest earned on notes receivable	5,000
Net rental income	3,000

The corporation paid no dividends during the taxable year. Deductible expenses totaled $4,000 for the year. Cromwell's liability for personal holding company tax for the year will be based on undistributed personal holding company income of

a. $0
b. $ 3,500
c. $ 6,500
d. $15,000

E. Accumulated Earnings Tax

2N84#53. In determining accumulated taxable income for the purpose of the accumulated earnings tax, which one of the following is allowed as a deduction?

a. Capital loss carryover from prior year.
b. Dividends-received deduction.
c. Net operating loss deduction.
d. Net capital loss for current year.

2M84#12. The accumulated earnings tax does **not** apply to corporations that

a. Have more than one class of stock.
b. Are personal holding companies.
c. Are members of a controlled group.
d. Are manufacturing enterprises.

2N83
Items 56 and 57 are based on the following statements which pertain *either* to the accumulated earnings tax, *or* to the personal holding company tax, *or* to both:

(1) Imposition of the tax depends on a stock ownership test specified in the statute.
(2) Imposition of the tax can be mitigated by sufficient dividend distributions.
(3) The tax should be self-assessed by filing a separate schedule along with the regular tax return.

56. Which of the foregoing statements pertain to the accumulated earnings tax?

a. (1) only.
b. (2) only.
c. (3) only.
d. (1), (2), and (3).

2M83#42. The minimum accumulated earnings credit beginning in 1982 is

a. $150,000 for all corporations.
b. $150,000 for nonservice corporations only.
c. $250,000 for all corporations.
d. $250,000 for nonservice corporations only.

2M80#25. The Tempest Corporation, **not** a dealer in securities, had accumulated earnings and profits of $75,000 at the beginning of 1979. The earnings and profits for 1979 were $25,000. On October 15, 1979, Tempest distributed to its shareholders as a dividend, marketable securities having a fair market value of $12,000. The securities had cost $7,000. As a result of the distribution, accumulated earnings and profits were

a. Increased by $5,000.
b. Decreased by $5,000.
c. Decreased by $7,000.
d. Decreased by $12,000.

2M80#35. In determining whether a corporation is subject to the accumulated earnings tax, which of the following items is **not** a subtraction in arriving at accumulated taxable income?

a. Federal income tax.
b. Capital loss carryback.
c. Dividends paid deduction.
d. Accumulated earnings credit.

F. Distributions

2N84
Items 46 through 52 are based on the following data:

Max Finch was the sole stockholder of Burr, Inc., a company engaged principally in manufacturing operations. Burr's retained earnings at December 31, 1982, amounted to $1,000,000. For the year ended December 31, 1983, Burr's book income, before income taxes, was $300,000. Included in the computation of this $300,000 were the following:

Gain on sale of land used in business	$10,000
Loss on sale of long-term investments in marketable securities	15,000
Dividend income from unaffiliated domestic taxable corporations	2,000
Keyman insurance premiums paid on Finch's life (Burr is beneficiary)	3,000
Group life insurance premiums paid on employees' lives (employees' dependents are beneficiaries)	9,000
Advertising Burr's products in the convention program of a political party	5,000
Ticket for Burr's sales manager to attend the state governor's inaugural ball	300
Amortization of organization costs	1,000

Total organization costs of $12,000 were incurred in January 1980, and are being amortized over a 12-year period for financial statement purposes. On July 1, 1983, Burr sold to Finch a plot of land that Burr was not using in its business. The sales price was $90,000, which was also Burr's cost two years earlier. Fair market value of this land was $120,000 on July 1, 1983. In May 1984, Burr sold 100 shares of its $10 par value common stock to Al Hodge for $5,000, the fair market value at that date.

50. Finch should personally treat his $90,000 purchase of the land as a
   a. $30,000 dividend.
   b. $30,000 long-term capital gain.
   c. $30,000 Section 1231 gain.
   d. Nontaxable transaction.

2M84
Items 8 through 10 are based on the following data:

Pym, Inc., which had earnings and profits of $100,000, distributed land to Alex Rowe, a stockholder, as a dividend in kind. Pym's adjusted basis for this land was $3,000. The land had a fair market value of $12,000 and was subject to a mortgage liability of $5,000, which was assumed by Rowe.

9. Before the dividend exclusion, how much of the distribution was taxable to Rowe as a dividend?
   a. $9,000
   b. $7,000
   c. $4,000
   d. $3,000

10. If the distribution of the dividend in kind had been made to Kile Corporation instead of to Alex Rowe (an individual), how much of the distribution would be reportable by Kile as a dividend, before the dividends-received deduction?
   a. $0
   b. $ 3,000
   c. $ 7,000
   d. $12,000

2N83#60. Lara Corporation's stock is owned by Toty, Inc., a Delaware corporation. At December 31, 1982, the close of Lara's taxable year, Lara had earnings and profits of $90,000. In December 1982, Lara made a distribution of land to Toty. Lara's adjusted basis for this land was $25,000, while the land's fair market value at the date of distribution was $40,000. Lara had no recognized gain or loss on this property distribution. How much of this property distribution should be treated as a dividend in 1982?
   a. $0
   b. $15,000
   c. $25,000
   d. $40,000

2N82#49. On December 31, 1981, King Corporation distributed to Mary Spencer, its sole shareholder, as a dividend in kind, a tract of land that was not an inventory asset. Immediately prior to the distribution on December 31, 1981, the following data were available:

Adjusted basis of the land	$30,000
Fair market value of the land	25,000
Accumulated earnings and profits	50,000

By how much should the dividend distribution reduce King's accumulated earnings and profits?
   a. $20,000
   b. $25,000
   c. $30,000
   d. $35,000

2M81#57. On June 30, 1980, Ral Corporation had retained earnings of $100,000. On that date, it sold a plot of land to a stockholder for $50,000. Ral had paid $40,000 for the land in 1975, and it had a fair market value of $80,000 when the stockholder bought it. The amount of dividend income taxable to the stockholder in 1980 (before the dividend exclusion) is
   a. $0
   b. $10,000
   c. $20,000
   d. $30,000

1N80#57. Davies Corporation (not a Subchapter S Corporation) had a deficit of $160,000 at December 31, 1978. Its net income per books was $80,000 for 1979. Cash dividends on common stock totaling $40,000 were paid in December 1979. Davies should report the distribution to its shareholders as
   a. Return of capital 100%.
   b. Ordinary dividends 25%; return of capital 75%.
   c. Ordinary dividends 50%; return of capital 50%.
   d. Ordinary dividends 100%.

G. Tax-Free Incorporation

2M84#20. James Bell, CPA, a sole practitioner reporting on the cash basis, incorporated his accounting practice in 1984, transferring the following assets to the newly formed corporation:

Cash	$ 5,000
Office furniture and equipment:	
Adjusted basis	35,000
Fair market value	45,000

No liabilities were transferred, and there were no other stockholders. The corporation's total basis for the transferred assets is
   a. $35,000
   b. $40,000
   c. $45,000
   d. $50,000

2M83#46. In 1982, Dr. Ernest Griffiths, a cash basis taxpayer, incorporated his medical practice. No liabilities were transferred. The following assets were transferred to the corporation:

Cash	$ 20,000
Equipment:	
Adjusted basis	140,000
Fair market value	180,000

Immediately after the transfer, Griffiths owned 100% of the corporation's stock. The corporation's total basis for the transferred assets is
a. $140,000
b. $160,000
c. $180,000
d. $200,000

2N82#54. On April 1, 1982, Crowe and Greene formed Apex Corporation. The same day Crowe paid $150,000 for 500 shares of Apex common stock, and Greene transferred land and building to Apex in exchange for 500 shares of common stock. The land and building had an adjusted basis to Greene of $120,000, a fair market value of $200,000, and was subject to a mortgage of $60,000 on April 1, 1982. The mortgage was assumed by Apex. Apex had no other shares of stock outstanding on April 1, 1982. The basis of the land and building to Apex on April 1, 1982, is
a. $ 60,000
b. $120,000
c. $140,000
d. $150,000

2M82#45. On July 1, 1981, Alan Rees, sole proprietor of Kee Nail, transferred all of Kee's assets to Merit, Inc., a new corporation, solely in exchange for a certain percentage of Merit's stock. Al Clyde, who is not related to Rees, bought the rest of Merit's stock on July 1. Merit's outstanding capital stock consisted of 1,000 shares of common stock with a par value of $100 per share. For the transfer of Kee's assets to be tax-free, what is the minimum number of shares of Merit's stock that must be owned by Rees immediately after the exchange?
a. 500
b. 501
c. 800
d. 801

1N81#46. Roberta Warner and Sally Rogers formed the Acme Corporation on October 1, 1980. On the same date Warner paid $75,000 cash to Acme for 750 shares of its common stock. Simultaneously, Rogers received 100 shares of Acme's common stock for services rendered. How much should Rogers include as taxable income for 1980, and what will be the basis of her stock?

	Taxable income	*Basis of stock*
a.	$0	$0
b.	$0	$10,000
c.	$10,000	$0
d.	$10,000	$10,000

1N80#43. On July 1, 1979, Mr. Grey formed Dover Corporation. The same date Grey paid $100,000 cash and transferred property with an adjusted basis of $50,000 to Dover in exchange for 3,000 shares of its common stock. The property had a fair market value of $85,000 on the date of the exchange. Dover had no other shares of common stock outstanding on July 1, 1979. As a result of the above transaction, Grey's basis in his stock and Dover's basis in the property, respectively, are:
a. $150,000 and $50,000
b. $150,000 and $85,000
c. $185,000 and $50,000
d. $185,000 and $85,000

H. Reorganizations

2N84#58. In connection with a plan of corporate reorganization adopted in 1984, Rae Sheen exchanged 100 shares of Bohr Corp. common stock for 300 shares of Luna Corp. common stock. Rae had purchased the Bohr stock in 1980 at $5 per share. Fair market value of the Luna stock was $9 per share on the date of the exchange. As a result of this exchange, Rae's long-term capital gain in 1984 was
a. $0
b. $1,000
c. $1,800
d. $2,200

2M84#4. Pursuant to a plan of corporate reorganization adopted in 1983, Emil Gow exchanged 2,000 shares of Bly Corp. common stock for 3,600 shares of Rolf Corp. common stock. Gow had paid $75,000 for the Bly stock. The fair market value of the Rolf stock was $86,000 on the date of the exchange. As a result of this exchange, how much was Gow's recognized gain and his basis in the Rolf stock?

	Recognized gain	*Basis*
a.	$11,000	$86,000
b.	$11,000	$75,000
c.	$0	$86,000
d.	$0	$75,000

2N82#55. Pursuant to a plan of reorganization adopted in 1981, Summit Corporation exchanged 1,000 shares of its common stock and paid $40,000 cash for Hansen Corporation assets with an adjusted basis of

$200,000 (fair market value of $300,000). The 1,000 shares of Summit common stock had a fair market value of $260,000 on the date of the exchange. What is the basis to Summit of the assets acquired in the exchange?

a. $200,000
b. $240,000
c. $260,000
d. $300,000

2M82#46. Pursuant to a tax-free reorganization in 1981, Sandra Peel exchanged 100 shares of Lorna Corporation for 100 shares of Wood Corp., and in addition received $1,000 cash, which was not in excess of Peel's ratable share of Lorna's undistributed earnings and profits. Peel paid $20,000 in 1975 for the Lorna stock. The Wood stock had a fair market value of $24,000 on the date of the exchange. What is the recognized gain to be reported by Peel in 1981?

a. $0.
b. $1,000 dividend.
c. $1,000 long-term capital gain.
d. $5,000 long-term capital gain.

2M82#53. In 1976, Celia Mueller bought a $1,000 bond issued by Disco Corporation, for $1,100. Instead of paying off the bondholders in cash, Disco issued 100 shares of preferred stock in 1981 for each bond outstanding. The preferred stock had a fair market value of $15 per share. What is the recognized gain to be reported by Mueller in 1981?

a. $0.
b. $400 dividend.
c. $400 long-term capital gain.
d. $500 long-term capital gain.

1N81#41. On July 1, 1980, in connection with a recapitalization of Yorktown Corporation, Robert Moore exchanged 1,000 shares of stock which cost him $95,000 for 1,000 shares of new stock worth $108,000 and bonds in the principal amount of $10,000 with a fair market value of $10,500. What is the amount of Moore's recognized gain during 1980?

a. $0
b. $10,500
c. $23,000
d. $23,500

1N80#49. Pursuant to a plan of reorganization adopted in 1979, Daly Corporation exchanged property with an adjusted basis of $100,000 for 1,000 shares of the common stock of Galen Corporation. The 1,000 shares of Galen common stock had a fair market value of $110,000 on the date of the exchange. As a result of this exchange, what is Daly's recognized gain and what is its basis in the Galen common stock, respectively?

a. $0 and $100,000.
b. $0 and $110,000.
c. $10,000 and $100,000.
d. $10,000 and $110,000.

I. Liquidations and Dissolutions

2M84#6. Tyson Corp. distributed marketable securities in redemption of its stock in a complete liquidation. These securities had a basis of $300,000 and a fair market value of $450,000. What gain does Tyson have as a result of the distribution?

a. $0.
b. $150,000 capital gain.
c. $150,000 Section 1231 gain.
d. $150,000 ordinary gain.

2M84#15. In a corporation that has **no** cash and does **not** own any stock or securities, the one-month liquidation under Code Section 333

a. Is available only if the corporation is collapsible.
b. Can be in partial redemption of the corporation's capital stock.
c. Results in the corporation's earnings and profits being taxed as an ordinary dividend to noncorporate stockholders.
d. Is required to take effect in the same month in which the election was made.

2N83#51. At January 1, 1983, Pearl Corp. owned 90% of the outstanding stock of Seso Corp. Both companies were domestic corporations. Pursuant to a plan of liquidation adopted by Seso in March 1983, Seso distributed all of its property in September 1983, in complete redemption of all its stock, when Seso's accumulated earnings equalled $18,000. Seso had never been insolvent. Pursuant to the liquidation, Seso transferred to Pearl a parcel of land with a basis of $10,000 and a fair market value of $40,000. How much gain must Seso recognize in 1983 on the transfer of this land to Pearl?

a. $0
b. $18,000
c. $27,000
d. $30,000

2M83#47. Silva Corporation adopted a one-month complete liquidation plan on July 1, 1982, when Silva's accumulated earnings and profits were $30,000. John Blum, whose basis in Silva's stock was $15,000, was Silva's sole stockholder. On July 25, 1982, all of Silva's assets were distributed to Blum in exchange for Blum's stock. These assets comprised the following:

Cash	$22,500
Securities (fair market value)	37,500
Total	$60,000

How much should Blum report as dividend income in 1982?
a. $0
b. $22,500
c. $30,000
d. $45,000

2M83#48. Carmela Corporation had the following assets on January 2, 1982, the date on which it adopted a 12-month complete liquidation plan:

	Adjusted basis	*Fair market value*
Land	$ 75,000	$150,000
Inventory	43,500	66,000
Totals	$118,500	$216,000

The land was sold on June 30, 1982, to an unrelated party at a gain of $75,000. The inventory was sold to various customers during 1982 at an aggregate gain of $22,500. On December 10, 1982, the remaining asset (cash) was distributed to Carmela's stockholders, and the corporation was liquidated. What is Carmela's recognized gain in 1982?
a. $0.
b. $22,500 ordinary income.
c. $75,000 capital gain.
d. $97,500 capital gain.

2N82#59. Edgewood Corporation was liquidated in 1981 by Roberts, its sole shareholder. Pursuant to the liquidation, Roberts' stock in Edgewood was cancelled and he received the following assets on July 15, 1981:

	Basis to Edgewood	*Fair market value*
Cash	$ 40,000	$ 40,000
Accounts receivable	20,000	20,000
Inventory	30,000	45,000
Land	50,000	75,000
	$140,000	$180,000

How much gain should be recognized by Edgewood Corporation on the liquidation?
a. $0
b. $15,000
c. $25,000
d. $40,000

2M82#47. On October 1, 1980, Arosa Corporation adopted a plan for a 12-month, complete liquidation. Land, with an adjusted basis of $30,000 bought in 1975 for investment, was sold for $90,000 on December 10, 1980. Negotiations for the sale of this land commenced in September 1980. On November 1, 1981, Arosa distributed all of its assets to the stockholders. What is Arosa's recognized gain in 1980 on the sale of the land?
a. $0.
b. $60,000 ordinary income.
c. $60,000 long-term capital gain.
d. $60,000 Section 1245 gain.

1N81#48. John Gerry, the sole shareholder in Rockville Corporation, elected to liquidate the corporation in a one-month liquidation which was begun and completed within the month of October 1980. Gerry received liquidating distribution during October 1980 as follows:

- Cash of $6,000.
- Machinery (subject to a $13,000 lien) with a fair market value of $40,000.

At the time of liquidation, the basis of Gerry's stock investment in Rockville was $20,000, and the accumulated earnings and profits of the corporation amounted to $5,000. How much of the liquidating distribution is taxable to Gerry as ordinary income and as capital gain in 1980?

	Ordinary income	*Capital gain*
a.	$0	$6,000
b.	$5,000	$0
c.	$5,000	$1,000
d.	$6,000	$7,000

J. Formation of Partnership

2N84#45. On May 1, 1984, John Alda was admitted to partnership in the firm of Bartok & Benson. Alda's contribution to capital consisted of 500 shares of stock in Asch Corp., purchased in 1973 for $20,000, and which had a fair market value of $100,000 on May 1, 1984. Alda's interest in the partnership's capital and profits is 25%. On May 1, 1984, the fair market value of the partnership's net assets (after Alda was admitted) was $400,000. What was Alda's gain in 1984 on the exchange of the Asch stock for Alda's partnership interest?
a. $0.
b. $80,000 ordinary income.
c. $80,000 long-term capital gain.
d. $80,000 Section 1231 gain.

2M84#17. Morris Babb, sole proprietor of Babb Fabrics, hired Ken Ryan on January 1, 1981, for an agreed salary and the promise of a 10% partnership capital interest if Ryan continued in Babb's employ until December 31, 1983. On January 1, 1984, when the enterprise's net worth was $100,000, the partnership was formed as agreed. Ryan should treat the receipt of his partnership interest in 1984 as

a. Nontaxable.
b. $10,000 ordinary income.
c. $10,000 short-term capital gain.
d. $10,000 long-term capital gain.

2N83#53. Harry Arch, an attorney, rendered legal services in organizing an oil and gas partnership in 1983. Instead of submitting a bill for his services, Arch accepted a 10% interest in the partnership. Arch's normal charge for the services performed would have been $10,000. The fair market value of the 10% interest received by Arch was $12,000. How much should Arch report on his 1983 income tax return?

a. $12,000
b. $10,000
c. $ 2,000
d. $0

2N82#58. Browne and Whelan form a partnership on January 1, 1982, agreeing to share capital and profits equally. Browne contributes $23,000 cash. Whelan contributes land with an adjusted basis to him of $10,000 and a fair market value of $25,000 on January 1, 1982. The land is subject to a $2,000 mortgage which is assumed by the partnership. Whelan's tax basis in the partnership on January 1, 1982, should be

a. $ 8,000
b. $ 9,000
c. $10,000
d. $23,000

1N81#49. Jeffrey, the sole proprietor of a hardware business, hired Eastwood on January 1, 1977, for an agreed salary and a promise to give him a 25% ownership interest if he were still employed at the end of three years, and an additional 25% interest if he continued in the business for a second three-year period. On January 1, 1980, a partnership was formed and Eastwood received a 25% interest in the capital and profits of the business. On that date the net worth of the partnership was $60,000. What is Eastwood's tax basis of his partnership interest at January 1, 1980, and what amount should be added to his taxable income for 1980?

	Partnership interest	*Addition to taxable income*
a.	$0	$0
b.	$15,000	$15,000
c.	$30,000	$15,000
d.	$30,000	$30,000

K. Basis of Partner's Interest

2N84#55. On July 1, 1984, Ann Arber received a 10% interest in the capital of Toty Associates, a partnership, for past services rendered. Toty's net assets at July 1, 1984, had a basis of $140,000 and a fair market value of $200,000. What income should Ann include in her 1984 income tax return for the partnership interest transferred to her by the other partners?

a. $0.
b. $14,000 ordinary income.
c. $20,000 ordinary income.
d. $20,000 long-term capital gain.

2M84#19. In 1984 Peggy Pink contributed property to a new partnership in return for a 50% interest in capital and profits. The property had a fair market value of $10,000, an adjusted basis of $6,000, and was subject to a $9,000 mortgage which was assumed by the partnership. What was Pink's basis in the partnership as a result of this contribution?

a. $5,500
b. $1,500
c. $ 500
d. $0

2N83#54. Ralph Elin contributed a plot of land to the partnership of Anduz & Elin. Elin's adjusted basis for this land was $50,000, and its fair market value was $75,000. Under the partnership agreement, Elin's capital account was credited with the full fair market value of the land. Anduz matched Elin's contribution with a $75,000 cash contribution to the partnership. Thus, each partner's capital account was credited with $75,000. Elin and Anduz share profits and losses equally. What is the adjusted basis of Elin's interest in the partnership?

a. $25,000
b. $37,500
c. $50,000
d. $75,000

2M83#58. On July 1, 1982, Clark acquired a 20% interest in the partnership of Davis & Denny, by contributing a parcel of land for which his basis was $8,000. At July 1, 1982, the land had a fair market value of $20,000 and was subject to a mortgage of $4,000. Payment of the mortgage was assumed by the partnership. The basis of Clark's interest in the partnership is

a. $ 4,000
b. $ 4,800
c. $16,000
d. $16,800

2M82#57. On July 1, 1981, Bertram Bryant acquired a 30% interest in Windward Company, a partnership, by contributing property with an adjusted basis of $5,000 and a fair market value of $12,000. The property was subject to a mortgage of $8,000, which was assumed by Windward. What is Bryant's basis of his interest in Windward?

a. $0
b. $4,000
c. $5,000
d. $6,400

L. Basis of Property Contributed to Partnership

2M82#58. On September 1, 1981, James Elton received a 25% capital interest in Bredbo Associates, a partnership, in return for services rendered plus a contribution of assets with a basis to Elton of $25,000 and a fair market value of $40,000. The fair market value of Elton's 25% interest was $50,000. How much is Elton's basis for his interest in Bredbo?

a. $25,000
b. $35,000
c. $40,000
d. $50,000

M. Determination of Partners' Taxable Income

2N84#54. The partnership of Martin & Clark sustained an ordinary loss of $84,000 in 1983. The partnership, as well as the two partners, are on a calendar-year basis. The partners share profits and losses equally. At December 31, 1983, Clark had an adjusted basis of $36,000 for his partnership interest, before consideration of the 1983 loss. On his individual income tax return for 1983, Clark should deduct an (a)

a. Ordinary loss of $36,000.
b. Ordinary loss of $42,000.
c. Ordinary loss of $36,000 and a capital loss of $6,000.
d. Capital loss of $42,000.

2M84#14. Gladys Peel owns an 80% interest in the capital and profits of the partnership of Peel & Poe. On July 1, 1983, Peel bought surplus land from the partnership at the land's fair market value of $10,000. The partnership's basis in the land was $16,000. For the year ended December 31, 1983, the partnership's net income was $94,000, after recording the $6,000 loss on the sale of land. Peel's distributive share of ordinary income from the partnership for 1983 was

a. $70,400
b. $75,200
c. $78,200
d. $80,000

2M83#60. John Albin is a retired partner of Brill & Crum, a personal service partnership. Albin has not rendered any services to Brill & Crum since his retirement in 1975. Under the provisions of Albin's retirement agreement, Brill & Crum is obligated to pay Albin 10% of the partnership's net income each year. In compliance with this agreement, Brill & Crum paid Albin $25,000 in 1982. How should Albin treat this $25,000?

a. Not taxable.
b. Ordinary income.
c. Short-term capital gain.
d. Long-term capital gain.

1N81#53. At December 31, 1979, Burns and Cooper were equal partners in a partnership with net assets having a tax basis and fair market value of $100,000. On January 1, 1980, Todd contributed securities with a fair market value of $50,000 (purchased in 1978 at a cost of $35,000) to become an equal partner in the new firm of Burns, Cooper and Todd. The partnership agreement provided that Todd would report all gain attributable to the precontribution appreciation in the securities and that postcontribution appreciation is to be shared equally by the partners. The securities were sold on December 15, 1980, for $65,000. How much of the partnership's capital gain from the sale of these securities should be allocated to Todd?

a. $ 5,000
b. $10,000
c. $15,000
d. $20,000

1N81#59. Nash and Ford are partners who share profits and losses equally. For the year ended December 31, 1980, the partnership had book income of $80,000 which included the following deductions:

Guaranteed salaries to partners:	
Nash	$35,000
Ford	25,000
Contributions	5,000

What amount should be reported as ordinary income on the partnership return for 1980?

a. $ 80,000
b. $ 85,000
c. $140,000
d. $145,000

2M81#49. The partnership of Felix and Oscar had the following items of income during the taxable year ended December 31, 1980:

Income from operations	$156,000
Tax-exempt interest income	8,000
Dividends from foreign corporations	6,000
Net rental income	12,000

What is the total ordinary income of the partnership for 1980?

a. $170,000
b. $174,000
c. $176,000
d. $182,000

2M81#51. Charles Jordan files his income tax return on a calendar-year basis. He is the principal partner of a partnership reporting on a June 30 fiscal-year basis. Jordan's share of the partnership's ordinary income was $24,000 for the fiscal year ended June 30, 1979, and $72,000 for the fiscal year ended June 30, 1980. How much should Jordan report on his 1980 return as his share of taxable ordinary income from the partnership?

a. $24,000
b. $36,000
c. $48,000
d. $72,000

2M81#52. Richard Wilson is a partner in the firm of Day and Wilson. His profit and loss sharing ratio is 50%. In 1978 he contributed a capital asset to the business with a basis to him of $40,000 and a fair market value of $30,000 to the partnership. His capital account was credited for $30,000. During 1980 the property was sold for $36,000. There were no other sales of capital assets in 1980. As a result of the sale, Wilson's share of the partnership's capital asset transaction is a

a. $2,000 capital loss.
b. $3,000 capital gain.
c. $4,000 capital loss.
d. $6,000 capital gain.

1N80#58. For the year ended December 31, 1979, the partnership of Murray and Parker had book income of $100,000 which included the following:

Long-term capital gain (on sale of securities)	$7,000
Section 1231 loss	(3,000)
Dividends qualifying for the $100 exclusion	200
Interest paid to partners for use of capital	12,000

The partners share profits and losses equally. What amount of partnership income (excluding all partnership items which must be reported separately) should each partner report in his individual income tax return for 1979?

a. $47,900
b. $48,000
c. $50,000
d. $53,900

2M80#31. The partnership of Truman and Hanover realized the following items of income during the year ended December 31, 1979:

Net income from sales	$62,000
Dividends from domestic corporations	4,000
Interest on corporate bonds	3,000
Net long-term capital gains	5,000
Net short-term capital gains	1,000
Net rental income	7,000

Both the partnership and the partners are on a calendar-year basis. The total income which should be reported as ordinary income of the partnership for 1979 is

a. $72,000
b. $75,000
c. $76,000
d. $82,000

N. Accounting Periods of Partnership and Partners

1N81#58. Gilroy, a calendar-year taxpayer, is a partner in the firm of Adams and Company which has a fiscal year ending June 30. The partnership agreement provides for Gilroy to receive 25% of the ordinary income of the partnership. Gilroy also receives a guaranteed payment of $1,000 monthly which is deductible by the partnership. The partnership reported ordinary income of $88,000 for the year ended June 30, 1980, and $132,000 for the year ended June 30, 1981. How much should Gilroy report on his 1980 return as total income from the partnership?

a. $25,000
b. $30,500
c. $34,000
d. $39,500

O. Partner Dealing With Own Partnership

2N83#52. In computing the ordinary income of a partnership, a deduction is allowed for

a. The net operating loss deduction.
b. Contributions to recognized charities.
c. Partners' personal exemptions.
d. Guaranteed payments to partners.

2N82#44. Barker owns a 40% interest in the capital and profits of the Murphy and Barker partnership. During 1981 Barker sold securities to the partnership for their fair market value of $36,000. Barker's adjusted tax basis in the securities was $24,000. How much gain (before any long-term capital gain deduction) should Barker recognize on this transaction on his 1981 tax return?

a. $0
b. $ 4,800
c. $ 7,200
d. $12,000

2N82#47. In computing the ordinary income of a partnership reportable on the partnership return, a deduction is allowed for

a. Contributions to charitable organizations.
b. The net operating loss deduction.
c. A net short-term capital loss.
d. Guaranteed payments to partners.

1N81#54. On December 1, 1980, Alan Younger, a member of a three-man equal partnership, bought securities from the partnership for $27,000, their market value. The securities were acquired by the partnership for $15,000 on March 1, 1980. By what amount will this transaction increase Younger's taxable income for 1980?

a. $0
b. $ 1,600
c. $ 4,000
d. $12,000

Q. Distributions of Partnership Assets

2N83#58. Magda Shaw's adjusted basis for her partnership interest in Shaw & Zack was $60,000. In complete liquidation of her interest in Shaw & Zack, Shaw received cash of $44,000 plus the following assets:

	Adjusted basis to Shaw & Zack
Land — Tract "A"	$24,000
Land — Tract "B"	8,000

How much is Shaw's basis for Tract "B"?

a. $16,000
b. $15,000
c. $ 8,000
d. $ 4,000

2M83#54. Fred Elk's adjusted basis of his partnership interest in Arias & Nido was $30,000. Elk received a current nonliquidating distribution of $12,000 cash, plus property with a fair market value of $26,000 and an adjusted basis to the partnership of $24,000. How much is Elk's basis for the distributed property?

a. $18,000
b. $24,000
c. $26,000
d. $30,000

2M83#55. Daly & Shaw, a partnership, has an H.R. 10 plan. Daly's interest in the partnership is 95%, while Shaw's interest in the partnership is 5%. During 1982, Daly borrowed $3,800 from the plan, and Shaw borrowed $200 from the plan. How much of these loans will be automatically treated by the Internal Revenue Service as distributions from the plan?

a. $0
b. $ 200
c. $3,800
d. $4,000

2M83#59. At December 31, 1982, Max Curcio's adjusted basis in the partnership of Maduro & Motta was $36,000. On December 31, 1982, Maduro & Motta distributed cash of $6,000 and a parcel of land to Curcio in liquidation of Curcio's entire interest in the partnership. The land had an adjusted basis of $18,000 to the partnership and a fair market value of $42,000 at December 31, 1982. How much is Curcio's basis in the land?

a. $0
b. $12,000
c. $30,000
d. $36,000

1N80#59. Atley had an adjusted basis of $11,000 for his interest in the Atley and Donald partnership on December 31, 1979. On this date Atley received from the partnership, in complete liquidation of his interest, $10,000 cash and land with a basis to the partnership of $2,000 and a fair market value of $3,000. What is Atley's basis for the land distributed to him?

a. $0
b. $1,000
c. $2,000
d. $3,000

R. Termination of Partnership

2N84
Items 42 and 43 are based on the following data:

The partnership of Hager, Mazer & Slagle had the following cash basis balance sheet at December 31, 1983:

Assets

	Adjusted basis per books	*Market value*
Cash	$51,000	$ 51,000
Accounts receivable	—	210,000
Totals	$51,000	$261,000

Liabilities and Capital

Note payable	$30,000	$ 30,000
Capital accounts		
Hager	7,000	77,000
Mazer	7,000	77,000
Slagle	7,000	77,000
Totals	$51,000	$261,000

Slagle, an equal partner, sold his partnership interest to Burns, an outsider, for $77,000 cash on January 1, 1984. In addition, Burns assumed Slagle's share of partnership liabilities.

42. How much ordinary income should Slagle report in his 1984 income tax return on the sale of his partnership interest?

a. $0
b. $10,000
c. $70,000
d. $77,000

43. What was the total amount realized by Slagle on the sale of his partnership interest?
   a. $67,000
   b. $70,000
   c. $77,000
   d. $87,000

2M83#53. On June 30, 1982, James Roe sold his interest in the calendar-year partnership of Roe & Doe for $30,000. Roe's adjusted basis in Roe & Doe at June 30, 1982, was $7,500 before apportionment of any 1982 partnership income. Roe's distributive share of partnership income up to June 30, 1982, was $22,500. Roe acquired his interest in the partnership in 1970. How much long-term capital gain should Roe report in 1982 on the sale of his partnership interest?
   a. $0
   b. $15,000
   c. $22,500
   d. $30,000

2M83#56. Axel, Banner & Carr, a calendar-year partnership, had the following partners since 1970:

	Partnership interest (%)
Axel	20
Banner	20
Carr	60

On October 20, 1982, Axel and Banner sold their partnership interests to Carr and withdrew from participation in the partnership's affairs. At what date was the partnership terminated for tax purposes?
   a. October 1, 1982.
   b. October 20, 1982.
   c. October 31, 1982.
   d. December 31, 1982.

2M83#57. David Beck and Walter Crocker were equal partners in the calendar-year partnership of Beck & Crocker. On July 1, 1982, Beck died. Beck's estate became the successor in interest and continued to share in Beck & Crocker's profits until Beck's entire partnership interest was liquidated on April 30, 1983. At what date was the partnership considered terminated for tax purposes?
   a. April 30, 1983.
   b. December 31, 1982.
   c. July 31, 1982.
   d. July 1, 1982.

2N82#60. On November 30, 1981, Diamond's adjusted basis for his one-third interest in the capital and profits of Peterson and Company was $95,000 ($80,000 capital account plus $15,000 share of partnership liabilities). On that date Diamond sold his partnership interest to Girard for $120,000 cash and the assumption of Diamond's share of the partnership liabilities. What amount and type of gain should Diamond recognize in 1981 from the sale of his partnership interest?

	Amount	*Type of gain*
a.	$25,000	Ordinary income
b.	$25,000	Capital gain
c.	$40,000	Ordinary income
d.	$40,000	Capital gain

1N81#56. On April 1, 1980, George Hart, Jr., acquired a 25% interest in the Wilson, Hart and Company partnership by gift from his father. The partnership interest had been acquired by a $50,000 cash investment by Hart, Sr., on July 1, 1965. The tax basis of Hart, Sr.'s partnership interest was $60,000 at the time of the gift. Hart, Jr., sold the 25% partnership interest for $85,000 on December 17, 1980. What type and amount (before consideration of the capital gain deduction) of capital gain should Hart, Jr., report on his 1980 tax return?
   a. A long-term capital gain of $25,000.
   b. A short-term capital gain of $25,000.
   c. A long-term capital gain of $35,000.
   d. A short-term capital gain of $35,000.

SELECTED MULTIPLE CHOICE ITEMS — UNOFFICIAL ANSWERS

I. Presentation of Financial Statements or Worksheets

C. Statement of Changes in Financial Position

2M83#24 d
2M83#25 b
2M83#26 b
1N81# 18 d
1N81# 20 c
2M81#25 c
2M81#26 d
2M81#27 d
2M81#28 c
2M81#29 d
2M81#30 d
1M80#19 c

II. Measurement, Valuation, Realization, and Presentation of Assets in Conformity With Generally Accepted Accounting Principles

A. Cash

1M84# 2 b
1M83#20 b
1M82# 6 c
2N81# 2 c
2M80# 1 a

B. Marketable Securities and Investments

1N84# 1 a
1N84# 2 d
1M84# 1 d
1M84# 3 c
1M84# 4 a
1M83# 2 a
1M83# 3 c
2M83#10 b
1N82# 2 b
2N82# 8 d
2M82# 2 c
2M82#10 c
2M82#12 d
1N81# 3 d
2N81# 7 c
2N81# 11 b
1N80# 12 b
1N80# 13 d
1N80# 20 c
2N80# 13 d
1M80#15 b

C. Receivables and Accruals

1N84# 3 d
1N84# 4 a
1N84# 5 d
1N83# 19 c
1N83# 21 b
1N83# 22 a
1N82# 3 d
1N82# 6 d
1N82# 18 a
1M82# 3 d
1M82# 4 b
2N81# 1 b
2N81# 8 d
2N81# 17 d
2M81# 5 c
2M81#19 b
1N80# 8 d
2M80#17 b

D. Inventories

1N84# 6 c
1N84# 7 a
1N84# 8 a
1M84# 6 b
1M84# 7 b
1N83# 1 b
1N83# 3 b
1N83# 20 c
2N82# 11 b
2M82# 3 a
2N81# 13 b
2N81# 15 d
2N81# 16 b
1M81# 2 d
2M81#14 a
2M81#35 c
2N80# 11 b
2M80# 6 a

E. Property, Plant, and Equipment

1N84# 9 a
1N84# 10 d
1N84# 11 c
1N84# 12 c
1N84# 13 c
1N84# 20 c
1M84# 5 b
1M84# 8 d
1M84# 9 d
1M84#10 c
1M84#11 d
1M84#13 c
1N83# 23 c
1N83# 25 d
1N83# 27 c
1N83# 35 b
1M83# 5 b
2M83# 1 c
2M83#14 c
2M83#23 d
2M83#31 c
2M83#32 a
2M83#33 d
1N82# 13 a
2N82# 2 b
2N82# 6 a
1M82# 2 b
1M82# 9 c
1M82#12 d
2N81# 4 b
2N81# 14 c
2N81# 23 b
2N81# 31 b
2N81# 34 c
1M81# 9 b
1M81#11 a
2M81#34 b
1N80# 1 a
2M80#10 c

F. Capitalized Leased Assets

1N84# 15 b
1N84# 16 a
1M84#14 b
1N83# 28 b
2M83#21 b
2M82#18 c
2N81# 9 c
2N81# 28 b

G. Intangibles

1N84# 17 b
1N84# 58 d
1M84#12 c
1M84#15 c
1N83# 40 a
1M83# 4 c
2M82#13 c
1N81# 12 c
2N81# 5 c

H. Prepaid Expenses and Deferred Charges

1N84# 14 d
1N84# 36 b
1M84#17 b
1M84#18 a
1M83# 6 d
2N81# 30 c
1M81#19 a

III. Valuation, Recognition, and Presentation of Liabilities in Conformity With Generally Accepted Accounting Principles

A. Payables and Accruals

1N84# 21 b
1M84#16 c
1M84#19 b
1M84#20 d
1N83# 24 c
1N83# 30 a
2N83# 3 d
1M83# 1 d
1M83# 7 d
1M83# 9 b
1M83#13 c
2N82# 12 a
2M82#20 b
1M81# 3 d
1M81# 7 c
2M81# 9 d
2M81#31 d
2M81#32 c
2M80#12 c

B. Deferred Revenues

1N84# 22 b
1M84#21 d
1N83# 4 d
1M83#16 a
1N82# 5 c

C. Deferred Income Tax Liabilities

1N84# 23 d
1M84#23 a
1N83# 29 b
1N83# 31 a
1M83#12 a
2M81#33 b

D. Capitalized Lease Liability

1M84#24 c
1N83# 33 d
1N82# 1 c
1N82# 8 a
1M82# 8 a

E. Bonds Payable

1N84# 24 d
1M84#25 a
1M84#30 c
1M84#40 c
1N83# 2 a
1N83# 5 d
1N83# 7 c
1M83# 8 b
1M83#11 c
1M83#19 b
2M83#20 c
2N82# 7 a
2N82# 14 b
2N82# 20 c
2M82#15 a
1N81# 8 a
2N81# 29 c
1M81#16 b
2M81#21 d
2N80# 20 b
1M80#17 c
1M80#20 b

F. Long-Term Notes Payable

1N83# 34 d
1M81#15 a

G. Contingent Liabilities and Commitments

1N84# 25 c
1M84#26 b
1M83#10 b
2M83# 8 c
1N82# 7 b
2N82# 15 c
1N81# 1 c
2N81# 12 a
2M81# 7 b
1N80# 2 c
1M80# 4 b

IV. Ownership Structure, Presentation, and Valuation of Equity Accounts in Conformity With Generally Accepted Accounting Principles

A. Preferred and Common Stock

1N84# 26 b
1N84# 27 c
2M83#34 d
1N82# 4 a
2N82# 5 c
2M81#20 b
2M81#22 b

B. Additional Paid-in Capital

2N81# 21 d
2N81# 22 c

C. Retained Earnings and Dividends

1N84# 28 c
1N84# 29 a
1N84# 32 a
2N83# 6 b
2M83# 5 a
1N82# 9 a
2N82# 1 b
1N81# 11 c
2N81# 18 c
2N81# 19 d
2N81# 38 c
2M81#13 a
2N80# 5 c
2N80# 6 a
2N80# 7 a
2N80# 8 a
2N80# 12 b
2N80# 16 b
2M80#13 b

D. Treasury Stock and Other Contra Accounts

1M83#15 c
1N82# 10 b
2M81# 6 a
2N80# 4 a
2M80#16 a
2M80#19 d

E. Stock Options, Warrants, and Rights

1N84# 30 c
1N82# 17 b
2M81#10 a
2M81#11 b
2M81#12 c

F. Reorganization and Change in Entity

1N84# 31 b
1N84# 33 a
1N84# 35 b
1N83# 8 b
2M83#12 c
2N82# 3 d
2N82# 4 c
1N81# 13 c
2N81# 36 d
2N81# 37 c
1M81#20 d
2N80# 17 c
2N80# 18 a
1M80# 2 a

G. Partnerships

1N84# 18 b
1N84# 34 c
2M83#11 c
1N82# 11 c
1N82# 12 b
2N81# 25 c
2N81# 26 a
2N81# 27 d
2M80# 4 a
2M80# 8 d
2M80# 9 c

V. Measurement and Presentation of Income and Expense Items, Their Relationship to Matching and Periodicity, and Their Relationship to Generally Accepted Accounting Principles

A. Sales or Revenues

1N84# 38 c
1N84# 39 a
1N84# 40 a
1N84# 41 d
1N84# 42 c
1N84# 43 d
1N84# 47 a
1N84# 48 b
1M84#22 a
1M84#27 b
1M84#28 b
1M84#29 d
1M84#31 c
1M84#32 b
1M84#33 b
1N83# 26 c
1N83# 32 b
1N83# 37 a
2N83# 2 b
1M83#17 d
2M83# 9 d
2M83#22 c
2M83#38 b
2M83#39 c
2M83#40 d
1N82# 14 c
2N82# 13 b
1M82#19 c
2M82# 1 c
2M82# 6 d
2M82# 7 d
2M82#11 a
1N81# 16 a
2N81# 33 c
2N81# 40 c
1M81# 5 a
2M81#38 d
1N80# 14 a
1N80# 16 a
2N80# 10 c
1M80#14 d

B. Cost of Goods Sold

1M84#34 d
1M83#18 a
1M82#13 c
2M82#14 a
2N81# 6 b

C. Expenses

1N84# 44 d
1N84# 45 a
1N84# 46 c
1N84# 49 b
1N84# 51 c
1N84# 52 a
1N84# 53 c
1N84# 54 a
1N84# 55 d
1N84# 56 b
1M84#35 a
1M84#36 b
1M84#37 a
1M84#38 a
1M84#39 d
1M84#41 a
1M84#52 c
1N83# 6 b
1N83# 10 c
1N83# 11 d
1N83# 12 a
1N83# 36 a
1N83# 38 c
1N83# 39 d
2M83#16 b
1M82#14 b
2M82#17 d
1N81# 7 b
2N81# 10 c
2N81# 32 c
1M81#14 c
2N80# 14 c
2N80# 15 d
1M80#11 a
2M80# 2 a
2M80# 3 b
2M80#20 a

D. Provision for Income Tax

1N84# 50 d
1N84# 59 d
1M84#45 b
1M84#46 d
2N83# 8 d
2N83# 9 a
2M83#36 a
2M83#37 b
1M82#15 b
1N81# 9 b

E. Recurring Versus Nonrecurring Transactions and Events

1N84# 19 b
1N84# 37 a
1M84#42 d
1M84#44 a
1N83# 13 a
1N83# 14 d
1M83#14 c
2M83#18 a
2M83#35 a
2N82# 19 d
2N81# 35 a
2N81# 39 b
2M81#39 d
2M81#40 d
2N80# 2 b
2N80# 3 a

F. Accounting Changes

1N84# 60 d
1M84#43 a
1M84#60 c
2N83# 7 c
2M83#19 b
1N82# 15 c
2M82# 5 b
1M81# 8 b
1M81#13 d
1N80# 3 a
1M80# 1 a

G. Earnings Per Share

1N84# 57 a
1M84#48 c
1M84#49 d
1N83# 15 c
2N82# 17 c
2N82# 18 a
1M82#11 c
1M81#12 a
1M81#18 c
2M81#23 b
1N80# 10 a

VI. Other Financial Topics

B. Nonmonetary Transactions

2N84# 3 d
2N84# 8 c
1M84#50 b
1M84#51 d
1N83# 9 d
1N83# 16 a
2M83# 2 a
1N81# 5 b
2M81# 8 b
1N80# 6 b

C. Interim Financial Statements

1M84#47 d
2N83# 1 d
2M83#17 c
1N81# 15 a
1N80# 9 b
1M80# 8 b

D. Historical Cost, Constant Dollar Accounting, and Current Cost

2N84# 9 b
2N84# 10 c
1M84#59 c
1N83# 17 d
2M83#15 d
2M82# 8 b
1N81# 6 a
1N81# 17 c
2M81# 1 c
1N80# 18 d
1M80#12 c

E. Loss or Gain Contingencies

2N84# 1 a
2N84# 2 a
1M84#58 a
1N82# 19 a
1M82#20 a
1N82# 20 d
2M82#16 d
1M81# 4 a

G. Long-Term Contracts

1M84#54 a

F. Segments and Lines of Business

2N84# 4 d
2N84# 5 a
1M84#53 c
2N83# 4 c

H. Employee Benefits

1M84#55 b
2M83# 6 c
2M83# 7 b
2M83#13 c
2N81# 3 c

I. Analysis of Financial Statements

2N84# 6 d
2N84# 7 c
1M84#56 b
1N83# 18 a
2N83# 19 b
2N83# 20 a
2M83#28 d
2M83#29 d
2M83#30 b
2N82# 9 c
2N82# 10 a
1M82#16 c
1M82#17 c
1N81# 10 a
2M81#15 c
2M81#16 a
2M81#17 a
2M81#18 d
1M80# 7 d
1M80#13 c

K. Personal Financial Statements

1M84#57 d

VII. Cost Accumulation, Planning, and Control

A. Nature of Cost Elements

2N84# 13 c
1N83# 43 a
1N83# 44 d
1M83#22 d
1M83#23 c
1M83#26 d
1M83#27 c
1M83#28 d
2N82# 31 a
2N82# 32 a
2N82# 37 c
2N82# 38 c
1M82#21 d

B. Job Order Costing

1M83#24 b
1M83#32 a
1N82# 22 a
1N82# 23 d
1M82#23 c
1M81#38 d

C. Process Costing

1N83# 45 b
1N83# 46 c
1M83#21 d
1M83#29 a
1N82# 32 c
1N82# 33 d
1M82#26 a
1M82#28 c
1N81# 21 c
1M81#32 a
1N80# 28 d
1N80# 33 c
1M80#32 c
1M80#33 b

D. Standard Costing and Variance Analysis

2N84# 16 a
2N84# 17 c
1N83# 47 a
1N83# 48 c
1N83# 49 d
1M83#39 a
2N82# 22 a
2N82# 24 c
2N82# 36 b
1M82#22 a
1M82#25 d
1M82#31 b
1N81# 24 d
1N81# 26 a
1N81# 27 a
1M81#26 d
1M81#27 b
1M81#28 a
1N80# 38 b
1N80# 39 a
1M80#35 d
1M80#39 b

E. Joint Costing

1N83# 51 d
1M83#35 c
1M83#36 c
2N82# 25 c
2N82# 26 b
1N81# 22 c
1M81#37 b
1M81#39 c
1N80# 24 b
1N80# 32 d
2M80#28 a

F. By-Product Costing

1N83# 52 b
1M83#38 c
2N82# 39 a
2N82# 40 c
1M80#27 c

G. Spoilage, Waste, and Scrap

1N83# 54 a
1M83#30 d
1M83#37 b
1N82# 28 c
1N82# 29 b
1M82#27 d
1M82#29 d

H. Absorption and Direct Costing

2N84# 19 b
2N84# 20 d
2N83# 15 d
2N83# 16 b
1M83#33 b
1M83#34 b
1N82# 24 a
1N82# 25 a
2N82# 30 d
1M82#39 a
1M82#40 c
1M81#23 c

I. Transfer Pricing

1N83# 57 c
1N83# 58 c

K. Budgeting and Flexible Budgeting

1N83# 41 d
1N83# 55 d
1N83# 56 b
1M83#31 b
1N82# 21 c
1N82# 27 d
1N82# 30 d
1N82# 34 c
1N82# 38 b
2N82# 23 c
2N82# 28 c
1N81# 25 a
1N81# 28 d
1N81# 33 d
1M81#24 a
1M81#25 d
1M81#34 c
1N80# 23 d
1N80# 25 a
1M80#23 c

L. Breakeven and Cost-Volume-Profit Analysis

2N84# 14 b
2N84# 15 b
2N83# 10 a
2N83# 11 c
2N83# 12 d
1N82# 31 c
1N82# 39 c
2N82# 27 a
2N82# 29 a
2N82# 33 d
1M82#33 c
1M82#34 a
1N81# 30 a

1N81# 32 a
1N81# 34 a
1N81# 35 c
1M81#35 b
1M81#36 b
1M81#40 a
1N80# 29 b
1M80#21 b
1M80#26 c
1M80#29 d

M. Gross Profit Analysis

2N83# 5 b
1N81# 31 a

N. Differential Cost Analysis

1N83# 50 b
1N83# 59 b
1N82# 35 b
2N82# 21 b

2N82# 35 b
1M82#24 a
1M82#30 d
1N81# 23 b
1N81# 40 b
1M81#29 c
1N80# 31 d
1M80#37 a
1M80#40 a

O. Capital Budgeting Techniques

2N84# 18 b
2N83# 17 b
2N83# 18 c
1M83#40 d
1N82# 26 d
1N82# 36 c
1N82# 37 a
1N82# 40 b
1M82#36 b

1M82#37 a
1M82#38 b
1N81# 36 d
1N81# 37 b
1N81# 38 a
1N81# 39 c
1M81#21 d
1M81#22 a
1M81#30 c
1M81#31 a
1N80# 21 d
1N80# 22 d
1N80# 26 c
1N80# 27 d
1M80#22 c
1M80#24 d
1M80#25 a

P. Performance Analysis

2N83# 13 a
2N83# 14 c

Q. Quantitative Techniques for Planning and Control

2N84# 11 d
2N84# 12 b
1N83# 42 a
1N83# 53 c
1N83# 60 b
1M83#25 d
2N82# 34 c
1M82#35 b
1N81# 29 b
1N80# 30 b
1N80# 36 b
1N80# 40 d
1M80#31 a
1M80#36 a
1M80#38 d

VIII. Not-for-Profit and Governmental Accounting

A. Fund Accounting

2M84#52 c
2M84#53 c
2M84#54 b
2M84#59 b
2M84#60 c
2M82#25 b
2M82#28 c
2M82#29 a

B. Types of Funds and Fund Accounts

2M84#43 d
2M84#47 a
2M84#48 a
2M84#49 a
2M84#50 b
2M84#57 d
2M84#58 a
2M82#22 a
2M82#26 c
2M82#27 a
2M82#32 c
2M82#33 a
2M82#35 a
2M82#36 d
2M82#37 b

C. Presentation of Financial Statements for Various Not-for-Profit and Governmental Organizations

2M82#39 c

D. Various Types of Not-for-Profit and Governmental Organizations

2M84#41 a
2M84#42 c
2M84#46 d
2M84#51 a
2M84#55 d
2M84#56 a
2M82#21 a
2M82#24 c
2M82#30 d
2M82#31 a
2M82#34 c
2M82#40 d

IX. Federal Taxation — Individuals

A. Inclusions for Gross Income and Adjusted Gross Income

2N84# 21 c
2N84# 29 d
2N84# 30 c
2N84# 31 d
2N84# 32 c
2N84# 33 b
2N84# 37 d
2M84#23 a
2M84#24 d
2M84#28 d
2M84#37 b
2N83# 21 a
2N83# 33 b
2N83# 36 d
2N83# 37 a
2N83# 38 c
2N83# 40 c
1M83#41 a
1M83#42 c
1M83#44 b
1M83#45 d
1N82# 42 c
1N82# 47 b
1N82# 50 d
1M82#41 d
1M82#42 c
1M82#47 d
1M82#48 c
1M82#58 a
2N81# 41 b
2N81# 47 b
2N81# 59 a
1M81#42 b
1M81#45 a
1M81#51 d
2N80# 21 a
2N80# 25 a
2N80# 28 a
2N80# 40 d
1M80#42 c
1M80#44 b
1M80#48 c

B. Exclusions and Other Deductions (including adjustments to arrive at Adjusted Gross Income)

2M84#21 c
2M84#29 d
2M84#35 b
2M84#38 d

2M84#39 c
2M84#40 a
2N83# 35 c
1M83#46 a
1M83#53 b
1N82# 44 d
1N82# 45 d
1N82# 48 a
1N82# 58 b
1M82#49 a
2N81# 46 c
2N81# 60 a
1M81#46 a
1M81#60 a
2N80# 31 d
1M80#49 d
1M80#57 c

C. Gain or Loss on Property Transactions

2N84# 35 c
2N84# 36 d
2N84# 40 b
2N83# 39 d
1M83#47 d
1N82# 41 a
1M81#43 a
2N80# 22 c
2N80# 23 b
1M80#43 d

D. Deductions From Adjusted Gross Income

2N84# 22 c
2N84# 23 a
2N84# 24 b
2N84# 25 b
2N84# 28 b
2M84#30 a
2M84#31 a
2M84#32 a
2M84#33 a
2N83# 30 a
2N83# 31 c
1M83#49 b
1M83#50 a
1M83#51 d
1M83#52 b
1N82# 51 b
1N82# 52 b
1M82#51 b
1M82#52 b
1M82#54 d
1M82#55 c
2N81# 48 a
2N81# 51 b
2N81# 52 b
2N81# 53 c
2N81# 55 a
2N81# 56 a
1M81#41 d
1M81#50 b
1M81#54 c
1M81#57 b
2N80# 30 b
2N80# 38 a
2N80# 39 b
1M80#50 b
1M80#51 d
1M80#55 b
1M80#56 d
1M80#58 b

E. Filing Status and Exemptions

2M84#22 c
2M84#36 d
2N83# 23 c
2N83# 24 b
1M83#56 d
1M83#57 d
1M83#58 a
1M82#43 a
1M82#60 c
1M81#44 c
1M81#55 b
2N80# 33 c
1M80#41 d
1M80#60 d

F. Tax Determination

2N84# 26 c
2M84#34 b
1N82# 53 c
1N82# 57 c
1M82#59 c
2N81# 57 a
2N81# 58 b
1M81#58 a

G. Statute of Limitations

2N84# 38 b

H. Effect of Gift and Estate Taxation on Individuals

2N84# 27 a
2N84# 34 a
2M84#25 a
2M84#26 b
2M84#27 b
2N83# 25 d
2N83# 26 b
2N83# 27 c
2N83# 28 a
1N82# 54 c
1N82# 55 c
1N82# 56 a
1N82# 59 b

X. Federal Taxation—Corporations and Partnerships

A. Determination of Taxable Income or Loss

2N84# 46 a
2N84# 47 b
2N84# 48 c
2N84# 49 d
2N84# 51 a
2N84# 52 d
2M84# 1 b
2M84# 2 d
2M84# 3 d
2M84# 5 b
2M84# 8 c
2M84#13 a
2N83# 43 c
2N83# 44 d
2N83# 45 a
2N83# 47 d
2N83# 48 a
2N83# 49 b
2N83# 50 d
2N83# 59 b
2M83#43 d
2M83#44 d
2M83#49 d
2M83#50 a
2M83#52 c
2N82# 41 b
2N82# 42 a
2N82# 43 d
2N82# 46 b
2N82# 50 b
2N82# 51 a
2N82# 53 c
2M82#42 d
2M82#49 c
2M82#50 a
1N81# 42 b
1N81# 43 b
1N81# 45 a
1N81# 47 c
1N81# 50 c
1N81# 51 c
1N81# 52 d
2M81#41 a
2M81#42 a
2M81#44 b
2M81#53 a
2M81#56 b
2M81#58 d
1N80# 42 d
1N80# 44 d
1N80# 51 c
1N80# 52 d
1N80# 53 c
1N80# 54 b
1N80# 55 b
2M80#21 d
2M80#23 d
2M80#32 d
2M80#36 b
2M80#37 a
2M80#38 b
2M80#39 a
2M80#40 c

B. Tax Determination

2N84# 59 b
2N84# 60 a
2M84#11 c
2N83# 55 a
2N82# 48 c
2N82# 57 c
2M82#54 d
2M82#60 c
1N81# 55 c
2M81#59 c

C. S Corporations

2N84# 41 d
2M84#16 d
2N83# 41 a
2N83# 46 a
2M83#51 a
2N82# 52 c
2N82# 56 d
2M82#52 b
2M81#46 c
2M81#47 b
2M81#54 c
1N80# 45 a
1N80# 46 d
2M80#27 d
2M80#33 c

D. Personal Holding Companies

2N84# 44 b
2M84#18 c
2N83# 57 d
2M83#41 a
2M81#60 a

E. Accumulated Earnings Tax

2N84# 53 d
2M84#12 b
2N83# 56 b
2M83#42 d
2M80#25 c
2M80#35 b

F. Distributions

2N84# 50 a
2M84# 9 b
2M84#10 a
2N83# 60 c
2N82# 49 c
2M81#57 d
1N80# 57 d

G. Tax-Free Incorporation

2M84#20 b
2M83#46 b
2N82# 54 b
2M82#45 c
1N81# 46 d
1N80# 43 a

H. Reorganizations

2N84# 58 a
2M84# 4 d
2N82# 55 b
2M82#46 b
2M82#53 a
1N81# 41 b
1N80# 49 a

I. Liquidations and Dissolutions

2M84# 6 a
2M84#15 c
2N83# 51 a
2M83#47 c
2M83#48 b
2N82# 59 a
2M82#47 c
1N81# 48 c

J. Formation of Partnership

2N84# 45 a
2M84#17 b
2N83# 53 a
2N82# 58 b
1N81# 49 b

K. Basis of Partner's Interest

2N84# 55 c
2M84#19 b
2N83# 54 c
2M83#58 b
2M82#57 a

L. Basis of Property Contributed to Partnership

2M82#58 b

M. Determination of Partner's Taxable Income

2N84# 54 a
2M84#14 d
2M83#60 b
1N81# 53 d
1N81# 59 b
2M81#49 b
2M81#51 d
2M81#52 a
1N80# 58 a
2M80#31 a

N. Accounting Periods of Partnership and Partners

1N81# 58 c

O. Partner Dealing With Own Partnership

2N83# 52 d
2N82# 44 d
2N82# 47 d
1N81# 54 c

Q. Distributions of Partnership Assets

2N83# 58 d
2M83#54 a
2M83#55 d
2M83#59 c
1N80# 59 b

R. Termination of Partnership

2N84# 42 c
2N84# 43 d
2M83#53 a
2M83#56 b
2M83#57 a
2N82# 60 d
1N81# 56 a

PROBLEMS — SELECTED QUESTIONS

I. Presentation of Financial Statements or Worksheets

A. Balance Sheet

1N84
Number 5 (Estimated time —— 40 to 50 minutes)

Presented below is information pertaining to Ward Specialty Foods, a calendar-year sole proprietorship, maintaining its books on the cash basis during the year. At year-end, however, Mary Ward's accountant adjusts the books to the accrual basis only for sales, purchases, and cost of sales, and records depreciation to more clearly reflect the business income for income tax purposes.

Ward Specialty Foods
TRIAL BALANCE
December 31, 1983

	Dr.	*Cr.*
Cash	$ 18,500	
Accounts receivable, 12/31/82	4,500	
Inventory, 12/31/82	20,000	
Equipment	35,000	
Accumulated depreciation, 12/31/82		$ 9,000
Accounts payable, 12/31/82		4,800
Payroll taxes withheld		850
Mary Ward, drawings	24,000	
Mary Ward, capital, 12/31/82		33,650
Sales		187,000
Purchases	82,700	
Salaries	29,500	
Payroll taxes	2,900	
Rent	8,400	
Miscellaneous expense	3,900	
Insurance	2,400	
Utilities	3,500	
	$235,300	$235,300

During 1983 Ward signed a new eight-year lease for the store premises and is in the process of negotiating a loan for remodeling purposes. The bank requires Ward to present financial statements for 1983 prepared on the accrual basis. During the course of a compilation engagement, Ward's accountant obtained the following additional information:

1. Amounts due from customers totaled $7,900 at December 31, 1983.
2. A review of the receivables at December 31, 1983, disclosed that an allowance for doubtful accounts of $1,100 should be provided. Ward had no bad debt losses from inception of the business through December 31, 1983.
3. The inventory amounted to $23,000 at December 31, 1983, based on physical count of goods priced at cost. No reduction to market was required.
4. On signing the new lease on October 1, 1983, Ward paid $8,400 representing one year's rent in advance for the lease year ending October 1, 1984. The $7,500 annual rental under the old lease was paid on October 1, 1982, for the lease year ended October 1, 1983.
5. On April 1, 1983, Ward paid $2,400 to renew the comprehensive insurance coverage for one year. The premium was $2,160 on the old policy which expired on April 1, 1983.
6. Depreciation on equipment was computed at $5,800 for 1983.
7. Unpaid vendors' invoices for food purchases totaled $8,800 at December 31, 1983.
8. Accrued expenses at December 31, 1982, and December 31, 1983, were as follows:

	12/31/82	*12/31/83*
Payroll taxes	$250	$400
Salaries	375	510
Utilities	275	450

Required:

Go to page 162 and remove tear-out worksheet.

a. Complete the tear-out worksheet to convert the trial balance of Ward Specialty Foods to the accrual basis for the year ended December 31, 1983. Journal entries are not required to support your adjustments. Include the completed tear-out worksheet in the proper sequence with other answer sheets.

b. Prepare the statement of changes in Mary Ward, capital, for the year ended December 31, 1983.

Uniform Certified Public Accountant Examination
Accounting Practice—Part I
November 1984

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Ward Specialty Foods
WORKSHEET TO CONVERT
TRIAL BALANCE TO ACCRUAL BASIS
December 31, 1983

	Cash Basis		Adjustments		Accrual Basis	
	Dr.	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*
Cash	$ 18,500					
Accounts receivable	4,500					
Allow. for doubtful accts.	—	—				
Inventory	20,000					
Equipment	35,000					
Accum. depreciation		$ 9,000				
Prepaid rent	—	—				
Prepaid insurance	—	—				
Accounts payable		4,800				
Accrued expenses	—	—				
Payroll taxes withheld		850				
Ward, drawings	24,000					
Ward, capital		33,650				
Sales		187,000				
Purchases	82,700					
Income summary — inventory	—	—				
Salaries	29,500					
Payroll taxes	2,900					
Rent	8,400					
Miscellaneous exp.	3,900					
Insurance	2,400					
Utilities	3,500					
Depreciation	—	—				
Doubtful accounts exp.	—	—				
	$235,300	$235,300				

1M83
Number 5 (Estimated time — — 40 to 50 minutes)

Bryant Corporation was incorporated on December 1, 1981, and began operations one week later. Bryant is a nonpublic enterprise. Before closing the books for the fiscal year ended November 30, 1982, Bryant's controller prepared the following financial statements:

Bryant Corporation
BALANCE SHEET
November 30, 1982

Assets	
Current assets	
Cash	$ 150,000
Marketable securities, at cost	60,000
Accounts receivable	450,000
Less allowance for doubtful accounts	(59,000)
Inventories	430,000
Prepaid insurance	15,000
Total current assets	1,046,000
Property, plant & equipment	426,000
Less accumulated depreciation	(40,000)
Research & development costs	120,000
Total assets	$1,552,000
Liabilities & Stockholders' Equity	
Current liabilities	
Accounts payable & accrued expenses	$ 592,000
Income taxes payable	224,000
Total current liabilities	816,000
Stockholders' equity	
Common stock, $10 par value	400,000
Retained earnings	336,000
Total stockholders' equity	736,000
Total liabilities & stockholders' equity	$1,552,000

Bryant Corporation
STATEMENT OF INCOME
For the Year Ended November 30, 1982

Net sales	$2,950,000
Operating expenses	
Cost of sales	1,670,000
Selling & administrative	650,000
Depreciation	40,000
Research & development	30,000
	2,390,000
Income before income taxes	560,000
Provision for income taxes	224,000
Net income	$ 336,000

Bryant is in the process of negotiating a loan for expansion purposes and the bank has requested audited financial statements. During the course of the audit, the following additional information was obtained:

1. The investment portfolio consists of short-term investments in marketable equity securities with a total market valuation of $55,000 as of November 30, 1982.

2. Based on an aging of the accounts receivable as of November 30, 1982, it was estimated that $36,000 of the receivables will be uncollectible.

3. Inventories at November 30, 1982, did not include work-in-process inventory costing $12,000 sent to an outside processor on November 29, 1982.

4. A $3,000 insurance premium paid on November 30, 1982, on a policy expiring one year later was charged to insurance expense.

5. Bryant adopted a pension plan on June 1, 1982, for eligible employees to be administered by a trustee. Based upon actuarial computations, the first 12 months' normal pension plan cost was estimated at $45,000.

6. On June 1, 1982, a production machine purchased for $24,000 was charged to repairs and maintenance. Bryant depreciates machines of this type on the straight-line method over a five-year life, with no salvage value, for financial and tax purposes.

7. Research and development costs of $150,000 were incurred in the development of a patent which Bryant expects to be granted during the fiscal year ending November 30, 1983. Bryant initiated a five-year amortization of the $150,000 total cost during the fiscal year ended November 30, 1982.

8. During December 1982 a competitor company filed suit against Bryant for patent infringement claiming $200,000 in damages. Bryant's legal counsel believes that an unfavorable outcome is probable. A reasonable estimate of the court's award to the plaintiff is $50,000.

9. The 40% effective tax rate was determined to be appropriate for calculating the provision for income taxes for the fiscal year ended November 30, 1982. Ignore computation of deferred portion of income taxes.

Required:

Go to page 164 and remove tear-out worksheet.

Complete the tear-out worksheet to prepare a corrected balance sheet of Bryant Corporation as of November 30, 1982, and a corrected statement of income for the year ended November 30, 1982. Formal statements and journal entries are not required. Supporting computations should be in good form. Include the completed tear-out worksheet in the proper sequence and turn in with other answer sheets.

1M83
Number 5 (cont.)

Bryant Corporation
Worksheet for Balance Sheet
and Income Statement
November 30, 1982

Balance Sheet	*Unadjusted Balance*	*Adjustments*		*Adjusted Balance*
		Debit	*Credit*	
Assets:				
Cash	$ 150,000			
Marketable securities, at cost	60,000			
Accounts receivable	450,000			
Allowance for doubtful accounts	(59,000)			
Inventories	430,000			
Prepaid insurance	15,000			
Property, plant & equipment	426,000			
Accumulated depreciation	(40,000)			
Research & development costs	120,000			
	$1,552,000			
Liabilities & Stockholders' Equity:				
Accounts payable & accrued expenses	$ (592,000)			
Income taxes payable	(224,000)			
Common stock	(400,000)			
Retained earnings	(336,000)			
	$(1,552,000)			
Statement of Income				
Net sales	$(2,950,000)			
Cost of sales	1,670,000			
Selling & administrative expenses	650,000			
Depreciation expense	40,000			
Research & development expense	30,000			
Provision for income taxes	224,000			
Net income	$ (336,000)			

B. Income Statement

2M82
Number 4 (Estimated time — — 45 to 55 minutes)

The following information pertains to Woodbine Circle Corporation:

Adjusted Trial Balance
December 31, 1981

	Dr.	Cr.
Cash	$ 500,000	
Accounts receivable, net	1,500,000	
Inventory	2,500,000	
Property, plant, and equipment	15,100,000	
Accumulated depreciation		$ 4,900,000
Accounts payable		1,400,000
Income taxes payable		100,000
Notes payable		1,000,000
Common stock ($1 par value)		1,100,000
Additional paid-in capital		6,100,000
Retained earnings, 1/1/81		3,000,000
Sales — regular		10,000,000
Sales — AL Division		2,000,000
Interest on municipal bonds		100,000
Cost of sales — regular	6,200,000	
Cost of sales — AL Division	900,000	
Administrative expenses — regular	2,000,000	
Administrative expenses — AL Division	300,000	
Interest expense — regular	210,000	
Interest expense — AL Division	140,000	
Loss on disposal of AL Division	250,000	
Gain on repurchase of bonds payable		300,000
Income tax expense	400,000	
	$30,000,000	$30,000,000

Other financial data for the year ended December 31, 1981:

Federal income taxes

Paid on Federal Tax Deposit Forms 503	$ 300,000
Accrued	100,000
Total charged to income tax expense (estimated)	$ 400,000*

*Does not properly reflect current or deferred income tax expense or intraperiod income tax allocation for income statement purposes

Income per tax return	$2,150,000
Tax rate on all types of taxable income	40%

Timing difference

Depreciation, per financial statements	$ 600,000
Depreciation, per tax return	750,000

Permanent difference

Interest on municipal bonds	$100,000

Discontinued operations

On September 30, 1981, Woodbine sold its Auto Leasing (AL) Division for $4,000,000. Book value of this business segment was $4,250,000 at that date. For financial statement purposes, this sale was considered as discontinued operations of a segment of a business. Since there was no phase-out period, the measurement date was September 30, 1981.

Liabilities

On June 30, 1981, Woodbine repurchased $1,000,000 carrying value of its long-term bonds for $700,000. All other liabilities mature in 1982.

Capital structure

Common stock, par value $1 per share, traded on the New York Stock Exchange:

Number of shares outstanding at 1/1/81	900,000
Number of shares sold for $8 per share on 6/30/81	200,000
Number of shares outstanding at 12/31/81	1,100,000

Required:

Using the multiple-step format, prepare a formal income statement for Woodbine for the year ended December 31, 1981, together with the appropriate supporting schedules. Recurring and nonrecurring items in the income statement should be properly separated. All income taxes should be appropriately shown.

C. Statement of Changes in Financial Position

1M84

Number 4 (Estimated time — — 45 to 55 minutes)

Presented below are the balance sheet accounts of Bergen Corporation as of December 31, 1983 and 1982.

	1983	1982	Increased (Decrease)
Assets			
Current assets:			
Cash	$ 541,000	$ 308,000	$233,000
Accounts receivable, net	585,000	495,000	90,000
Inventories	895,000	780,000	115,000
Total current assets	2,021,000	1,583,000	438,000
Land	350,000	250,000	100,000
Plant and equipment	1,060,000	720,000	340,000
Accumulated depreciation	(295,000)	(170,000)	(125,000)
Leased equipment under capital lease	158,000	—	158,000
Marketable investment securities, at cost	—	75,000	(75,000)
Investment in Mason, Inc., at cost	180,000	180,000	—
Total assets	$3,474,000	$2,638,000	$836,000
Liabilities and Stockholders' Equity			
Current liabilities:			
Current portions of long-term debt	$ 159,000	$ —	$159,000
Accounts payable and accrued expenses	760,000	823,000	(63,000)
Total current liabilities	919,000	823,000	96,000
Note payable, long-term	300,000	—	300,000
Liability under capital lease	124,000	—	124,000
Bonds payable	500,000	500,000	—
Unamortized bond premium	16,000	18,000	(2,000)
Deferred income taxes	60,000	45,000	15,000
Common stock, par value $20	640,000	600,000	40,000
Additional paid-in capital	304,000	244,000	60,000
Retained earnings	611,000	408,000	203,000
Total liabilities and stockholders' equity	$3,474,000	$2,638,000	$836,000

Additional information:

- On January 2, 1983, Bergen sold all of its marketable investment securities for $95,000 cash.
- On March 10, 1983, Bergen paid a cash dividend of $30,000 on its common stock. No other dividends were paid or declared during 1983.
- On April 15, 1983, Bergen issued 2,000 shares of its common stock for land having a fair value of $100,000.
- On May 25, 1983, Bergen borrowed $450,000 from an insurance company. The underlying promissory note bears interest at 15% and is payable in three equal annual installments of $150,000. The first payment is due on May 25, 1984.
- On June 15, 1983, Bergen purchased equipment for $392,000 cash.
- On July 1, 1983, Bergen sold equipment costing $52,000, with a book value of $28,000, for $33,000 cash.

1M84
Number 4 (cont.)

• On September 1, 1983, Bergen paid a $20,000 additional tax assessment for 1982 due to an error in tax calculation discovered by the Internal Revenue Service. This payment was appropriately recorded by Bergen as a prior period adjustment.

• On December 31, 1983, Bergen leased equipment from Tilden Company, for a ten-year period. Equal payments under the lease are $25,000 and are due on December 31 each year. The first payment was made on December 31, 1983. The present value at December 31, 1983, of the ten lease payments is $158,000. Bergen appropriately recorded the lease as a capital lease. The $25,000 lease payment due on December 31, 1984, will consist of $9,000 principal and $16,000 interest.

• Bergen's net income for 1983 is $253,000.

• Bergen owns a 10% interest in the voting common stock of Mason, Inc., which is appropriately accounted for by the cost method. Mason reported net income of $120,000 for the year ended December 31, 1983, and paid a common stock dividend of $55,000 during 1983.

Required:
Using the working capital approach, prepare a statement of changes in financial position of Bergen Corporation for the year ended December 31, 1983. A worksheet is **not** required. Do **not** prepare a schedule of changes in working capital.

1N82
Number 4 (Estimated time — — 45 to 55 minutes)

Presented below are the balance sheets of Farrell Corporation as of December 31, 1981 and 1980, and the statement of income and retained earnings for the year ended December 31, 1981.

Farrell Corporation
BALANCE SHEETS
December 31, 1981 and 1980

Assets	*1981*	*1980*	*Increase (Decrease)*
Cash	$ 275,000	$ 180,000	$ 95,000
Accounts receivable, net	295,000	305,000	(10,000)
Inventories	549,000	431,000	118,000
Investment in Hall, Inc., at equity	73,000	60,000	13,000
Land	350,000	200,000	150,000
Plant and equipment	624,000	606,000	18,000
Less accumulated depreciation	(139,000)	(107,000)	(32,000)
Goodwill	16,000	20,000	(4,000)
Total assets	$2,043,000	$1,695,000	$348,000
Liabilities and Stockholders' Equity			
Accounts payable and accrued expenses	$ 604,000	$ 563,000	$ 41,000
Note payable, long-term	150,000	—	150,000
Bonds payable	160,000	210,000	(50,000)
Deferred income taxes	41,000	30,000	11,000
Common stock, par value $10	430,000	400,000	30,000
Additional paid-in capital	226,000	175,000	51,000
Retained earnings	432,000	334,000	98,000
Treasury stock, at cost	—	(17,000)	17,000
Total liabilities and stockholders' equity	$2,043,000	$1,695,000	$348,000

1N82
Number 4 (cont.)

Farrell Corporation
STATEMENT OF INCOME AND RETAINED EARNINGS
For the Year Ended December 31, 1981

Net sales	$1,950,000
Operating expenses:	
Cost of sales	1,150,000
Selling and administrative expenses	505,000
Depreciation	53,000
	1,708,000
Operating income	242,000
Other (income) expense:	
Interest expense	15,000
Equity in net income of Hall, Inc.	(13,000)
Loss on sale of equipment	5,000
Amortization of goodwill	4,000
	11,000
Income before income taxes	231,000
Income taxes:	
Current	79,000
Deferred	11,000
Provision for income taxes	90,000
Net income	141,000
Retained earnings, January 1, 1981	334,000
	475,000
Cash dividends, paid August 14, 1981	43,000
Retained earnings, December 31, 1981	$ 432,000

Additional information:

- On January 2, 1981, Farrell sold equipment costing $45,000, with a book value of $24,000, for $19,000 cash.
- On April 1, 1981, Farrell issued 1,000 shares of common stock for $23,000 cash.
- On May 15, 1981, Farrell sold all of its treasury stock for $25,000 cash.
- On June 1, 1981, individuals holding $50,000 face value of Farrell's bonds exercised their conversion privilege. Each of the 50 bonds was converted into 40 shares of Farrell's common stock.
- On July 1, 1981, Farrell purchased equipment for $63,000 cash.
- On December 31, 1981, land with a fair market value of $150,000 was purchased through the issuance of a long-term note in the amount of $150,000. The note bears interest at the rate of 15% and is due on December 31, 1986.
- Deferred income taxes represent timing differences relating to the use of accelerated depreciation methods for income tax reporting and the straight-line method for financial statement reporting.

Required:
Using the cash basis approach (funds defined as cash), prepare a statement of changes in financial position of Farrell Corporation for the year ended December 31, 1981.

2N80
Number 4 (Estimated time —— 45 to 55 minutes)

Presented below are comparative statements of financial position of Kenwood Corporation as of December 31, 1979, and December 31, 1978, respectively.

Kenwood Corporation
STATEMENT OF FINANCIAL POSITION

	December 31, 1979	December 31, 1978	Increase (Decrease)
Assets			
Current assets:			
Cash	$ 100,000	$ 90,000	$ 10,000
Accounts receivable (net of allowance for uncollectible accounts of $10,000 and $8,000, respectively)	210,000	140,000	70,000
Inventories	260,000	220,000	40,000
Total current assets	570,000	450,000	120,000
Land	325,000	200,000	125,000
Plant and equipment	580,000	633,000	(53,000)
Less: accumulated depreciation	(90,000)	(100,000)	10,000
Patents	30,000	33,000	(3,000)
Total assets	$1,415,000	$1,216,000	$199,000
Liabilities and Shareholders' Equity			
Liabilities:			
Current liabilities:			
Accounts payable	$ 260,000	$ 200,000	$ 60,000
Accrued expenses	200,000	210,000	(10,000)
Total current liabilities	460,000	410,000	50,000
Deferred income taxes	140,000	100,000	40,000
Long-term bonds (due December 15, 1990)	130,000	180,000	(50,000)
Total liabilities	730,000	690,000	40,000
Shareholders' equity:			
Common stock, par value $5, authorized 100,000 shares, issued and outstanding 50,000 and 42,000 shares, respectively	250,000	210,000	40,000
Additional paid-in capital	233,000	170,000	63,000
Retained earnings	202,000	146,000	56,000
Total shareholders' equity	685,000	526,000	159,000
Total liabilities and shareholders' equity	$1,415,000	$1,216,000	$199,000

2N80
Number 4 (cont.)

Presented below is the income statement of Kenwood Corporation for the year ended December 31, 1979.

Kenwood Corporation
INCOME STATEMENT
For the Year Ended December 31, 1979

Sales	$1,000,000
Expenses:	
Cost of sales	560,000
Salary and wages	190,000
Depreciation	20,000
Amortization	3,000
Loss on sale of equipment	4,000
Interest	16,000
Miscellaneous	8,000
Total expenses	801,000
Income before income taxes and extraordinary item	199,000
Income taxes	
Current	50,000
Deferred	40,000
Provision for income taxes	90,000
Income before extraordinary item	109,000
Extraordinary item - gain on repurchase of long-term bonds (net of $10,000 income tax)	12,000
Net income	$ 121,000
Earnings per share:	
Income before extraordinary item	$2.21
Extraordinary item	.24
Net income	$2.45

Additional information:

- On February 2, 1979, Kenwood issued a 10% stock dividend to shareholders of record on January 15, 1979. The market price per share of the common stock on February 2, 1979, was $15.
- On March 1, 1979, Kenwood issued 3,800 shares of common stock for land. The common stock and land had current market values of approximately $40,000 on March 1, 1979.
- On April 15, 1979, Kenwood repurchased long-term bonds with a face value of $50,000. The gain of $22,000 was reported as an extraordinary item on the income statement.
- On June 30, 1979, Kenwood sold equipment costing $53,000, with a book value of $23,000, for $19,000 cash.
- On September 30, 1979, Kenwood declared and paid a $0.04 per share cash dividend to shareholders of record August 1, 1979.
- On October 10, 1979, Kenwood purchased land for $85,000 cash.
- Deferred income taxes represent timing differences relating to the use of accelerated depreciation methods for income tax reporting and straight-line depreciation methods for financial statement reporting.

Required:
Using the working-capital concept of funds, prepare a statement of changes in financial position of Kenwood Corporation for the year ended December 31, 1979. (Do not prepare a schedule of changes in working capital.)

D. Statement of Owners' Equity

1N83
Number 4 (Estimated time — — 45 to 55 minutes)

Ashwood, Inc., is a public enterprise whose shares are traded in the over-the-counter market. At December 31, 1981, Ashwood had 6,000,000 authorized shares of $10 par value common stock, of which 2,000,000 shares were issued and outstanding. The stockholders' equity accounts at December 31, 1981, had the following balances:

Common stock	$20,000,000
Additional paid-in capital	7,500,000
Retained earnings	6,500,000

Transactions during 1982 and other information relating to the stockholders' equity accounts were as follows:

- On January 5, 1982, Ashwood issued at $54 per share, 100,000 shares of $50 par value, 9% cumulative convertible preferred stock. Each share of preferred stock is convertible, at the option of the holder, into two shares of common stock. Ashwood had 600,000 authorized shares of preferred stock. The preferred stock has a liquidation value equal to its par value.
- On February 1, 1982, Ashwood reacquired 20,000 shares of its common stock for $16 per share. Ashwood uses the cost method to account for treasury stock.
- On April 30, 1982, Ashwood sold 500,000 shares (previously unissued) of $10 par value common stock to the public at $17 per share.
- On June 18, 1982, Ashwood declares a cash dividend of $1 per share of common stock, payable on July 12, 1982, to stockholders of record on July 1, 1982.
- On November 10, 1982, Ashwood sold 10,000 shares of treasury stock for $21 per share.

• On December 14, 1982, Ashwood declared the yearly cash dividend on preferred stock, payable on January 14, 1983, to stockholders of record on December 31, 1982.

• On January 20, 1983, before the books were closed for 1982, Ashwood became aware that the ending inventories at December 31, 1981, were understated by $300,000 (after tax effect on 1981 net income was $180,000). The appropriate correction entry was recorded the same day.

• After correcting the beginning inventory, net income for 1982 was $4,500,000.

Required (show supporting computations in good form):

1. Prepare a statement of retained earnings for the year ended December 31, 1982. Assume that only single-period financial statements for 1982 are presented.

2. Prepare the stockholders' equity section of Ashwood's balance sheet at December 31, 1982.

3. Compute the book value per share of common stock at December 31, 1982.

1M80
Number 5 (Estimated time — — 40 to 50 minutes)

During May 1977 Gilroy, Inc., was organized with 3,000,000 authorized shares of $10 par value common stock, and 300,000 shares of its common stock were issued for $3,300,000. Net income through December 31, 1977, was $125,000.

On July 3, 1978, Gilroy issued 500,000 shares of its common stock for $6,250,000. A 5% stock dividend was declared on October 2, 1978, and issued on November 6, 1978, to stockholders of record on October 23, 1978. The market value of the common stock was $11 per share on the declaration date. Gilroy's net income for the year ended December 31, 1978, was $350,000.

During 1979 Gilroy had the following transactions:

• In February Gilroy reacquired 30,000 shares of its common stock for $9 per share. Gilroy uses the cost method to account for treasury stock.

• In June Gilroy sold 15,000 shares of its treasury stock for $12 per share.

• In September each stockholder was issued (for each share held) one stock right to purchase two additional shares of common stock for $13 per share. The rights expire on December 31, 1979.

• In October 250,000 stock rights were exercised when the market value of the common stock was $14 per share.

• In November 400,000 stock rights were exercised when the market value of the common stock was $15 per share.

• On December 15, 1979, Gilroy declared its first cash dividend to stockholders of $0.20 per share, payable on January 10, 1980, to stockholders of record on December 31, 1979.

• On December 21, 1979, in accordance with the applicable state law, Gilroy formally retired 10,000 shares of its treasury stock and had them revert to an unissued basis. The market value of the common stock was $16 per share on this date.

• Net income for 1979 was $750,000.

Required:

Prepare a schedule of all transactions affecting the capital stock (shares and dollar amounts), additional paid-in capital, retained earnings, and the treasury stock (shares and dollar amounts) and the amounts that would be included in Gilroy's balance sheet at December 31, 1977, 1978, and 1979, as a result of the above facts. Show supporting computations in good form.

E. Consolidated Financial Statements or Worksheets

1N83
Number 5 (Estimated time — — 40 to 50 minutes)

Amboy Corporation acquired all of the outstanding $10 par voting common stock of Taft, Inc., on January 1, 1982, in exchange for 50,000 shares of its $10 par voting common stock. On December 31, 1981, Amboy's common stock had a closing market price of $15 per share on a national stock exchange. The acquisition was appropriately accounted for as a purchase. Both companies continued to operate as separate business entities maintaining separate accounting records with years ending December 31.

On December 31, 1982, after year-end adjustments but before the nominal accounts were closed, the companies had condensed general ledger trial balances as follows:

	Amboy *Dr. (Cr.)*	*Taft* *Dr. (Cr.)*
Net sales	$(1,900,000)	$(1,500,000)
Dividend income from Taft, Inc.	(40,000)	
Gain on sale of warehouse	(30,000)	
Cost of goods sold	1,180,000	870,000
Operating expenses (includes depreciation)	550,000	440,000
Cash	285,000	150,000
Accounts receivable (net)	430,000	350,000
Inventories	530,000	410,000
Land, plant & equipment	660,000	680,000
Accumulated depreciation	(185,000)	(210,000)
Investment in Taft, Inc. (at cost)	750,000	
Accounts payable & accrued expenses	(670,000)	(594,000)
Common stock ($10 par)	(1,200,000)	(400,000)
Additional paid-in capital	(140,000)	(80,000)
Retained earnings (1/1/82)	(220,000)	(156,000)
Dividends paid		40,000
Total	$ 0	$ 0

1N83
Number 5 (cont.)

Amboy Corporation and Subsidiary
Consolidated Statement Worksheet
December 31, 1982

Income Statement	*Amboy Corp.*	*Taft Inc.*	*Adjustments and Eliminations* Debit	Credit	*Adjusted Balance*
Net sales:	$(1,900,000)	$(1,500,000)			
Dividends from Taft	(40,000)				
Gain on sale of warehouse	(30,000)				
Cost of goods sold	1,180,000	870,000			
Operating expenses (incl. deprec.)	550,000	440,000			
Net income	$ (240,000)	$ (190,000)			
Retained Earnings Statement					
Balance, 1/1/82	$ (220,000)	$ (156,000)			
Net income	(240,000)	190,000			
Dividends paid		40,000			
Balance, 12/31/82	$ (460,000)	$ (306,000)			
Balance Sheet					
Assets:					
Cash	$ 285,000	$ 150,000			
Accounts receivable (net)	430,000	350,000			
Inventories	530,000	410,000			
Land, plant & equipment	660,000	680,000			
Accumulated depreciation	(185,000)	(210,000)			
Investment in Taft (at cost)	750,000				
	$ 2,470,000	$ 1,380,000			
Liabilities & Stockholders' Equity:					
Accounts pay. & accrued exp.	$ (670,000)	$ (594,000)			
Common stock ($10 par)	(1,200,000)	(400,000)			
Additional paid-in capital	(140,000)	(80,000)			
Retained Earnings	(460,000)	(306,000)			
	$(2,470,000)	$(1,380,000)			

Additional information is as follows:

• There were no changes in the common stock and additional paid-in capital accounts during 1982 except the one necessitated by Amboy's acquisition of Taft.

• At the acquisition date the current value of Taft's machinery exceeded its book value by $54,000. The excess will be amortized over the estimated average remaining life of six years. The fair values of all of Taft's other assets and liabilities were equal to their book values. Any goodwill resulting from the acquisition will be amortized over a 20-year period.

• On July 1, 1982, Amboy sold a warehouse facility to Taft for $129,000 cash. At the date of sale Amboy's book values were $33,000 for the land and $66,000 for the undepreciated cost of the building. Taft allocated the $129,000 purchase price to the land for $43,000 and to the building for $86,000. Taft is depreciating the building over its estimated five-year remaining useful life by the straight-line method with no salvage value.

• During 1982 Amboy purchased merchandise from Taft at an aggregate invoice price of $180,000, which included a 100% markup on Taft's cost. At December 31, 1982, Amboy owed Taft $75,000 on these purchases, and $36,000 of the merchandise purchased remained in Amboy's inventory.

Required:

Go to page 172 and remove tear-out worksheet.

Complete the tear-out worksheet to prepare a consolidated income statement and retained earnings statement for the year ended December 31, 1982, and a consolidated balance sheet as at December 31, 1982, for Amboy Corporation and its subsidiary, Taft, Inc. Formal consolidated statements and journal entries are not required. Ignore income tax considerations. Supporting computations should be in good form. Include the completed tear-out worksheet in the proper sequence and turn in with other answer sheets.

1N80
Number 5 (Estimated time —— 40 to 50 minutes)

Madison, Inc., acquired all of the outstanding $10 par voting common stock of Adams Corporation on December 31, 1979, in exchange for 90,000 shares of its $10 par voting common stock in a business combination which meets all of the conditions for a pooling of interests. On the acquisition date, Madison's common stock had a closing market price of $26 per share on a national stock exchange. Both corporations continued to operate as separate businesses maintaining separate accounting records with years ending December 31.

On December 31, 1979, after the nominal accounts were closed and immediately after acquisition, the condensed balance sheets for both corporations were as follows:

	Madison	*Adams*
Assets:		
Cash	$ 750,000	$ 300,000
Accounts receivable, net	1,950,000	750,000
Inventories	2,100,000	950,000
Land	500,000	200,000
Depreciable assets, net	4,160,000	1,800,000
Investment in Adams Corporation	2,205,000	—
Long-term investments and other assets	785,000	350,000
Total assets	$12,450,000	$4,350,000
Liabilities and stockholders' equity:		
Accounts payable and other current liabilities	$ 1,750,000	$ 945,000
Long-term debt	1,500,000	1,200,000
Common stock, par value $10 per share	3,000,000	900,000
Additional paid-in capital	1,370,000	175,000
Retained earnings	4,830,000	1,130,000
Total liabilities and stockholders' equity	$12,450,000	$4,350,000

Additional information:

• Madison recorded its investment in Adams at the underlying equity in the net assets of Adams of $2,205,000.

• On December 31, 1979, Adams' assets and liabilities had fair values equal to the book balances with the exception of Land, which had a fair value of $400,000.

• Madison's accounting policy is to amortize excess cost over fair market value of net assets acquired over a 40-year period.

• On December 15, 1979, Adams paid a cash dividend of $3 per share on its common stock.

• Adams' Long-Term Debt consisted of 9%, ten-year bonds, issued at face value on June 30, 1975, and due on June 30, 1985. Interest is paid semiannually on June 30 and December 31. Madison had purchased Adams' bonds at face value of $250,000. There was no change in Madison's ownership of Adams' bonds through December 31, 1979.

• During the three-month period ended December 31, 1979, Madison purchased merchandise from Adams at an aggregate invoice price of $600,000. Madison had not paid for the merchandise as of December 31, 1979. The amount of profit realized by Adams on these transactions was $120,000. At December 31, 1979, one-half of the merchandise remained in Madison's inventory. There were no intercompany merchandise transactions prior to October 1, 1979.

1N80
Number 5 (cont.)

Madison, Inc. and Subsidiary
Consolidated Balance Sheet Worksheet
December 31, 1979

	Madison Inc.	*Adams Corporation*	*Adjustments and Eliminations* Debit	*Adjustments and Eliminations* Credit	*Consolidated*
Assets:					
Cash	$ 750,000	$ 300,000			
Accounts receivable, net	1,950,000	750,000			
Inventories	2,100,000	950,000			
Land	500,000	200,000			
Depreciable assets, net	4,160,000	1,800,000			
Investment in Adams Corp.	2,205,000				
Long-term investments and other assets	785,000	350,000			
	$12,450,000	$4,350,000			
Liabilities and Stockholders' equity:					
Accounts payable and other current liabilities	$ 1,750,000	$ 945,000			
Long-term debt	1,500,000	1,200,000			
Common stock, $10 par value	3,000,000	900,000			
Additional paid-in capital	1,370,000	175,000			
Retained earnings	4,830,000	1,130,000			
	$12,450,000	$4,350,000			

• The 1979 net income amounts per the separate books of Madison and Adams were $2,100,000 and $1,125,000, respectively.

• The balances in Retained Earnings at December 31, 1978, were $1,600,000 and $275,000 for Madison and Adams, respectively.

Required:

1. **Go to page 174 and remove tear-out worksheet.** Complete the tear-out worksheet to prepare a consolidated balance sheet of Madison, Inc., and its subsidiary, Adams Corporation, as of December 31, 1979. A formal consolidated balance sheet and journal entries are not required. Supporting computations should be in good form. Include the completed tear-out worksheet in the proper sequence and turn in with other answer sheets.
2. Prepare a formal consolidated statement of retained earnings for the year ended December 31, 1979. Show supporting computations in good form.

2M80
Number 3 (Estimated time — — 45 to 55 minutes)

The December 31, 1979, balance sheets of Encanto Corporation and its subsidiary, Norris Corporation, are presented below:

Assets	*Encanto Corporation*	*Norris Corporation*
Cash	$ 167,250	$101,000
Accounts receivable	178,450	72,000
Notes receivable	87,500	28,000
Dividends receivable	36,000	
Inventories	122,000	68,000
Property, plant, and equipment	487,000	252,000
Accumulated depreciation	(117,000)	(64,000)
Investment in Norris Corporation	240,800	
	$1,202,000	$457,000

Liabilities and Stockholders' Equity		
Accounts payable	$ 222,000	$ 76,000
Notes payable	79,000	89,000
Dividend payable		40,000
Common stock, $10 par value:		
Encanto Corporation	400,000	
Norris Corporation		100,000
Retained earnings:		
Encanto Corporation	501,000	
Norris Corporation		152,000
	$1,202,000	$457,000

Additional information:

• Encanto initially acquired 60% of the outstanding common stock of Norris in 1977. This purchase resulted in no difference between cost and net assets acquired. As of December 31, 1979, the percentage owned is 90 percent. An analysis of the account "Investment in Norris Corporation" is as follows:

Date	*Description*	*Amount*
Dec. 31, 1977	Acquired 6,000 shares	$ 70,800
Dec. 31, 1978	60% of 1978 net income of $78,000	46,800
Sept. 1, 1979	Acquired 3,000 shares	92,000
Dec. 31, 1979	Subsidiary income for 1979	67,200*
Dec. 31, 1979	90% of dividends declared	(36,000)
		$240,800

*Subsidiary income for 1979:	
60% of $96,000	$57,600
30% of $96,000 x 33⅓%	9,600
	$67,200

Assume that Norris's net income is earned ratably during the year. Amortization of the excess of cost over the net assets acquired is to be recorded over sixty months.

• On December 15, 1979, Norris declared a cash dividend of $4 per share of common stock, payable to shareholders on January 7, 1980.

• During 1979 Encanto sold merchandise to Norris. Encanto's cost for this merchandise was $68,000, and the sale was made at 125% of cost. Norris's inventory at December 31, 1979, included merchandise purchased from Encanto at a cost to Norris of $35,000.

• In December 1978 Norris sold merchandise to Encanto for $67,000, which was at a markup of 35% over Norris's cost. On January 1, 1979, $54,000 of this merchandise remained in Encanto's inventory. This merchandise was subsequently sold by Encanto at a profit of $11,000 during 1979.

• On October 1, 1979, Encanto sold for $42,000 excess equipment to Norris. Data relating to this equipment is as follows:

Book value on Encanto's records	$36,000
Method of depreciation	Straight-line

Estimated remaining life on October 1, 1979	10 years

• Near the end of 1979, Norris reduced the balance of its intercompany account payable to Encanto to zero by transferring $8,000 to Encanto. This payment was still in transit on December 31, 1979.

Required:

Prepare a consolidated balance sheet worksheet of Encanto Corporation and its subsidiary, Norris Corporation, as of December 31, 1979. Formal statements and journal entries are **not** required. Supporting computations should be in good form.

II. Measurement, Valuation, Realization, and Presentation of Assets in Conformity With Generally Accepted Accounting Principles

B. Marketable Securities and Investments

2N83
Number 5 (Estimated time — — 40 to 50 minutes)

At December 31, 1982, Winsor Corp. properly reported as current assets the following marketable equity securities:

Bea Corp., 1,000 shares, $2.40 convertible preferred stock	$ 40,000
Cha, Inc., 6,000 shares of common stock	60,000
Dey Co., 2,000 shares of common stock	55,000
Marketable equity securities at cost	$155,000
Less valuation allowance	7,000
Marketable equity securities at market	$148,000

On January 2, 1983, Winsor purchased 100,000 shares of Eddie Corp. common stock for $1,700,000, representing 30% of Eddie's outstanding common stock and an underlying equity of $1,400,000 in Eddie's net assets at January 2. Winsor, which had no other financial transactions with Eddie during 1983, amortizes goodwill over a 40-year period. As a result of Winsor's 30% ownership of Eddie, Winsor has the ability to exercise significant influence over Eddie's financial and operating policies.

During 1983, Winsor disposed of the following securities:

• January 18 — sold 2,500 shares of Cha for $13 per share.
• June 1 — sold 500 shares of Dey, after a 10% stock dividend, for $21 per share.
• October 1 — converted 500 shares of Bea's preferred stock into 1,500 shares of Bea's common stock, when the market price was $60 per share for the preferred stock and $21 per share for the common stock.

The following 1983 dividend information pertains to the stock held by Winsor:

• February 14 — Dey issued a 10% stock dividend, when the market price of Dey's common stock was $22 per share.
• April 5 and October 5 — Bea paid dividends of $1.20 per share on its $2.40 preferred stock, to stockholders of record on March 9 and September 9, respectively. Bea did not pay any dividends on its common stock during 1983.
• June 30 — Cha paid a $1.00 per share dividend on its common stock.
• March 1, June 1, September 1, and December 1 — Eddie paid quarterly dividends of $0.50 per share on each of these dates. Eddie's net income for the year ended December 31, 1983, was $1,200,000.

At December 31, 1983, Winsor's management intended to hold the Eddie stock as a long-term investment, with the remaining investments being considered as temporary. Market prices per share of the marketable equity securities were as follows:

	At December 31, 1983	At December 31, 1982
Bea Corp. — preferred	$56	$42
Bea Corp. — common	20	18
Cha, Inc. — common	11	11
Dey Co. — common	22	20
Eddie Corp. — common	16	18

All of the foregoing stocks are listed on major stock exchanges. Declines in market value from cost would not be considered as permanent declines.

Required:

a. Prepare a schedule of Winsor's *current* marketable equity securities at December 31, 1983, including any information necessary to determine the related valuation allowance and unrealized gross gains and losses.

b. Prepare a schedule to show the carrying amount of Winsor's *noncurrent* marketable equity securities at December 31, 1983.

c. Prepare a schedule showing all income, gains, and losses (realized and unrealized) relating to Winsor's investments, for the year ended December 31, 1983.

1M81
Number 4 (Estimated time — — 45 to 55 minutes)

Number 4 consists of two unrelated parts.

Part a. On June 1, 1979, Warner, Inc., purchased as a long-term investment 800 of the $1,000 face value, 8% bonds of Universal Corporation for $738,300. The bonds were purchased to yield 10% interest. Interest is payable semiannually on December 1 and June 1. The bonds mature on June 1, 1984. Warner uses the effective interest method of amortization. On November 1, 1980, Warner sold the bonds for $785,000. This amount includes the appropriate accrued interest.

Required:
Prepare a schedule showing the income or loss before income taxes from the bond investment that Warner should record for the years ended December 31, 1979, and 1980. Show supporting computations in good form.

Part b. On January 1, 1979, Jeffries, Inc., paid $700,000 for 10,000 shares of Wolf Company's voting common stock which was a 10% interest in Wolf. At that date the net assets of Wolf totaled $6,000,000. The fair values of all of Wolf's identifiable assets and liabilities were equal to their book values. Jeffries does not have the ability to exercise significant influence over the operating and financial policies of Wolf. Jeffries received dividends of $0.90 per share from Wolf on October 1, 1979. Wolf reported net income of $400,000 for the year ended December 31, 1979.

On July 1, 1980, Jeffries paid $2,300,000 for 30,000 additional shares of Wolf Company's voting common stock which represents a 30% investment in Wolf. The fair values of all of Wolf's identifiable assets net of liabilities were equal to their book values of $6,500,000. As a result of this transaction, Jeffries has the ability to exercise significant influence over the operating and financial policies of Wolf. Jeffries received dividends of $1.10 per share from Wolf on April 1, 1980, and $1.35 per share on October 1, 1980. Wolf reported net income of $500,000 for the year ended December 31, 1980, and $200,000 for the six months ended December 31, 1980. Jeffries amortizes goodwill over a forty-year period.

Required:
1. Prepare a schedule showing the income or loss before income taxes for the year ended December 31, 1979, that Jeffries should report from its investment in Wolf in its income statement issued in March 1980.

2. During March 1981 Jeffries issues comparative financial statements for 1979 and 1980. Prepare schedules showing the income or loss before income taxes for the years ended December 31, 1979, and 1980, that Jeffries should report from its investment in Wolf. Show supporting computations in good form.

C. Receivables and Accruals

1M84
Number 5 (Estimated time — — 40 to 50 minutes)

Linden, Inc., had the following long-term receivable account balances at December 31, 1982:

Note receivable from sale of division	$1,500,000
Note receivable from officer	400,000

Transactions during 1983 and other information relating to Linden's long-term receivables were as follows:

- The $1,500,000 note receivable is dated May 1, 1982, bears interest at 9%, and represents the balance of the consideration received from the sale of Linden's electronics division to Pitt Company. Principal payments of $500,000 plus appropriate interest are due on May 1, 1983, 1984, and 1985. The first principal and interest payment was made on May 1, 1983. Collection of the note installments is reasonably assured.

- The $400,000 note receivable is dated December 31, 1980, bears interest at 8%, and is due on December 31, 1985. The note is due from Robert Finley, president of Linden, Inc., and is collateralized by 10,000 shares of Linden's common stock. Interest is payable annually on December 31 and all interest payments were paid on their due dates through December 31, 1983. The quoted market price of Linden's common stock was $45 per share on December 31, 1983.

- On April 1, 1983, Linden sold a patent to Bell Company in exchange for a $100,000 noninterest bearing note due on April 1, 1985. There was no established exchange price for the patent, and the note had no ready market. The prevailing rate of interest for a note of this type at April 1, 1983, was 15%. The present value of $1 for two periods at 15% is 0.756. The patent had a carrying value of $40,000 at January 1, 1983, and the amortization for the year ended December 31, 1983, would have been $8,000. The collection of the note receivable from Bell is reasonably assured.

- On July 1, 1983, Linden sold a parcel of land to Carr Company for $200,000 under an installment sale contract. Carr made a $60,000 cash down payment on July 1, 1983, and signed a four-year 16% note for the $140,000 balance. The equal annual payments of principal and interest on the note will be $50,000 payable on July 1, 1984, through July 1, 1987. The land could have been sold at an established cash price of $200,000. The cost of the land to Linden was $150,000. Circumstances are such that the collection of the installments on the note is reasonably assured.

Required:
1. Prepare the long-term receivables section of Linden's balance sheet at December 31, 1983.

2. Prepare a schedule showing the current portion of the long-term receivables and accrued interest receivable that would appear in Linden's balance sheet at December 31, 1983.

3. Prepare a schedule showing interest income from the long-term receivables and gains recognized on sale of assets that would appear on Linden's income statement for the year ended December 31, 1983.

1M83
Number 4

Number 4 consists of two unrelated parts.

Part a. From inception of operations to December 31, 1981, Harris Corporation provided for uncollectible accounts receivable under the allowance method: provisions were made monthly at 2% of credit sales; bad debts written off were charged to the allowance account; recoveries of bad debts previously written off were credited to the allowance account; and, no year-end adjustments to the allowance account were made. Harris's usual credit terms are net 30 days.

The balance in the allowance for doubtful accounts was $130,000 at January 1, 1982. During 1982 credit sales totaled $9,000,000, interim provisions for doubtful accounts were made at 2% of credit sales, $90,000 of bad debts were written off, and recoveries of accounts previously written off amounted to $15,000. Harris installed a computer facility in November 1982 and an aging of accounts receivable was prepared for the first time as of December 31, 1982. A summary of the aging is as follows:

Classification by month of sale	*Balance in each category*	*Estimated % uncollectible*
Nov-Dec 1982	$1,140,000	2%
Jul-Oct	600,000	10
Jan-June	400,000	25
Prior to 1/1/82	130,000	75
	$2,270,000	

Based on the review of collectibility of the account balances in the "prior to 1/1/82" aging category, additional receivables totaling $60,000 were written off as of December 31, 1982. Effective with the year ended December 31, 1982, Harris adopted a new accounting method for estimating the allowance for doubtful accounts at the amount indicated by the year-end aging analysis of accounts receivable.

Required:

1. Prepare a schedule analyzing the changes in the allowance for doubtful accounts for the year ended December 31, 1982. Show supporting computations in good form.

2. Prepare the journal entry for the year-end adjustment to the allowance for doubtful accounts balance as of December 31, 1982.

1M80
Number 4

Number 4 consists of three unrelated parts.

Part a. From inception of operations in 1975, Summit carried no allowance for doubtful accounts. Uncollectible receivables were expensed as written off and recoveries were credited to income as collected. On March 1, 1979 (after the 1978 financial statements were issued), management recognized that Summit's accounting policy with respect to doubtful accounts was not correct, and determined that an allowance for doubtful accounts was necessary. A policy was established to maintain an allowance for doubtful accounts based on Summit's historical bad debt loss percentage applied to year-end accounts receivable. The historical bad debt loss percentage is to be recomputed each year based on all available past years up to a maximum of five years.

Information from Summit's records for five years is as follows:

Year	*Credit Sales*	*Accounts Written Off*	*Recoveries*
1975	$1,500,000	$15,000	$ -0-
1976	2,250,000	38,000	2,700
1977	2,950,000	52,000	2,500
1978	3,300,000	65,000	4,800
1979	4,000,000	83,000	5,000

Accounts receivable balances were $1,250,000 and $1,460,000 at December 31, 1978, and December 31, 1979, respectively.

Required:

1. Prepare the journal entry, with appropriate explanation, to set up the allowance for doubtful accounts as of January 1, 1979. Show supporting computations in good form.

2. Prepare a schedule analyzing the changes in the Allowance for Doubtful Accounts account for the year ended December 31, 1979. Show supporting computations in good form.

D. Inventories

1M83
Number 4

Number 4 consists of two unrelated parts.

Part b. On January 1, 1981, Lucas Distributors, Inc., adopted the dollar value LIFO inventory method for income tax and external financial statements reporting purposes. However, Lucas continued to use the FIFO inventory method for internal accounting and management purposes. In applying the LIFO method Lucas uses internal conversion price indexes and the multiple-pools approach under which substantially identical inventory items are grouped into LIFO inventory pools. The following data were available for Inventory Pool No. 1, which is composed of products A and B, for the two years following the adoption of LIFO:

	FIFO basis per records		
	Units	*Unit cost*	*Total cost*
Inventory, 1/1/81			
Product A	12,000	$30	$360,000
Product B	8,000	25	200,000
			$560,000
Inventory, 12/31/81			
Product A	17,000	35	$595,000
Product B	9,000	28	252,000
			$847,000
Inventory, 12/31/82			
Product A	13,000	40	$520,000
Product B	10,000	32	320,000
			$840,000

Required:

1. Prepare a schedule to compute the internal conversion price indexes for 1981 and 1982. Round indexes to two decimal places.

2. Prepare a schedule to compute the inventory amounts at December 31, 1981 and 1982, using the dollar value LIFO inventory method.

1N81

Number 4 (Estimated time —— 45 to 55 minutes)

Number 4 consists of two unrelated parts.

Part a. On January 1, 1976, Grover Company changed its inventory cost flow method to the LIFO cost method from the FIFO cost method for its raw materials inventory. The change was made for both financial statement and income tax reporting purposes. Grover uses the multiple-pools approach under which substantially identical raw materials are grouped into LIFO inventory pools; weighted average costs are used in valuing annual incremental layers. The composition of the December 31, 1978, inventory for the Class F inventory pool is as follows:

	Units	*Weighted average unit cost*	*Total cost*
Base year inventory — 1976	9,000	$10.00	$ 90,000
Incremental layer — 1977	3,000	11.00	33,000
Incremental layer — 1978	2,000	12.50	25,000
Inventory, December 31, 1978	14,000		$148,000

Inventory transactions for the Class F inventory pool during 1979 were as follows:

- On March 1, 1979, 4,800 units were purchased at a unit cost of $13.50 for $64,800.
- On September 1, 1979, 7,200 units were purchased at a unit cost of $14.00 for $100,800.
- A total of 15,000 units were used for production during 1979.

The following transactions for the Class F inventory pool took place during 1980:

- On January 10, 1980, 7,500 units were purchased at a unit cost of $14.50 for $108,750.
- On May 15, 1980, 5,500 units were purchased at a unit cost of $15.50 for $85,250.
- On December 29, 1980, 7,000 units were purchased at a unit cost of $16.00 for $112,000.
- A total of 16,000 units were used for production during 1980.

Required:

1. Prepare a schedule to compute the inventory (units and dollar amounts) of the Class F inventory pool at December 31, 1979. Show supporting computations in good form.

2. Prepare a schedule to compute the cost of Class F raw materials used in production for the year ended December 31, 1979.

3. Prepare a schedule to compute the inventory (units and dollar amounts) of the Class F inventory pool at December 31, 1980. Show supporting computations in good form.

Part b. Layne Corporation, a manufacturer of small tools, provided the following information from its accounting records for the year ended December 31, 1980:

Inventory at December 31, 1980 (based on physical count of goods in Layne's plant at cost on December 31, 1980)	$1,750,000
Accounts payable at December 31, 1980	1,200,000
Net sales (sales less sales returns)	8,500,000

Additional information is as follows:

1. Included in the physical count were tools billed to a customer F.O.B. shipping point on December 31, 1980. These tools had a cost of $28,000 and were billed at $35,000. The shipment was on Layne's loading dock waiting to be picked up by the common carrier.

2. Goods were in transit from a vendor to Layne on December 31, 1980. The invoice cost was $50,000, and the goods were shipped F.O.B. shipping point on December 29, 1980.

3. Work-in-process inventory costing $20,000 was sent to an outside processor for plating on December 30, 1980.

4. Tools returned by customers and held pending inspection in the returned goods area on December 31, 1980, were not included in the physical count. On January 8, 1981, the tools costing $26,000 were inspected and returned to inventory. Credit memos totaling $40,000 were issued to the customers on the same date.

5. Tools shipped to a customer F.O.B. destination on December 26, 1980, were in transit at December 31, 1980, and had a cost of $25,000. Upon notification of receipt by the customer on January 2, 1981, Layne issued a sales invoice for $42,000.

6. Goods, with an invoice cost of $30,000, received from a vendor at 5:00 P.M. on December 31, 1980, were recorded on a receiving report dated January 2, 1981. The goods were not included in the physical count, but the invoice was included in accounts payable at December 31, 1980.

7. Goods received from a vendor on December 26, 1980, were included in the physical count. However, the related $60,000 vendor invoice was not included in accounts payable at December 31, 1980, because the accounts payable copy of the receiving report was lost.

8. On January 3, 1981, a monthly freight bill in the amount of $4,000 was received. The bill specifically related to merchandise purchased in December 1980, one-half of which was still in the inventory at December 31, 1980. The freight charges were not included in either the inventory or in accounts payable at December 31, 1980.

Required:
Using the format shown below, prepare a schedule of adjustments as of December 31, 1980, to the initial amounts per Layne's accounting records. Show separately the effect, if any, of each of the eight transactions on the December 31, 1980, amounts. If the transactions would have no effect on the initial amount shown, state NONE.

	Inventory	*Accounts payable*	*Net sales*
Initial amounts	$1,750,000	$1,200,000	$8,500,000
Adjustments-increase (decrease)			
1			
2			
3			
4			
5			
6			
7			
8			
Total adjustments			
Adjusted amounts	$	$	$

E. Property, Plant, and Equipment

1N82
Number 5

Number 5 consists of two unrelated parts.

Part b. On January 1, 1980, Brock Corporation purchased a tract of land (site number 101) with a building for $600,000. Additionally, Brock paid a real estate broker's commission of $36,000, legal fees of $6,000, and title guarantee insurance of $18,000. The closing statement indicated that the land value was $500,000 and the building value was $100,000. Shortly after acquisition, the building was razed at a cost of $75,000.

Brock entered into a $3,000,000 fixed-price contract with Barnett Builders, Inc., on March 1, 1980, for the construction of an office building on land site number 101. The building was completed and occupied on September 30, 1981. Additional construction costs were incurred as follows:

Plans, specifications, and blueprints	$12,000
Architects' fees for design and supervision	95,000

The building is estimated to have a forty-year life from date of completion and will be depreciated using the 150% declining balance method.

To finance the construction cost, Brock borrowed $3,000,000 on March 1, 1980. The loan is payable in ten annual installments of $300,000 plus interest at the rate of 14 percent. Brock's average amounts of accumulated building construction expenditures were as follows:

For the period March 1 to December 31, 1980	$ 900,000
For the period January 1 to September 30, 1981	2,300,000

Required:

1. Prepare a schedule which discloses the individual costs making up the balance in the land account in respect of land site number 101 as of September 30, 1981.
2. Prepare a schedule which discloses the individual costs that should be capitalized in the office building account as of September 30, 1981. Show supporting computations in good form.
3. Prepare a schedule showing the depreciation expense computation of the office building for the year ended December 31, 1981.

F. Capitalized Leased Assets

1M81
Number 5

Number 5 consists of two unrelated parts.

Part b. Dumont Corporation, a lessor of office machines, purchased a new machine for $500,000 on December 31, 1979, which was delivered the same day (by prior arrangement) to Finley Company, the lessee. The following information relating to the lease transaction is available:

- The leased asset has an estimated useful life of seven years which coincides with the lease term.
- At the end of the lease term, the machine will revert to Dumont, at which time it is expected to have a residual value of $60,000 (none of which is guaranteed by Finley).
- The 10% investment tax credit on the asset cost is retained by Dumont and is expected to be realized in its 1979 income tax return.
- Dumont's implicit interest rate (on its net investment) is 12%, which is known by Finley.
- Finley's incremental borrowing rate is 14% at December 31, 1979.
- Lease rentals consist of seven equal annual payments, the first of which was paid on December 31, 1979.
- The lease is appropriately accounted for as a direct financing lease by Dumont and as a capital lease by Finley. Both lessor and lessee are calendar-year corporations and depreciate all fixed assets on the straight-line basis.

Information on present value factors is as follows:

Present value of $1 for seven periods at 12%	0.452
Present value of $1 for seven periods at 14%	0.400
Present value of an annuity of $1 in advance for seven periods at 12%	5.111
Present value of an annuity of $1 in advance for seven periods at 14%	4.889

Required (round all amounts to the nearest dollar):

1. Compute the annual rental under the lease. Show all computations in good form.
2. Compute the amounts of the gross lease rentals receivable and the unearned interest revenue that Dumont should disclose at the inception of the lease on December 31, 1979. Show all computations in good form.
3. What expense should Finley record for the year ended December 31, 1980? Show supporting computations in good form.

G. Intangibles

1N82
Number 5

Number 5 consists of two unrelated parts.

Part a. Information concerning Tully Corporation's intangible assets is as follows:

- On January 1, 1981, Tully signed an agreement to operate as a franchisee of Rapid Copy Service, Inc., for an initial franchise fee of $85,000. Of this amount, $25,000 was paid when the agreement was signed and the balance is payable in four annual payments of $15,000 each beginning January 1, 1982. The agreement provides that the down payment is not refundable and no future services are required of the franchisor. The present value at January 1, 1981, of the four annual payments discounted at 14% (the implicit rate for a loan of this type) is $43,700. The agreement also provides that 5% of the revenue from the franchise must be paid to the franchisor annually. Tully's revenue from the franchise for 1981 was $900,000. Tully estimates the useful life of the franchise to be ten years.
- Tully incurred $78,000 of experimental and development costs in its laboratory to develop a patent which was granted on January 2, 1981. Legal fees and other costs associated with registration of the patent totaled $16,400. Tully estimates that the useful life of the patent will be eight years.
- A trademark was purchased from Walton Company for $40,000 on July 1, 1978. Expenditures for successful litigation in defense of the trademark totaling $10,000 were paid on July 1, 1981. Tully estimates that the useful life of the trademark will be 20 years from the date of acquisition.

Required:

1. Prepare a schedule showing the intangibles section of Tully's balance sheet at December 31, 1981. Show supporting computations in good form.

2. Prepare a schedule showing all expenses resulting from the transactions that would appear on Tully's income statement for the year ended December 31, 1981. Show supporting computations in good form.

III. Valuation, Recognition, and Presentation of Liabilities in Conformity With Generally Accepted Accounting Principles

1N84

Number 4 (Estimated time —— 45 to 55 minutes)

Included in Bristol Corporation's liability account balances at December 31, 1982 were the following:

Note payable, bank	$2,800,000
Liability under capital lease	430,000
Deferred income taxes	360,000

Transactions during 1983 and other information relating to Bristol's liabilities were as follows:

- The principal amount of the note payable is $2,800,000 and bears interest at 15%. The note is dated April 1, 1982, and is payable in four equal annual installments of $700,000 beginning April 1, 1983. The first principal and interest payment was made on April 1, 1983.

- The capitalized lease is for a ten-year period beginning December 31, 1980. Equal annual payments of $100,000 are due on December 31 of each year, and the 14% interest rate implicit in the lease is known by Bristol. The present value at December 31, 1982, of the seven remaining lease payments (due December 31, 1983, through December 31, 1989) discounted at 14% was $430,000.

- Deferred income taxes are provided in recognition of timing differences between financial statement and income tax reporting of depreciation. For the year ended December 31, 1983, depreciation per tax return exceeded book depreciation by $90,000. Bristol's effective income tax rate for 1983 was 40%.

- On July 1, 1983, Bristol issued for $1,774,000, $2,000,000 face amount of its 10%, $1,000 bonds. The bonds were issued to yield 12%. The bonds are dated July 1, 1983, and mature on July 1, 1993. Interest is payable annually on July 1. Bristol uses the interest method to amortize bond discount.

Required:

a. Prepare the long-term liabilities section of Bristol's balance sheet at December 31, 1983.

b. Prepare a schedule showing the current portion of the long-term liabilities and accrued interest payable that would appear in Bristol's balance sheet at December 31, 1983.

c. Prepare a schedule showing interest expense from the long-term liabilities and deferred income tax expense that would appear in Bristol's income statement for the year ended December 31, 1983.

1M82

Number 4

Number 4 consists of two unrelated parts.

Part b. Greenlaw, Inc., a publishing company, is preparing its December 31, 1981, financial statements and must determine the proper accounting treatment for each of the following situations:

1. Greenlaw sells subscriptions to several magazines for a one-year, two-year, or three-year period. Cash receipts from subscribers are credited to magazine subscriptions collected in advance, and this account had a balance of $2,400,000 at December 31, 1981. Outstanding subscriptions at December 31, 1981, expire as follows:

During 1982	—	$600,000
During 1983	—	900,000
During 1984	—	400,000

2. On January 2, 1981, Greenlaw discontinued collision, fire, and theft coverage on its delivery vehicles and became self-insured for these risks. Actual losses of $45,000 during 1981 were charged to delivery expense. The 1980 premium for the discontinued coverage amounted to $100,000, and the controller wants to set up a reserve for self-insurance by a debit to delivery expense of $55,000 and a credit to the reserve for self-insurance of $55,000.

3. A suit for breach of contract seeking damages of $1,000,000 was filed by an author against Greenlaw on July 1, 1981. The company's legal counsel believes that an unfavorable outcome is probable. A reasonable estimate of the court's award to the plaintiff is in the range between $100,000 and $500,000. No amount within this range is a better estimate of potential damages than any other amount.

4. During December 1981 a competitor company filed suit against Greenlaw for industrial espionage claiming $2,000,000 in damages. In the opinion of management and company counsel, it is reasonably possible that damages will be awarded to the plaintiff. However, the amount of potential damages awarded to the plaintiff cannot be reasonably estimated.

Required:

For each of the situations above, prepare the journal entry that should be recorded as of December 31, 1981, or explain why an entry should not be recorded. Show supporting computations in good form.

IV. Ownership Structure, Presentation, and Valuation of Equity Accounts in Conformity With Generally Accepted Accounting Principles

A. Preferred and Common Stock

2M84
Number 4

Number 4 consists of two unrelated parts.

Part b. Chee Corporation's post-closing trial balance at December 31, 1983, was as follows:

Chee Corporation
POST-CLOSING TRIAL BALANCE
December 31, 1983

	Debit	*Credit*
Accounts payable		$ 290,000
Accounts receivable	$ 550,000	
Accumulated depreciation — building and equipment		200,000
Additional paid-in capital — common		
In excess of par value		1,560,000
From sale of treasury stock		250,000
Allowance for doubtful accounts		30,000
Allowance to reduce long-term equity securities to market		25,000
Bonds payable		400,000
Building and equipment	1,100,000	
Cash	220,000	
Common stock ($1 par value)		150,000
Dividends payable on preferred stock — cash		4,000
Inventories	620,000	
Land	380,000	
Long-term equity securities at cost	310,000	
Marketable equity securities at cost	215,000	
Net unrealized loss on long-term equity securities	25,000	
Preferred stock ($50 par value)		500,000
Prepaid expenses	40,000	
Retained earnings		231,000
Treasury stock — common at cost	180,000	
Totals	$3,640,000	$3,640,000

At December 31, 1983, Chee had the following number of common and preferred shares:

	Common	*Preferred*
Authorized	500,000	50,000
Issued	150,000	10,000
Outstanding	140,000	10,000

The dividends on preferred stock are $4 cumulative. In addition, the preferred stock has a preference in liquidation of $50 per share.

Required:

Prepare the stockholders' equity section of Chee's balance sheet at December 31, 1983.

E. Stock Options, Warrants, and Rights

1N81
Number 5

Number 5 consists of two unrelated parts.

Part a. On January 1, 1978, Holt, Inc., granted stock options to officers and key employees for the purchase of 20,000 shares of the company's $10 par common stock at $25 per share. The options were exercisable within a four-year period beginning January 1, 1980, by grantees still in the employ of the company, and expiring December 31, 1983. The market price of Holt's common stock was $33 per share at the date of grant. Holt prepares a formal journal entry to record this award.

On April 1, 1979, 2,000 option shares were terminated when the employees resigned from the company. The market value of the common stock was $35 per share on this date.

On March 31, 1980, 12,000 option shares were exercised when the market value of the common stock was $40 per share.

Required:

Prepare journal entries to record issuance of the stock options, termination of the stock options, exercise of the stock options, and charges to compensation expense for the years ended December 31, 1978, 1979, and 1980. Show supporting computations in good form.

G. Partnerships

1M82
Number 4

Number 4 consists of two unrelated parts.

Part a. On January 1, 1982, the partners of Allen, Brown, and Cox, who share profits and losses in the ratio of 5:3:2, respectively, decide to liquidate their partnership. The partnership trial balance at this date is as follows:

	Debit	*Credit*
Cash	$ 18,000	
Accounts receivable	66,000	
Inventory	52,000	
Machinery and equipment, net	189,000	
Allen, loan	30,000	
Accounts payable		$ 53,000
Brown, loan		20,000
Allen, capital		118,000
Brown, capital		90,000
Cox, capital		74,000
	$355,000	$355,000

The partners plan a program of piecemeal conversion of assets in order to minimize liquidation losses. All available cash, less an amount retained to provide for future expenses, is to be distributed to the partners at the end of each month. A summary of the liquidation transactions is as follows:

January 1982:

a. $51,000 was collected on accounts receivable; the balance is uncollectible.
b. $38,000 was received for the entire inventory.
c. $2,000 liquidation expenses were paid.
d. $50,000 was paid to outside creditors, after offset of a $3,000 credit memorandum received on January 11, 1982.
e. $10,000 cash was retained in the business at the end of the month for potential unrecorded liabilities and anticipated expenses.

February 1982:

f. $4,000 liquidation expenses were paid.
g. $6,000 cash was retained in the business at the end of the month for potential unrecorded liabilities and anticipated expenses.

March 1982:

h. $146,000 was received on sale of all items of machinery and equipment.
i. $5,000 liquidation expenses were paid.
j. No cash was retained in the business.

Required:
Prepare a schedule to compute safe installment payments to the partners as of January 31, 1982. Show supporting computations in good form.

V. Measurement and Presentation of Income and Expense Items, Their Relationship to Matching and Periodicity, and Their Relationship to Generally Accepted Accounting Principles

A. Sales or Revenues

1M82
Number 5

Number 5 consists of two unrelated parts.

Part a. After a two-year search for a buyer, Hobson, Inc., sold its idle plant facility to Jackson Company for $700,000 on January 1, 1977. On this date the plant had a depreciated cost on Hobson's books of $500,000. Under the agreement Jackson paid $100,000 cash on January 1, 1977, and signed a $600,000 note bearing interest at 10%. The note was payable in installments of $100,000, $200,000, and $300,000 on January 1, 1978, 1979, and 1980, respectively. The note was secured by a mortgage on the property sold. Hobson appropriately accounted for the sale under the cost recovery method since there was no reasonable basis for estimating the degree of collectibility of the note receivable. Jackson repaid the note with three late installment payments, which were accepted by Hobson, as follows:

Date of payment	*Principal*	*Interest*
July 1, 1978	$100,000	$90,000
December 31, 1979	200,000	75,000
February 1, 1981	300,000	32,500

On April 1, 1981, Hobson exchanged a tract of land, which it had acquired for $105,000 as a potential future building site, for a used printing press of Tyler Company, and paid a cash difference of $30,000. The fair value of the land was $190,000 on the exchange date based on a recent appraisal. The fair value of the printing press was not reasonably determinable, but it had a depreciated cost of $210,000 on Tyler's books at April 1, 1981.

Required:
1. Prepare a schedule (using the format shown below) to record the initial transaction for the sale of the idle plant facility, the application of subsequent cash collections on the note, and the necessary journal entry on the date the transaction is complete.

Number 5
Part a.

Date	*Cash received* *Debit*	*Note receivable* *Dr. (Cr.)*	*Idle plant (net)* *(Credit)*	*Deferred income* *Dr. (Cr.)*	*Income recognized* *(Credit)*
January 1, 1977	$100,000				
July 1, 1978	190,000				
December 31, 1979	275,000				
February 1, 1981	332,500				
February 1, 1981					

2. Prepare the journal entry on Hobson's books to record the exchange transaction with Tyler. Show supporting computations in good form.

1N80
Number 4 (Estimated time — — 45 to 55 minutes)

Number 4 consists of two unrelated parts.

Part a. Curtiss Construction Company, Inc., entered into a firm fixed-price contract with Axelrod Associates on July 1, 1977, to construct a four-story office building. At that time, Curtiss estimated that it would take between two and three years to complete the project. The total contract price for construction of the building is $4,000,000. Curtiss appropriately accounts for this contract under the completed-contract method in its financial statements and for income tax reporting. The building was deemed substantially completed on December 31, 1979. Estimated percentage of completion, accumulated contract costs incurred, estimated costs to complete the contract, and accumulated billings to Axelrod under the contract were as follows:

	At December 31, 1977	*At December 31, 1978*	*At December 31, 1979*
Percentage of completion	10%	60%	100%
Contract costs incurred	$ 350,000	$2,500,000	$4,250,000
Estimated costs to complete the contract	$3,150,000	$1,700,000	—
Billings to Axelrod	$ 720,000	$2,160,000	$3,600,000

Required:
1. Prepare schedules to compute the amount to be shown as "cost of uncompleted contract in excess of related billings" or "billings on uncompleted contract in excess of related costs" at December 31, 1977, 1978, and 1979. Ignore income taxes. Show supporting computations in good form.

2. Prepare schedules to compute the profit or loss to be recognized as a result of this contract for the years ended December 31, 1977, 1978, and 1979. Ignore income taxes. Show supporting computations in good form.

Part b. On April 1, 1979, Butler, Inc., entered into a cost-plus-fixed-fee contract to construct an electric generator for Dalton Corporation. At the contract date, Butler estimated that it would take two years to complete the project at a cost of $2,000,000. The fixed fee stipulated in the contract is $300,000. Butler appropriately accounts for this contract under the percentage-of-completion method. During 1979 Butler incurred costs of $700,000 related to the project, and the estimated cost at December 31, 1979, to complete the contract is $1,400,000. Dalton was billed $500,000 under the contract.

Required:
Prepare a schedule to compute the amount of gross profit to be recognized by Butler under the contract for the year ended December 31, 1979. Show supporting computations in good form.

1M80
Number 4

Number 4 consists of three unrelated parts.

Part b. On January 1, 1978, the Pitt Company sold a patent to Chatham, Inc., which had a net carrying value on Pitt's books of $10,000. Chatham gave Pitt an $80,000 non-interest-bearing note payable in five equal annual installments of $16,000, with the first payment due and paid on January 1, 1979. There was no established exchange price for the patent, and the note has no ready market. The prevailing rate of interest for a note of this type at January 1, 1978, was 12%. Information on present value and future amount factors is as follows:

	Period				
	1	2	3	4	5
Present value of $1 at 12%	0.89	0.80	0.71	0.64	0.57
Present value of an annuity of $1 at 12%	0.89	1.69	2.40	3.04	3.60
Future amount of $1 at 12%	1.12	1.25	1.40	1.57	1.76
Future amount of an annuity of $1 at 12%	1.00	2.12	3.37	4.78	6.35

Required:
Prepare a schedule showing the income or loss before income taxes (rounded to the nearest dollar) that Pitt should record for the years ended December 31, 1978, and 1979, as a result of the above facts. Show supporting computations in good form.

Part c. The Maple Corporation sells farm machinery on the installment plan. On July 1, 1979, Maple entered into an installment sale contract with Agriculture, Inc., for an eight-year period. Equal annual payments under the installment sale are $100,000 and are due on July 1. The first payment was made on July 1, 1979.

Additional information is as follows:

- The amount that would be realized on an outright sale of similar farm machinery is $556,000.
- The cost of the farm machinery sold to Agriculture is $417,000.
- The finance charges relating to the installment period are $244,000 based on a stated interest rate of 12%, which is appropriate.
- Circumstances are such that the collection of the installments due under the contract is reasonably assured.

Required:
What income or loss before income taxes should Maple record for the year ended December 31, 1979, as a result of the above transaction? Show supporting computations in good form.

C. Expenses

1M82
Number 5

Number 5 consists of two unrelated parts.

Part b. Foster Corporation, a calendar-year company, adopted a noncontributory defined benefit pension plan on January 1, 1980. Foster's actuarial consulting firm recommended a 6% interest rate as appropriate and, applying an acceptable actuarial method, determined that the past service cost at the date of adoption of the plan is $300,000. Management decided to amortize the past service cost over 16 years and to fund the past service cost by making equal payments to the pension fund trustee at the end of each of the first 20 years. As of December 31, 1981, no benefits have vested. The normal (current) pension cost is to be funded fully each year. Information provided by the actuarial consultant relating to the pension plan for the years 1980 and 1981 is as follows:

	1980	*1981*
Amortization of past service cost	$29,685	$29,685
Funding of past service cost	26,155	26,155
Normal pension cost	60,000	65,000

Required:
1. Prepare schedules to compute the amounts relating to the pension plan that Foster should report on its income statement and balance sheet for 1980 and 1981. Show supporting computations in good form.
2. Compute the minimum and maximum pension cost limits allowable under generally accepted accounting principles for 1980. Show supporting computations in good form.

1M81
Number 5

Number 5 consists of two unrelated parts.

Part a. On February 20, 1980, Riley, Inc., purchased a machine for $1,200,000 for the purpose of leasing it. The machine is expected to have a ten-year life, no residual value, and will be depreciated on the straight-line basis. The machine was leased to Sutter Company on March 1, 1980, for a four-year period at a monthly rental of $18,000. There is no provision for the renewal of the lease or purchase of the machine by the lessee at the expiration of the lease term. Riley paid $60,000 of commissions associated with negotiating the lease in February 1980.

Required:
1. What expense should Sutter record as a result of the above facts for the year ended December 31, 1980? Show supporting computations in good form.

2. What income or loss before income taxes should Riley record as a result of the above facts for the year ended December 31, 1980? Show supporting computations in good form.

D. Provision for Income Tax

2N82
Number 4 (Estimated time —— 45 to 55 minutes)

In January 1982, you began the examination of the financial statements for the year ended December 31, 1981, of Howe Corporation, a new audit client. During your examination the following information was disclosed:

- On January 2, 1979, packaging equipment was purchased at a cost of $450,000. The equipment had an estimated useful life of five years and a salvage value of $60,000. Howe was entitled to and claimed an investment credit of $30,000 on its 1979 income tax return. For financial reporting purposes, the investment credit was treated as an offset against the cost of the equipment. The sum-of-the-years' digits method of depreciation was used for income tax reporting and the straight-line method was used on the financial statements.
- On January 3, 1980, $120,000 was collected in advance rental of a building for a three-year period. The $120,000 was reported as taxable income in 1980, but $80,000 was reported as deferred revenue in 1980 in the financial statements. The building will continue to be rented for the foreseeable future.
- On February 9, 1981, Howe sold land with a book and tax basis of $300,000 for $400,000. The gain, reported in full in 1981 on the financial statements, was reported by the installment method on the income tax return equally over a period of ten years and is taxable at the capital gains rate.
- On March 10, 1981, a patent was purchased at a cost of $68,000. Howe is amortizing the patent over a period of four years on the financial statements and over 17 years on its income tax return. Howe elected to record a full year's amortization in 1981 on both its financial statements and income tax return.

Based on effective income tax rates of 40% on ordinary income and 28% on long-term capital gains, the following federal income tax liabilities were reported on Howe's income tax returns:

1979	$ 50,000
1980	142,400
1981	101,280

Required:

Prepare schedules computing

1. Net deductions for tax reporting purposes, giving rise to interperiod tax allocation on ordinary income for each year ended December 31, 1979, 1980, and 1981.
2. Net deductions for financial statements adjusted for applicable permanent differences, giving rise to interperiod tax allocation on ordinary income for each year ended December 31, 1979, 1980, and 1981.
3. Deferred tax credit at the capital gains rate at December 31, 1981.
4. Total net deferred tax credits and debits at December 31, 1979, 1980, and 1981.
5. Total income tax expense for financial statement purposes for each year ended December 31, 1979, 1980, and 1981.

G. Earnings Per Share

1N81
Number 5

Number 5 consists of two unrelated parts.

Part b. Mason Corporation's capital structure is as follows:

	December 31 *1980*	*1979*
Outstanding shares of:		
Common stock	336,000	300,000
Nonconvertible preferred stock	10,000	10,000
8% convertible bonds	$1,000,000	$1,000,000

The following additional information is available:

- On September 1, 1980, Mason sold 36,000 additional shares of common stock.
- Net income for the year ended December 31, 1980, was $750,000.
- During 1980 Mason paid dividends of $3.00 per share on its nonconvertible preferred stock.
- The 8% convertible bonds are convertible into 40 shares of common stock for each $1,000 bond, and were not considered common stock equivalents at the date of issuance.
- Unexercised stock options to purchase 30,000 shares of common stock at $22.50 per share were outstanding at the beginning and end of 1980. The average market price of Mason's common stock was $36 per share during 1980. The market price was $33 per share at December 31, 1980.
- Warrants to purchase 20,000 shares of common stock at $38 per share were attached to the preferred stock at the time of issuance. The warrants, which expire on December 31, 1985, were outstanding at December 31, 1980.
- Mason's effective income tax rate was 40% for 1979 and 1980.

Required (show supporting computations in good form and round earnings per share to the nearest penny):

1. Compute the number of shares which should be used for the computation of primary earnings per common share for the year ended December 31, 1980.
2. Compute the primary earnings per common share for the year ended December 31, 1980.
3. Compute the number of shares which should

be used for the computation of fully diluted earnings per common share for the year ended December 31, 1980.

4. Compute the fully diluted earnings per common share for the year ended December 31, 1980.

VII. Cost Accumulation, Planning, and Control

2N84
Number 5 (Estimated time —— 40 to 50 minutes)

Poe Corp. has manufacturing plants in Boston and Chicago. Both plants produce the same product, Xoff, which sells for $20 per unit. Budgeted revenues and costs for the year ending December 31, 1985, are:

	(000 omitted)		
	Total	*Boston*	*Chicago*
Sales	$6,200	$2,200	$4,000
Variable factory costs:			
Direct material	1,550	550	1,000
Direct labor	1,660	660	1,000
Factory overhead	1,140	440	700
Fixed factory overhead costs	1,600	700	900
Fixed regional promotional costs	200	100	100
Allocated home office costs	310	110	200
Total costs	6,460	2,560	3,900
Operating income (loss)	$(260)	$(360)	$ 100

Home office costs are fixed, and are allocated to manufacturing plants on the basis of relative sales levels. Fixed regional promotional costs are discretionary advertising costs needed to obtain budgeted sales levels. Because of the budgeted operating loss, Poe is considering the possibility of ceasing operations at its Boston plant. If Poe were to cease operations at its Boston plant, proceeds from the sale of plant assets would exceed their book value and exactly cover all termination costs; fixed factory overhead costs of $50,000 would not be eliminated. Poe is considering the following three alternative plans:

- *Plan A* — Expand Boston's operations from the budgeted 110,000 units of Xoff, to a budgeted 170,000 units. It is believed that this can be accomplished by increasing Boston's fixed regional promotional expenditures by $120,000.

- *Plan B* — Close the Boston plant and expand Chicago's operations from the current budgeted 200,000 units of Xoff, to 310,000 units, in order to fill Boston's budgeted production of 110,000 units. The Boston region would continue to incur promotional costs in order to sell the 110,000 units. All sales and costs would be budgeted through the Chicago plant.

- *Plan C* — Close the Boston plant and enter into a long-term contract with a competitor to serve the Boston region's customers. This competitor would pay Poe a royalty of $2.50 per unit of Xoff sold. Poe would continue to incur fixed regional promotional costs in order to maintain sales of 110,000 units in the Boston region.

Required:

a. Without considering the effects of implementing Plans A, B, and C, compute the number of units of Xoff required by the Boston plant to cover its fixed factory overhead costs and fixed regional promotional costs.

b. Prepare a schedule by plant, and in total, computing Poe's budgeted contribution margin and operating income resulting from the implementation of each of the following plans:

1. Plan A.
2. Plan B.
3. Plan C.

2M84
Number 4

Number 4 consists of two unrelated parts.

Part a. Mat Company's cost of goods sold for the month ended March 31, 1984, was $345,000. Ending work in process inventory was 90% of beginning work in process inventory. Factory overhead applied was 50% of direct labor cost. Other information pertaining to Mat Company's inventories and production for the month of March is as follows:

Beginning inventories — March 1	
Direct materials	$ 20,000
Work in process	40,000
Finished goods	102,000
Purchases of direct materials during March	110,000
Ending inventories — March 31	
Direct materials	26,000
Work in process	?
Finished goods	105,000

Required:

1. Prepare a schedule of cost of goods manufactured for the month of March.

2. Prepare a schedule to compute the prime cost incurred during March.

3. Prepare a schedule to compute the conversion cost charged to work in process during March.

2M84
Number 5 (Estimated time — — 40 to 50 minutes)

At the beginning of 1984, Beal Company adopted the following standards:

	Input	*Total*
Direct materials	3 lbs. @ $2.50 per lb.	$ 7.50
Direct labor	5 hrs. @ $7.50 per hr.	37.50
Factory overhead:		
Variable	$3.00 per direct labor hour	15.00
Fixed	$4.00 per direct labor hour	20.00
Standard cost per unit		$80.00

Normal volume per month is 40,000 standard labor hours. Beal's January 1984 budget was based on normal volume. During January Beal produced 7,800 units, with records indicating the following:

Direct materials purchased	25,000 lbs. @ $2.60
Direct materials used	23,100 lbs.
Direct labor	40,100 hrs. @ $7.30
Factory overhead	$300,000

Required:

a. Prepare a schedule of budgeted production costs for January 1984, based on actual production of 7,800 units.

b. For the month of January 1984, compute the following variances, indicating whether each is favorable or unfavorable:

1. Direct materials price variance, based on purchases.
2. Direct materials usage variance.
3. Direct labor rate variance.
4. Direct labor efficiency variance.
5. Factory overhead spending variance.
6. Variable factory overhead efficiency variance.
7. Factory overhead volume variance.

2M83
Number 4 (Estimated time — — 45 to 55 minutes)

Melford Hospital operates a general hospital, but rents space and beds to separately owned entities rendering specialized services such as pediatrics and psychiatric. Melford charges each separate entity for common services such as patients' meals and laundry and for administrative services such as billings and collections. Space and bed rentals are fixed charges for the year, based on bed capacity rented to each entity.

Melford charged the following costs to pediatrics for the year ended June 30, 1982:

	Patient days (Variable)	*Bed capacity (Fixed)*
Dietary	$ 600,000	—
Janitorial	—	$ 70,000
Laundry	300,000	—
Laboratory	450,000	—
Pharmacy	350,000	—
Repairs and maintenance	—	30,000
General and administrative	—	1,300,000
Rent	—	1,500,000
Billings and collections	300,000	—
Totals	$2,000,000	$2,900,000

During the year ended June 30, 1982, pediatrics charged each patient an average of $300 per day, had a capacity of 60 beds, and had revenue of $6,000,000 for 365 days.

In addition, pediatrics directly employed the following personnel:

	Annual salaries
Supervising nurses	$25,000
Nurses	20,000
Aides	9,000

Melford has the following minimum departmental personnel requirements based on total annual patient days:

Annual patient days	*Aides*	*Nurses*	*Supervising nurses*
Up to 21,900	20	10	4
21,901 to 26,000	26	13	4
26,001 to 29,200	30	15	4

These staffing levels represent full-time equivalents. Pediatrics always employs only the minimum number of required full-time equivalent personnel. Salaries of supervising nurses, nurses, and aides are therefore fixed within ranges of annual patient days.

Pediatrics operated at 100% capacity on 90 days during the year ended June 30, 1982. It is estimated that during these 90 days the demand exceeded 20 patients more than capacity. Melford has an additional 20 beds available for rent for the year ending June 30, 1983. Such additional rental would increase pediatrics' fixed charges based on bed capacity.

Required:

a. Calculate the minimum number of patient days required for pediatrics to break even for the year ending June 30, 1983, if the additional 20 beds are not rented. Patient demand is unknown, but assume that revenue per patient day, cost per patient day, cost per bed, and salary rates will remain the same as for the year ended June 30, 1982.

b. Assume that patient demand, revenue per patient day, cost per patient day, cost per bed, and salary rates for the year ending June 30, 1983, remain the same as for the year ended June 30, 1982. Prepare a schedule of increase in revenue and increase in costs for the year ending June 30, 1983, in order to determine the net increase or decrease in earnings from the additional 20 beds if pediatrics rents this extra capacity from Melford.

2M82

Number 5 (Estimated time —— 40 to 50 minutes)

Number 5 consists of two unrelated parts.

Part a. Lares Confectioners, Inc., makes a candy bar called Rey, which sells for $.50 per pound. The manufacturing process also yields a product known as Nagu. Without further processing, Nagu sells for $.10 per pound. With further processing, Nagu sells for $.30 per pound. During the month of April, total joint manufacturing costs up to the point of separation consisted of the following charges to work in process:

Raw materials	$150,000
Direct labor	120,000
Factory overhead	30,000

Production for the month aggregated 394,000 pounds of Rey and 30,000 pounds of Nagu. To complete Nagu during the month of April and obtain a selling price of $.30 per pound, further processing of Nagu during April would entail the following additional costs:

Raw materials	$2,000
Direct labor	1,500
Factory overhead	500

Required:

Prepare the April journal entries for Nagu, if Nagu is:

1. Transferred as a by-product at sales value to the warehouse without further processing, with a corresponding reduction of Rey's manufacturing costs.
2. Further processed as a by-product and transferred to the warehouse at net realizable value, with a corresponding reduction of Rey's manufacturing costs.
3. Further processed and transferred to finished goods, with joint costs being allocated between Rey and Nagu based on relative sales value at the split-off point.

Part b. The following information was available from Montero Corporation's books:

1982	*Purchases*	*Sales*
Jan.	$42,000	$72,000
Feb.	48,000	66,000
Mar.	36,000	60,000
Apr.	54,000	78,000

Collections from customers are normally 70% in the month of sale, 20% in the month following the sale, and 9% in the second month following the sale. The balance is expected to be uncollectible. Montero takes full advantage of the 2% discount allowed on purchases paid for by the tenth of the following month. Purchases for May are budgeted at $60,000, while sales for May are forecasted at $66,000. Cash disbursements for expenses are expected to be $14,400 for the month of May. Montero's cash balance at May 1 was $22,000.

Required:
Prepare the following schedules:

1. Expected cash collections during May.
2. Expected cash disbursements during May.
3. Expected cash balance at May 31.

2N81
Number 4 (Estimated time — — 45 to 55 minutes)

Armando Corporation manufactures a product with the following standard costs:

Direct materials - 20 yards @ $1.35 per yard	$27
Direct labor - 4 hours @ $9.00 per hour	36
Factory overhead - applied at five-sixths of direct labor. Ratio of variable costs to fixed costs: 2 to 1	30
Total standard cost per unit of output	$93

Standards are based on normal monthly production involving 2,400 direct labor hours (600 units of output).

The following information pertains to the month of July 1981:

Direct materials purchased - 18,000 yards @ $1.38 per yard	$24,840
Direct materials used - 9,500 yards	
Direct labor - 2,100 hours @ $9.15 per hour	19,215
Actual factory overhead	16,650

500 units of the product were actually produced in July 1981.

Required:

a. Prepare the following schedules computing:

1. Variable factory overhead rate per direct labor hour.
2. Total fixed factory overhead based on normal activity.

b. Prepare the following schedules for the month of July 1981, indicating whether each variance is favorable or unfavorable:

1. Materials price variance (based on purchases).
2. Materials usage variance.
3. Labor rate variance.
4. Labor efficiency variance.
5. Controllable factory overhead variance.
6. Capacity (volume) factory overhead variance.

2M81
Number 5 (Estimated time — — 40 to 50 minutes)

Vogue Fashions, Inc., manufactures ladies' blouses of one quality, produced in lots to fill each special order from its customers, department stores located in various cities. Vogue sews the particular stores' labels on the blouses. The standard costs for a dozen blouses are:

Direct materials	24 yards @ $1.10	$26.40
Direct labor	3 hours @ $4.90	14.70
Manufacturing overhead	3 hours @ $4.00	12.00
Standard cost per dozen		$53.10

During June 1980, Vogue worked on three orders, for which the month's job cost records disclose the following:

Lot No.	*Units in Lot (dozens)*	*Material Used (yards)*	*Hours Worked*
22	1,000	24,100	2,980
23	1,700	40,440	5,130
24	1,200	28,825	2,890

The following information is also available:

1. Vogue purchased 95,000 yards of material during June at a cost of $106,400. The materials price variance is recorded when goods are purchased. All inventories are carried at standard cost.

2. Direct labor during June amounted to $55,000. According to payroll records, production employees were paid $5.00 per hour.

3. Manufacturing overhead during June amounted to $45,600.

4. A total of $576,000 was budgeted for manufacturing overhead for the year 1980, based on estimated production at the plant's normal capacity of 48,000 dozen blouses annually. Manufacturing overhead at this level of production is 40% fixed and 60% variable. Manufacturing overhead is applied on the basis of direct labor hours.

5. There was no work in process at June 1. During June, lots 22 and 23 were completed. All material was issued for lot 24, which was 80% completed as to direct labor.

Required:

a. Prepare a schedule showing the computation of standard cost of lots 22, 23, and 24 for June 1980.

b. Prepare a schedule showing the computation of the materials price variance for June 1980. Indicate whether the variance is favorable or unfavorable.

c. Prepare a schedule showing, for each lot produced during June 1980, computations of the

1. Materials quantity variance in yards.
2. Labor efficiency variance in hours.
3. Labor rate variance in dollars.

Indicate whether each variance is favorable or unfavorable.

d. Prepare a schedule showing computations of the total controllable and noncontrollable (volume) manufacturing overhead variances for June 1980. Indicate whether the variances are favorable or unfavorable.

2N80

Number 3 (Estimated time —— 45 to 55 minutes)

Number 3 consists of two unrelated parts.

Part a. The Rebecca Corporation is a manufacturer which produces special machines made to customer specifications. All production costs are accumulated by means of a job-order costing system. The following information is available at the beginning of the month of October 1980.

• Direct materials inventory, October 1	$16,200
• Work-in-process, October 1	3,600

A review of the job-order cost sheets revealed the composition of the work-in-process inventory on October 1, as follows:

Direct materials	$1,320
Direct labor (300 hours)	1,500
Factory overhead applied	780
	$3,600

Activity during the month of October was as follows:

- Direct materials costing $20,000 were purchased.
- Direct labor for job orders totaled 3,300 hours at $5 per hour.
- Factory overhead was applied to production at the rate of $2.60 per direct labor hour.

On October 31, inventories consisted of the following components:

Direct materials inventory	$17,000

Work-in-process inventory:

Direct materials	$4,320
Direct labor (500 hours)	2,500
Factory overhead applied	1,300
	$8,120

Required:

Prepare in good form a detailed statement of the cost of goods manufactured for the month of October.

Part b. Lakeview Corporation is a manufacturer that uses the weighted-average, process-cost method to account for costs of production. Lakeview manufactures a product that is produced in three separate departments: Molding, Assembling, and Finishing. The following information was obtained for the Assembling Department for the month of June 1980.

Work-in-process, June 1 — 2,000 units composed of the following:

	Amount	*Degree of Completion*
Transferred in from the Molding Department	$32,000	100%
Costs added by the Assembling Department:		
Direct materials	$20,000	100%
Direct labor	7,200	60%
Factory overhead applied	5,500	50%
	32,700	
Work-in-process, June 1	$64,700	

The following activity occurred during the month of June:

- 10,000 units were transferred in from the Molding Department at a cost of $160,000.
- $150,000 of costs were added by the Assembling Department:

Direct materials	$ 96,000
Direct labor	36,000
Factory overhead applied	18,000
	$150,000

- 8,000 units were completed and transferred to the Finishing Department.

At June 30, 4,000 units were still in work-in-process. The degree of completion of work-in-process at June 30, was as follows:

Direct materials	90%
Direct labor	70%
Factory overhead applied	35%

Required:
Prepare in good form a cost of production report for the Assembling Department for the month of June. Show supporting computations in good form. The report should include:

- Equivalent units of production;
- Total manufacturing costs;
- Cost per equivalent unit;
- Dollar amount of ending work-in-process;
- Dollar amount of inventory cost transferred out.

2M80
Number 5 (Estimated time — — 40 to 50 minutes)

The Adept Company is a manufacturer of two products known as "Prep" and "Pride." Incidental to the production of these two products, it produces a by-product known as "Wilton." The manufacturing process covers two departments, Grading and Saturating.

The manufacturing process begins in the Grading department when raw materials are started in process. Upon completion of processing in the Grading department, the by-product "Wilton" is produced, which accounts for 20% of the material output. This by-product needs no further processing and is transferred to finished goods.

The net realizable value of the by-product "Wilton" is accounted for as a reduction of the cost of materials in the Grading department. The current selling price of "Wilton" is $1.00 per pound and the estimated selling and delivery costs total ten cents per pound.

The remaining output is transferred to the Saturating department for the final phase of production. In the Saturating department, water is added at the beginning of the production process which results in a 50% gain in weight of the materials in production.

The following information is available for the month of November 1979:

	November 1		*November 30*
Inventories	*Quantity (pounds)*	*Amount*	*Quantity (pounds)*
Work-in-process:			
Grading dept.	None	—	None
Saturating dept.	1,600	$17,600	2,000
Finished goods:			
Prep	600	14,520	1,600
Pride	2,400	37,110	800
Wilton	None	—	None

The work-in-process inventory (labor and overhead) in the Saturating department is estimated to be 50% complete both at the beginning and end of November.

Costs of production for November are as follows:

Costs of Production	*Materials Used*	*Labor and Overhead*
Grading department	$265,680	$86,400
Saturating department	—	86,000

The material used in the Grading department weighed 36,000 pounds.

Adept uses the first-in, first-out method of process costing.

Required:
Prepare a cost of production report for both the Grading and Saturating departments for the month of November. Show supporting computations in good form.

The answer should include:

- Equivalent units of production (in pounds);
- Total manufacturing costs;
- Cost per equivalent unit (pounds);
- Dollar amount of ending work in process;
- Dollar amount of inventory cost transferred out.

VIII. Not-for-Profit and Governmental Accounting

2N84
Number 4 (Estimated time — — 45 to 55 minutes)

The general fund trial balance of the city of Solna at December 31, 1982, was as follows:

	Dr.	*Cr.*
Cash	$ 62,000	
Taxes receivable — delinquent	46,000	
Estimated uncollectible taxes — delinquent		$ 8,000
Stores inventory — program operations	18,000	
Vouchers payable		28,000
Fund balance reserved for stores inventory		18,000
Fund balance reserved for encumbrances		12,000
Unreserved undesignated fund balance		60,000
	$126,000	$126,000

Collectible delinquent taxes are expected to be collected within 60 days after the end of the year. Solna uses the "purchases" method to account for stores inventory. The following data pertain to 1983 general fund operations:

1. *Budget adopted:*

Revenues and other financing sources	
Taxes	$220,000
Fines, forfeits, and penalties	80,000
Miscellaneous revenues	100,000
Share of bond issue proceeds	200,000
	$600,000

Expenditures and other financing uses	
Program operations	$300,000
General administration	120,000
Stores — program operations	60,000
Capital outlay	80,000
Periodic transfer to special assessment fund	20,000
	$580,000

2. Taxes were assessed at an amount that would result in revenues of $220,800, after deduction of 4% of the tax levy as uncollectible.

3. *Orders placed but not received:*

Program operations	$176,000
General administration	80,000
Capital outlay	60,000
	$316,000

4. The city council designated $20,000 of the unreserved undesignated fund balance for possible future appropriation for capital outlay.

2N84
Number 4 (cont.)

5. *Cash collections and transfer:*

Delinquent taxes	$ 38,000
Current taxes	226,000
Refund of overpayment of invoice for purchase of equipment	4,000
Fines, forfeits, and penalties	88,000
Miscellaneous revenues	90,000
Share of bond issue proceeds	200,000
Transfer of remaining fund balance of a discontinued fund	18,000
	$664,000

6. *Cancelled encumbrances:*

	Estimated	*Actual*
Program operations	$156,000	$166,000
General administration	84,000	80,000
Capital outlay	62,000	62,000
	$302,000	$308,000

7. *Additional vouchers:*

Program operations	$188,000
General administration	38,000
Capital outlay	18,000
Transfer to special assessment fund	20,000
	$264,000

8. Albert, a taxpayer, overpaid his 1983 taxes by $2,000. He applied for a $2,000 credit against his 1984 taxes. The city council granted his request.

9. Vouchers paid amounted to $580,000.

10. Stores inventory on December 31, 1983, amounted to $12,000.

Required:
Prepare journal entries to record the effects of the foregoing data. Omit explanations.

2N83
Number 4 (Estimated time — — 45 to 55 minutes)

A partial balance sheet of Rapapo State University as of the end of its fiscal year ended July 31, 1982, is presented below.

Rapapo State University
CURRENT FUNDS BALANCE SHEET
July 31, 1982

Assets		*Liabilities and Fund Balances*	
Unrestricted:		Unrestricted:	
Cash	$200,000	Accounts payable	$100,000
Accounts receivable—tuition and fees, less allowance for doubtful accounts of $15,000	360,000	Due to other funds	40,000
Prepaid expenses	40,000	Deferred revenue—tuition and fees	25,000
		Fund balance	435,000
Total unrestricted	600,000	Total unrestricted	600,000
Restricted:		Restricted:	
Cash	10,000	Accounts payable	5,000
Investments	210,000	Fund balance	215,000
Total restricted	220,000	Total restricted	220,000
Total current funds	$820,000	Total current funds	$820,000

The following information pertains to the year ended July 31, 1983:

1. Cash collected from students' tuition totaled $3,000,000. Of this $3,000,000, $362,000 represented accounts receivable outstanding at July 31, 1982; $2,500,000 was for current year tuition; and $138,000 was for tuition applicable to the semester beginning in August 1983.

2. Deferred revenue at July 31, 1982 was earned during the year ended July 31, 1983.

3. Accounts receivable at July 31, 1982, which were not collected during the year ended July 31, 1983, were determined to be uncollectible and were written off against the allowance account. At July 31, 1983, the allowance account was estimated at $10,000.

4. During the year, an unrestricted appropriation of $60,000 was made by the state. This state appropriation was to be paid to Rapapo sometime in August 1983.

5. During the year, unrestricted cash gifts of $80,000 were received from alumni. Rapapo's board of trustees allocated $30,000 of these gifts to the student loan fund.

6. During the year, investments costing $25,000 were sold for $31,000. Restricted fund investments were purchased at a cost of $40,000. Investment income of $18,000 was earned and collected during the year.

7. Unrestricted general expenses of $2,500,000 were recorded in the voucher system. At July 31, 1983, the unrestricted accounts payable balance was $75,000.

8. The restricted accounts payable balance at July 31, 1982 was paid.

9. The $40,000 due to other funds at July 31, 1982 was paid to the plant fund as required.

10. One quarter of the prepaid expenses at July 31, 1982 expired during the current year, and pertained to general education expense. There was no addition to prepaid expenses during the year.

Required:

a. Prepare journal entries in summary form to record the foregoing transactions for the year ended July 31, 1983. Number each entry to correspond with the number indicated in the description of its respective transaction. Your answer sheet should be organized as follows:

		Current Funds			
Entry		*Unrestricted*		*Restricted*	
no.	*Accounts*	*Debit*	*Credit*	*Debit*	*Credit*

b. Prepare a statement of changes in fund balances for the year ended July 31, 1983.

2M83
Number 5 (Estimated time —— 40 to 50 minutes)

In 1950 a group of civic-minded merchants in Albury City organized the "Committee of 100" for the purpose of establishing the Community Sports Club, a nonprofit sports organization for local youth. Each of the Committee's 100 members contributed $1,000 toward the Club's capital, and in turn received a participation certificate. In addition, each participant agreed to pay dues of $200 a year for the Club's operations. All dues have been collected in full by the end of each fiscal year ending March 31. Members who have discontinued their participation have been replaced by an equal number of new members through transfer of the participation certificates from the former members to the new ones. Following is the Club's trial balance at April 1, 1982:

	Debit	*Credit*
Cash	$ 9,000	
Investments (at market, equal to cost)	58,000	
Inventories	5,000	
Land	10,000	
Building	164,000	
Accumulated depreciation—building		$130,000
Furniture and equipment	54,000	
Accumulated depreciation—furniture and equipment		46,000
Accounts payable		12,000
Participation certificates (100 at $1,000 each)		100,000
Cumulative excess of revenue over expenses		12,000
	$300,000	$300,000

Transactions for the year ended March 31, 1983, were as follows:

(1)	Collections from participants for dues	$20,000
(2)	Snack bar and soda fountain sales	28,000
(3)	Interest and dividends received	6,000
(4)	Additions to voucher register:	
	House expenses	17,000
	Snack bar and soda fountain	26,000
	General and administrative	11,000
(5)	Vouchers paid	55,000
(6)	Assessments for capital improvements not yet incurred (assessed on March 20, 1983; none collected by March 31, 1983; deemed 100% collectible during year ending March 31, 1984)	10,000
(7)	Unrestricted bequest received	5,000

Adjustment data:

(1) Investments are valued at market, which amounted to $65,000 at March 31, 1983. There were no investment transactions during the year.

(2) Depreciation for the year:

Building	$4,000
Furniture and equipment	8,000

(3) Allocation of depreciation:

House expenses	9,000
Snack bar and soda fountain	2,000
General and administrative	1,000

(4) Actual physical inventory at March 31, 1983, was $1,000, and pertains to the snack bar and soda fountain.

Required:
On a functional basis:

a. Record the transactions and adjustments in journal entry form for the year ended March 31, 1983. Omit explanations.

b. Prepare the appropriate all-inclusive activity statement for the year ended March 31, 1983.

2N82
Number 5 (Estimated time —— 40 to 50 minutes)

The following selected information was taken from the books and records of Glendora Hospital (a voluntary hospital) as of and for the year ended June 30, 1982:

- Patient service revenue totaled $16,000,000, with allowances and uncollectible accounts amounting to $3,400,000. Other operating revenue aggregated $346,000, and included $160,000 from specific purpose funds. Revenue of $6,000,000 recognized under cost reimbursement agreements is subject to audit and retroactive adjustment by third-party payors. Estimated retroactive adjustments under these agreements have been included in allowances.
- Unrestricted gifts and bequests of $410,000 were received.
- Unrestricted income from endowment funds totaled $160,000.
- Income from board-designated funds aggregated $82,000.
- Operating expenses totaled $13,370,000, and included $500,000 for depreciation computed on the straight-line basis. However, accelerated depreciation is used to determine reimbursable costs under certain third-party reimbursement agreements. Net cost reimbursement revenue amounting to $220,000, resulting from the difference in depreciation methods, was deferred to future years.
- Also included in operating expenses are pension costs of $100,000, in connection with a noncontributory pension plan covering substantially all of Glendora's employees. Accrued pension costs are funded currently. Prior service cost is being amortized over a period of 20 years. The actuarially computed value of vested and nonvested benefits at year-end amounted to $3,000,000 and $350,000, respectively. The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 8%. The plan's net assets available for benefits at year-end were $3,050,000.
- Gifts and bequests are recorded at fair market values when received.
- Patient service revenue is accounted for at established rates on the accrual basis.

Required:

1. Prepare a formal statement of revenues and expenses for Glendora Hospital for the year ended June 30, 1982.
2. Draft the appropriate disclosures in separate notes accompanying the statement of revenues and expenses, referencing each note to its respective item in the statement.

2N81
Number 5 (Estimated time —— 40 to 50 minutes)

The following financial activities affecting Judbury City's general fund took place during the year ended June 30, 1981:

1. The following budget was adopted:

Estimated revenues:	
Property taxes	$4,500,000
Licenses and permits	300,000
Fines	200,000
Total	$5,000,000
Appropriations:	
General government	$1,500,000
Police services	1,200,000
Fire department services	900,000
Public works services	800,000
Acquisition of fire engines	400,000
Total	$4,800,000

2. Property tax bills totaling $4,650,000 were mailed. It was estimated that $300,000 of this amount will be delinquent, and $150,000 will be uncollectible.
3. Property taxes totaling $3,900,000 were collected. The $150,000 previously estimated to be uncollectible remained unchanged, but $630,000 was reclassified as delinquent. It is estimated that delinquent taxes will be collected soon enough after June 30, 1981, to make these taxes available to finance obligations incurred during the year ended June 30, 1981. There was no balance of uncollected taxes at July 1, 1980.
4. Tax anticipation notes in the face amount of $300,000 were issued.
5. Other cash collections were as follows:

Licenses and permits	$270,000
Fines	200,000
Sale of public works equipment (original cost, $75,000)	15,000
Total	$485,000

6. The following purchase orders were executed:

	Total	*Outstanding at 6/30/81*
General government	$1,050,000	$ 60,000
Police services	300,000	30,000
Fire department services	150,000	15,000
Public works services	250,000	10,000
Fire engines	400,000	—
Totals	$2,150,000	$115,000

No encumbrances were outstanding at June 30, 1980.

7. The following vouchers were approved:

General government	$1,440,000
Police services	1,155,000
Fire department services	870,000
Public works services	700,000
Fire engines	400,000
Total	$4,565,000

8. Vouchers totaling $4,600,000 were paid.

Required:
Prepare journal entries to record the foregoing financial activities in the general fund. Omit explanations. Ignore interest accruals.

2M81
Number 4 (Estimated time — — 45 to 55 minutes)

Number 4 consists of two unrelated parts.

Part a. The City of Merlot operates a central garage through an Internal (Intragovernmental) Service Fund to provide garage space and repairs for all city-owned and operated vehicles. The Central Garage Fund was established by a contribution of $200,000 from the General Fund on July 1, 1977, at which time the building was acquired. The after-closing trial balance at June 30, 1979, was as follows:

	Debit	*Credit*
Cash	$150,000	
Due from General Fund	20,000	
Inventory of materials and supplies	80,000	
Land	60,000	
Building	200,000	
Allowance for depreciation — building		$ 10,000
Machinery and equipment	56,000	
Allowance for depreciation — machinery and equipment		12,000
Vouchers payable		38,000
Contribution from General Fund		200,000
Retained earnings		306,000
	$566,000	$566,000

The following information applies to the fiscal year ended June 30, 1980:

1. Materials and supplies were purchased on account for $74,000.
2. The inventory of materials and supplies at June 30, 1980, was $58,000, which agreed with the physical count taken.
3. Salaries and wages paid to employees totaled $230,000, including related costs.
4. A billing was received from the Enterprise Fund for utility charges totaling $30,000, and was paid.
5. Depreciation of the building was recorded in the amount of $5,000. Depreciation of the machinery and equipment amounted to $8,000.
6. Billings to other departments for services rendered to them were as follows:

General Fund	$262,000
Water and Sewer Fund	84,000
Special Revenue Fund	32,000

7. Unpaid interfund receivable balances at June 30, 1980, were as follows:

General Fund	$ 6,000
Special Revenue Fund	16,000

8. Vouchers payable at June 30, 1980, were $14,000.

Required:
1. For the period July 1, 1979, through June 30, 1980, prepare journal entries to record all of the transactions in the Central Garage Fund accounts.
2. Prepare closing entries for the Central Garage Fund at June 30, 1980.

Part b. The following information was abstracted from the accounts of the General Fund of the City of Rom after the books had been closed for the fiscal year ended June 30, 1980:

	Post-Closing Trial Balance June 30, 1979	*Transactions July 1, 1979 to June 30, 1980* Debit	Credit	*Post-Closing Trial Balance June 30, 1980*
Cash	$ 700,000	$1,820,000	$1,852,000	$ 668,000
Taxes receivable	40,000	1,870,000	1,828,000	82,000
	$ 740,000			$ 750,000
Allowance for uncollectible taxes	$ 8,000	8,000	10,000	$ 10,000
Vouchers payable	132,000	1,852,000	1,840,000	120,000
Fund balance:				
Reserved for encumbrances	—	1,000,000	1,070,000	70,000
Unreserved	600,000	140,000	60,000 30,000	550,000
	$ 740,000			$ 750,000

Additional information:

The budget for the fiscal year ended June 30, 1980, provided for estimated revenues of $2,000,000 and appropriations of $1,940,000.

Required:

Prepare journal entries to record the budgeted and actual transactions for the fiscal year ended June 30, 1980.

2N80
Number 5 (Estimated time —— 40 to 50 minutes)

The City of Westgate's fiscal year ends on June 30. During the fiscal year ended June 30, 1979, the City authorized the construction of a new library and sale of general obligation term bonds to finance the construction of the library. The authorization imposed the following restrictions:

- Construction cost was not to exceed $5,000,000;
- Annual interest rate was not to exceed 8½%.

The City does not record project authorizations, but other budgetary accounts are maintained. The following transactions relating to the financing and constructing of the library occurred during the fiscal year ended June 30, 1980:

1. On July 1, 1979, the City issued $5,000,000 of 30-year 8% general obligation bonds for $5,100,000. The semiannual interest dates are December 31 and June 30. The premium of $100,000 was transferred to the library debt service fund.
2. On July 3, 1979, the library capital projects fund invested $4,900,000 in short-term commercial paper. These purchases were at face value with no accrued interest. Interest on cash invested by the library capital projects fund must be transferred to the library debt service fund. During the fiscal year ending June 30, 1980, estimated interest to be earned is $140,000.
3. On July 5, 1979, the City signed a contract with F&A Construction Company to build the library for $4,980,000.
4. On January 15, 1980, the library capital projects fund received $3,040,000, from the maturity of short-term notes purchased on July 3. The cost of these notes was $3,000,000. The interest of $40,000 was transferred to the library debt service fund.
5. On January 20, 1980, F&A Construction Company properly billed the City $3,000,000 for work performed on the new library. The contract calls for 10% retention until final inspection and acceptance of the building. The Library Capital Projects Fund paid F&A $2,700,000.
6. On June 30, 1980, the Library Capital Projects Fund made the proper adjusting entries (including accrued interest receivable of $103,000) and closing entries.

Required:

1. Prepare in good form journal entries to record the six preceding sets of facts in the Library Capital Projects Fund. List the transaction numbers (1 to 6) and give the necessary entry or entries. Do not record journal entries in any other fund or group of accounts.

2. Prepare in good form a balance sheet for the City of Westgate—Library Capital Projects Fund as of June 30, 1980.

PROBLEMS — UNOFFICIAL ANSWERS

I. Presentation of Financial Statements or Worksheets

A. Balance Sheet

1N84
Answer 5 (10 points)

a.

Ward Specialty Foods
WORKSHEET TO CONVERT
TRIAL BALANCE TO ACCRUAL BASIS
December 31, 1983

	Cash Basis		*Adjustments*		*Accrual Basis*	
	Dr.	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*
Cash	$ 18,500				$ 18,500	
Accounts receivable	4,500		[1] $ 3,400		7,900	
Allow. for doubtful accts.				[2] $ 1,100		$ 1,100
Inventory	20,000		[3] 3,000		23,000	
Equipment	35,000				35,000	
Accum. depreciation		$ 9,000		[6] 5,800		14,800
Prepaid rent			[4] 6,300		6,300	
Prepaid insurance			[5] 600		600	
Accounts payable		4,800		[7] 4,000		8,800
Accrued expenses				[8] 1,360		1,360
Payroll taxes withheld		850				850
Ward, drawings	24,000				24,000	
Ward, capital		33,650	[8] 900	[4] 5,625 [5] 540		38,915
Sales		187,000		[1] 3,400		190,400
Purchases	82,700		[7] 4,000		86,700	
Income summary — inventory			[3] 20,000	[3] 23,000		3,000
Salaries	29,500		[8] 135		29,635	
Payroll taxes	2,900		[8] 150		3,050	
Rent	8,400			[4] 675	7,725	
Miscellaneous exp.	3,900				3,900	
Insurance	2,400			[5] 60	2,340	
Utilities	3,500		[8] 175		3,675	
Depreciation			[6] 5,800		5,800	
Doubtful accounts exp.			[2] 1,100		1,100	
	$235,300	$235,300	$45,560	$45,560	$259,225	$259,225

1N84
Answer 5 (cont.)

Explanations of Adjustments

[1] To convert 1983 sales to accrual basis

Accounts receivable, 12/31/83	$ 7,900
Deduct accounts receivable, 12/31/82	4,500
Increase in sales	$ 3,400

[2] To record provision for doubtful accounts

[3] To record increase in inventory from 12/31/82 to 12/31/83

Inventory, 12/31/83	$23,000
Inventory, 12/31/82	20,000
Increase	$ 3,000

[4] To adjust rent expense for prepaid rent at 12/31/82 and 12/31/83

Prepaid 12/31/83 ($8,400 × 9/12)	$ 6,300
Prepaid 12/31/82 ($7,500 × 9/12)	5,625
Rent expense decrease	$ 675

[5] To adjust insurance expense for prepaid insurance at 12/31/82 and 12/31/83

Prepaid 12/31/83 ($2,400 × 3/12)	$ 600
Prepaid 12/31/82 ($2,160 × 3/12)	540
Insurance expense decrease	$ 60

[6] To record depreciation for 1983

[7] To convert 1983 purchases to accrual basis

Accounts payable 12/31/83	$ 8,800
Deduct accounts payable 12/31/82	4,800
Increase in purchases	$ 4,000

[8] To convert expenses to accrual basis

Payroll taxes	$ 400	− $250	$150
Salaries	$ 510	− $375	135
Utilities	$ 450	− $275	175
	$1,360	$900	

1N84
Answer 5 (cont.)

b. *Ward Specialty Foods*
STATEMENT OF CHANGES IN MARY WARD, CAPITAL
For the Year Ended December 31, 1983

Mary Ward, capital, 12/31/82	$38,915	[1]
Add net income for year	49,475	[2]
	88,390	
Deduct drawings for year	24,000	
Mary Ward, capital, 12/31/83	$64,390	

Explanations of Amounts

[1] Mary Ward, capital, 12/31/82 after adjustment to accrual basis (per worksheet)

[2] Computation of net income on accrual basis for the year ended 12/31/83 (per worksheet)

Sales		$190,400
Purchases	$ 86,700	
Income summary-inventory	(3,000)	
Salaries	29,635	
Payroll taxes	3,050	
Rent	7,725	
Miscellaneous expenses	3,900	
Insurance	2,340	
Utilities	3,675	
Depreciation	5,800	
Doubtful accounts	1,100	140,925
Net income		$ 49,475

1M83
Answer 5

Bryant Corporation
WORKSHEET FOR BALANCE SHEET AND STATEMENT OF INCOME
November 30, 1982

	Unadjusted balance	Adjustments Debit	Adjustments Credit	Adjusted balance
Balance Sheet				
Assets				
Cash	$ 150,000			$ 150,000
Marketable securities, at cost	60,000			60,000
Allowance for reduction to market			[1] 5,000	(5,000)
Accounts receivable	450,000			450,000
Allowance for doubtful accounts	(59,000)	[2] 23,000		(36,000)
Inventories	430,000	[3] 12,000		442,000
Prepaid insurance	15,000	[4] 3,000		18,000
Property, plant & equipment	426,000	[6] 24,000		450,000
Accumulated depreciation	(40,000)		[6] 2,400	(42,400)
Research & development costs	120,000		[7] 120,000	—
	$ 1,552,000			$ 1,486,600
Liabilities & Stockholders' Equity				
Accounts payable & accrued expenses	$ (592,000)		[5] 22,500	(614,500)
Estimated liability from lawsuit			[8] 50,000	(50,000)
Income taxes payable	(224,000)	[9] 55,160		(168,840)
Common stock	(400,000)			(400,000)
Retained earnings	(336,000)	[x] 82,740		(253,260)
	$(1,552,000)			$(1,486,600)
Statement of Income				
Net sales	$(2,950,000)			$(2,950,000)
Cost of sales	1,670,000		[3] 12,000 [6] 24,000	1,634,000
Selling & administrative expenses	650,000	[5] 22,500	[2] 23,000 [4] 3,000	646,500
Depreciation expense	40,000	[6] 2,400		42,400
Research & development expense	30,000	[7] 120,000		150,000
Unrealized loss on marketable securities		[1] 5,000		5,000
Estimated loss from lawsuit		[8] 50,000		50,000
Provision for income taxes	224,000		[9] 55,160	168,840
Net income	$ (336,000)	[x] 82,740		$ (253,260)

A. Balance Sheet

1M83
Answer 5 (cont.)

Bryant Corporation
ADJUSTING JOURNAL ENTRIES
November 30, 1982
(Not required)

	Dr.	Cr.
(1)		
Unrealized loss on marketable securities	$ 5,000	
Allowance to reduce marketable securities to market		$ 5,000
To reduce short-term investments to market valuation ($60,000 – $55,000)		
(2)		
Allowance for doubtful accounts	23,000	
Selling and administrative expenses (bad debts)		23,000
To reduce allowance account to balance determined by aging of receivables ($59,000 – $36,000)		
(3)		
Inventories	12,000	
Cost of sales		12,000
To adjust for work-in-process inventory held by outside processor		
(4)		
Prepaid insurance	3,000	
Selling and administrative expenses (insurance)		3,000
To adjust for nonrecognition of prepaid expense		
(5)		
Selling and administrative expenses (pension)	22,500	
Accounts payable and accrued expenses		22,500
To accrue normal pension cost ($45,000 \times {}^6/_{12}$)		
(6)		
Property, plant, and equipment	24,000	
Depreciation	2,400	
Cost of sales (repairs & maintenance)		24,000
Accumulated depreciation		2,400
To adjust for charge to repairs and maintenance of machine purchased on 6/1/82, and to record depreciation to 11/30/82 ($24,000 \times 20\% \times {}^6/_{12}$)		
(7)		
Research and development expense	120,000	
Research and development costs		120,000
To write off research and development costs in accordance with GAAP		
(8)		
Estimated loss from lawsuit	50,000	
Estimated liability from lawsuit		50,000
To record probable damages payable re: lawsuit for patent infringement		
(9)		
Income taxes payable	55,160	
Provision for income taxes		55,160
To adjust provision for year ended 11/30/82 (Schedule 1)		

1M83
Answer 5 (cont.)

Schedule 1

Adjustment to Income Tax Provision—Year Ended November 30, 1982

Unadjusted income before income taxes		$560,000
Add adjustments increasing income		
Reduction in allowance for doubtful accounts	$ 23,000	
Work-in-process inventory at outside processor	12,000	
Recognition of prepaid insurance	3,000	
Reversal of 6/1/82 charge to repairs & maintenance	24,000	62,000
		622,000
Deduct adjustments decreasing income		
Unrealized loss on marketable securities	$ 5,000	
Pension expense	22,500	
Depreciation on machine purchased 6/1/82	2,400	
Research & development expense	120,000	
Estimated loss from lawsuit	50,000	199,900
Adjusted income before income taxes		422,100
Effective income tax rate		×40%
Adjusted provision for income taxes		$168,840
Provision for income taxes per books		$224,000
Adjusted provision for income taxes		168,840
Adjustment to reduce provision [9]		$ 55,160

B. Income Statement

2M82
Answer 4 (10 points)

Woodbine Circle Corporation
INCOME STATEMENT
For the Year Ended December 31, 1981

Sales		$10,000,000
Cost of sales		6,200,000
Gross profit		3,800,000
Administrative expenses		2,000,000
Operating income		1,800,000
Other income and expense		
Interest income	$100,000	
Interest expense	(210,000)	(110,000)
Income from continuing operations before income taxes		1,690,000
Income taxes (*Schedule 1*)		
Current	576,000	
Deferred	60,000	636,000
Income from continuing operations		1,054,000
Discontinued operations (*Schedule 2*)		
Operating income from discontinued AL Division (less applicable income taxes of $264,000)	396,000	
Loss on disposal of AL Division (less applicable income tax saving of $100,000)	(150,000)	246,000
Income before extraordinary item		1,300,000
Extraordinary item—gain on repurchase of bonds payable (less applicable income taxes of $120,000)		180,000
Net income		$1,480,000
Earnings per share		
From continuing operations		$1.054
From discontinued operations		.246*
Total before extraordinary item		1.300
From extraordinary item		.180*
Net income		$1.480

*Optional

2M82
Answer 4 (cont.)

Schedule 1

Income Taxes on Continuing Operations

Income from continuing operations before income taxes		$1,690,000
Less permanent difference—interest on municipal bonds		100,000
Balance subject to tax		$1,590,000
Income tax rate		×40%
Total income taxes on continuing operations		$ 636,000
Current		
Income per tax return		2,150,000
Less intraperiod tax allocations		
Discontinued operations		
Operating income	$660,000	
Loss on disposal	(250,000)	410,000
Extraordinary item		
Gain on repurchase of bonds payable		300,000
Current taxable income		1,440,000
Income tax rate		×40%
		$ 576,000
Deferred		
Depreciation, per tax return		750,000
Depreciation, per books		600,000
Timing difference		150,000
Income tax rate		×40%
		60,000
Total income taxes on continuing operations		$ 636,000

Schedule 2

Income From Operations of AL Division
For the Nine Months Ended September 30, 1981
(Date of Discontinuance)

Sales	$2,000,000
Cost of sales	900,000
Gross profit	1,100,000
Administrative expenses	300,000
Operating income	800,000
Interest expense	140,000
Income before income taxes	660,000
Income taxes (at 40%)	264,000
Income from Operations of AL Division	$ 396,000

C. Statement of Changes in Financial Position

1M84
Answer 4 (10 points)

Bergen Corporation
STATEMENT OF CHANGES IN FINANCIAL POSITION
For the Year Ended December 31, 1983

Financial Resources Provided		
Working capital provided by operations		
Net income		$ 253,000
Add back (or deduct) items that did not use (or provide) working capital		
Depreciation	$149,000	
Amortization of bond premium	(2,000)	
Deferred income taxes	15,000	
Gain on sale of securities	(20,000)	
Gain on sale of equipment	(5,000)	137,000
		390,000
Working capital from other sources		
Sale of securities		95,000
Proceeds of long-term note payable		450,000
Sale of equipment		33,000
Financial resources not affecting working capital		
Issuance of common stock to purchase land		100,000
Liability under capital lease		158,000
Total financial resources provided		1,226,000
Financial Resources Used		
Cash dividends		30,000
Purchase of equipment		392,000
Prior period income tax adjustment		20,000
Payment under capital lease		25,000
Reclassification of debt		159,000
Financial resources not affecting working capital		
Purchase of land by issuance of common stock		100,000
Leased equipment under capital lease		158,000
Total financial resources used		884,000
Increase in working capital		$ 342,000

1M84
Answer 4 (cont.)

Bergen Corporation
STATEMENT OF CHANGES IN FINANCIAL POSITION WORKSHEET
For the Year Ended December 31, 1983
(Not Required)

Assets	*1982*		*Dr.*		*Cr.*	*1983*
Current assets	$1,583,000	[x]	$ 438,000			$2,021,000
Land	250,000	[4]	100,000			350,000
Plant & equipment	720,000	[6]	392,000	[7]	$ 52,000	1,060,000
Less accumulated depreciation	(170,000)	[7]	24,000	[12]	149,000	(295,000)
Leased equipment — capital lease	—	[9]	158,000			158,000
Marketable invest. securities	75,000			[2]	75,000	—
Investment in Mason, Inc.	180,000					180,000
Total assets	$2,638,000					$3,474,000
Liabilities & Stockholders' Equity						
Current liabilities	$ 823,000			[x]	96,000	$ 919,000
Note payable, long-term	—	[11]	150,000	[5]	450,000	300,000
Liability under capital lease	—	[10]	25,000	[9]	158,000	124,000
		[11]	9,000			
Bonds payable	500,000					500,000
Unamortized bond premium	18,000	[14]	2,000			16,000
Deferred income taxes	45,000			[13]	15,000	60,000
Common stock, par value $20	600,000			[4]	40,000	640,000
Additional paid-in capital	244,000			[4]	60,000	304,000
Retained earnings	408,000	[3]	30,000	[1]	253,000	611,000
		[8]	20,000			
Total liabilities & equity	$2,638,000		$1,348,000		$1,348,000	$3,474,000

		Sources		*Uses*
Sources of Financial Resources				
Working capital provided by operations				
Net income	[1]	$ 253,000		
Depreciation	[12]	149,000		
Amortization of bond premium	[14]	(2,000)		
Deferred income taxes	[13]	15,000		
Gain on sale of securities	[2]	(20,000)		
Gain on sale of equipment	[7]	(5,000)		
		390,000		
Sale of securities	[2]	95,000		
Issuance of common stock to purchase land	[4]	100,000		
Proceeds of long-term note payable	[5]	450,000		
Sale of equipment	[7]	33,000		
Liability under capital lease	[9]	158,000		
Uses of Financial Resources				
Cash dividends			[3]	$ 30,000
Purchase of land for common stock			[4]	100,000
Purchase of equipment			[6]	392,000
Prior period income tax adjustment			[8]	20,000
Leased equipment under capital lease			[9]	158,000
Payment under capital lease			[10]	25,000
Reclassification of debt			[11]	159,000
Increase in working capital			[x]	342,000
		$1,226,000		$1,226,000

1N82

Answer 4 (10 points)

Farrell Corporation

STATEMENT OF CHANGES IN FINANCIAL POSITION (CASH BASIS)

For the Year Ended December 31, 1981

Financial resources provided		
Cash provided by operations		
Net income		$141,000
Add (or deduct) items not affecting cash		
Depreciation	$ 53,000	
Amortization of goodwill	4,000	
Loss on sale of equipment	5,000	
Equity in net income of Hall, Inc.	(13,000)	
Deferred income taxes	11,000	
Decrease in accounts receivable	10,000	
Increase in inventories	(118,000)	
Increase in accounts payable and accrued expenses	41,000	(7,000)
		134,000
Cash from other sources		
Sale of equipment		19,000
Sale of common stock		23,000
Sale of treasury stock		25,000
Financial resources not affecting cash		
Issuance of note payable to purchase land		150,000
Issuance of common stock to convert bonds		50,000
Total financial resources provided		401,000
Financial resources used		
Cash dividends		43,000
Purchase of equipment		63,000
Financial resources not affecting cash		
Conversion of bonds to common stock		50,000
Purchase of land by issuance of note		150,000
Total financial resources used		306,000
Increase in cash		$ 95,000

1N82
Answer 4 (cont.)

Farrell Corporation
STATEMENT OF CHANGES IN FINANCIAL POSITION WORKSHEET (CASH BASIS)
For the Year Ended December 31, 1981
(Not Required)

Assets	*1980*	*Dr.*	*Cr.*	*1981*
Cash	$ 180,000	(x)$ 95,000		$ 275,000
Accounts receivable	305,000		(7)$ 10,000	295,000
Inventories	431,000	(8) 118,000		549,000
Investment in Hall, Inc.	60,000	(5) 13,000		73,000
Land	200,000	(10) 150,000		350,000
Plant and equipment	606,000	(15) 63,000	(4) 45,000	624,000
Less accumulated depreciation	(107,000)	(4) 21,000	(2) 53,000	(139,000)
Goodwill	20,000		(3) 4,000	16,000
Total assets	$1,695,000			$2,043,000
Liabilities and stockholders' equity				
Accounts payable and accrued expenses	$ 563,000		(9) 41,000	$ 604,000
Note payable, long-term	—		(10) 150,000	150,000
Bonds payable	210,000	(12) 50,000		160,000
Deferred income taxes	30,000		(6) 11,000	41,000
Common stock	400,000		(11) 10,000	430,000
			(12) 20,000	
Additional paid-in capital	175,000		(11) 13,000	226,000
			(12) 30,000	
			(13) 8,000	
Retained earnings	334,000	(14) 43,000	(1) 141,000	432,000
Treasury stock	(17,000)		(13) 17,000	—
Total liabilities and equity	$1,695,000	$553,000	$553,000	$2,043,000

Sources of Financial Resources	*Sources*	*Uses*
Cash provided by operations		
Net Income	(1)$141,000	
Depreciation	(2) 53,000	
Amortization of goodwill	(3) 4,000	
Loss on sale of equipment	(4) 5,000	
Equity in net income of Hall, Inc.	(5) (13,000)	
Deferred income taxes	(6) 11,000	
Decrease in accounts receivable	(7) 10,000	
Increase in inventories	(8) (118,000)	
Increase in accounts payable and accrued expenses	(9) 41,000	
	134,000	
Issuance of note payable to purchase land	(10) 150,000	
Sale of equipment	(4) 19,000	
Sale of common stock	(11) 23,000	
Issuance of common stock to convert bonds	(12) 50,000	
Sale of treasury stock	(13) 25,000	
Uses of Financial Resources		
Cash dividends		(14)$ 43,000
Conversion of bonds to common stock		(12) 50,000
Purchase of land by issuance of note		(10) 150,000
Purchase of equipment		(15) 63,000
Increase in cash		(x) 95,000
	$401,000	$401,000

2N80
Answer 4 (10 points)

Kenwood Corporation
STATEMENT OF CHANGES IN FINANCIAL POSITION
For the Year Ended December 31, 1979

Financial Resources Provided		
Working capital provided from operations		
Income before extraordinary item		$109,000
Add items not affecting working capital in the current period		
Depreciation	$20,000	
Amortization	3,000	
Loss on sale of equipment	4,000	
Deferred income taxes	40,000	67,000
Working capital provided from operations		176,000
Working capital from other sources		
Proceeds from sale of equipment		19,000
Financial resources not affecting working capital		
Issuance of common stock to purchase land		40,000
Total financial resources provided		$235,000
Financial Resources Used		
Extraordinary item—repurchase of long-term bonds (including income tax of $10,000 on the gain)		$ 38,000
Cash dividends		2,000
Purchase of land		85,000
Financial resources not affecting working capital		
Purchase of land by issuance of common stock		40,000
Total financial resources used		165,000
Increase in working capital		$ 70,000

2N80
Answer 4 (cont.)

Kenwood Corporation
STATEMENT OF CHANGES IN FINANCIAL POSITION WORKSHEET
For the Year Ended December 31, 1979
(Not required)

	1978	*Dr.*	*Cr.*	*1979*
Assets				
Current assets	$ 450,000	[x]$120,000		$ 570,000
Land	200,000	[9] 85,000 [5] 40,000		325,000
Plant and equipment	633,000		[7] 53,000	580,000
Less: accumulated depreciation	(100,000)	[7] 30,000	[2] 20,000	(90,000)
Patents	33,000		[3] 3,000	30,000
Total assets	$1,216,000			$1,415,000
Liabilities and Shareholders' Equity				
Current liabilities	410,000		[x] 50,000	460,000
Deferred income tax	100,000		[10] 40,000	140,000
Long-term bonds	180,000	[6] 50,000		130,000
Common stock	210,000		[4] 21,000 [5] 19,000	250,000
Additional paid-in capital	170,000		[4] 42,000 [5] 21,000	233,000
Retained earnings	146,000	[4] 63,000 [8] 2,000	[1] 109,000 [6] 12,000	202,000
Total liabilities and equity	$1,216,000	$390,000	$390,000	$1,415,000

	Sources	*Uses*
Sources of Financial Resources		
Working capital provided by operations		
Income before extraordinary item	[1] 109,000	
Depreciation	[2] 20,000	
Amortization	[3] 3,000	
Loss on sale of equipment	[7] 4,000	
Deferred income tax	[10] 40,000	
	176,000	
Working capital provided from other sources		
Proceeds from sale of equipment	[7] 19,000	
Financial resources not affecting working capital		
Issuance of common stock to acquire land	[5] 40,000	
Uses of Financial Resources		
Working capital applied		
Repurchase of bonds (including tax on gain of $10,000)		[6] 38,000
Cash dividends		[8] 2,000
Purchase of land		[9] 85,000
Financial resources not affecting working capital		
Purchase of land by issuance of common stock		[5] 40,000
Increase in working capital		[x] 70,000
Total	$235,000	$235,000

D. Statement of Owners' Equity

1N83
Answer 4 (10 points)

1.

Ashwood, Inc.
STATEMENT OF RETAINED EARNINGS
For the Year Ended December 31, 1982

Balance, December 31, 1981		$ 6,500,000
As originally reported		
Add prior period adjustment from error understating inventories at December 31, 1981	$ 300,000	
Less income tax effect	120,000	180,000
As restated		6,680,000
Net income		4,500,000
		11,180,000
Deduct cash dividends		
On preferred stock at required rate [$4.50 ($50 × 9%) × 100,000 shares]	450,000	
On common stock, $1.00 per share [$1 × 2,480,000 shares (2,000,000 + 500,000 − 20,000)]	2,480,000	2,930,000
Balance, December 31, 1982		$ 8,250,000

2.

Ashwood, Inc.
STOCKHOLDERS' EQUITY SECTION OF BALANCE SHEET
December 31, 1982

Preferred stock, $50 par value, 9% cumulative, convertible; 600,000 shares authorized; 100,000 shares issued and outstanding	$ 5,000,000
Common stock, $10 par value; 6,000,000 shares authorized; 2,500,000 shares issued (2,000,000 + 500,000), of which 10,000 shares are held in treasury	25,000,000
Additional paid-in capital from preferred stock [100,000 × $4 ($54 − $50)]	400,000
Additional paid-in capital from common stock (Schedule 1)	11,050,000
Retained earnings	8,250,000
	49,700,000
Less common stock in treasury, 10,000 shares at cost [$16 × 10,000 (20,000 − 10,000)]	160,000
Total stockholders' equity	$49,540,000

1N83
Answer 4 (cont.)

Schedule 1

Additional Paid-In Capital From Common Stock

Balance, December 31, 1981	$ 7,500,000
From issuance of 500,000 shares on April 30, 1982 [500,000 × $7 ($17 − $10)]	3,500,000
From sale of 10,000 shares treasury stock on November 10, 1982 [10,000 × $5 ($21 − $16)]	50,000
Balance, December 31, 1982	$11,050,000

3.

Ashwood, Inc.
COMPUTATION OF BOOK VALUE PER SHARE OF COMMON STOCK
December 31, 1982

Total stockholders' equity	$49,540,000
Deduct allocation to preferred stock	
Preferred stock at liquidation value (100,000 shares × $50)	5,000,000
Allocation to common stock [2,490,000 shares outstanding (2,500,000 − 10,000)]	$44,540,000
Book value per share of common stock ($44,540,000 ÷ 2,490,000)	$ 17.89

1M80
Answer 5 (10 points)

Gilroy, Inc.
COMPUTATION OF STOCKHOLDERS' EQUITY ACCOUNTS
December 31, 1977

	Capital Stock		*Additional Paid-In Capital*	*Retained Earnings*
	Shares	*Amount*		
Issuance of $10 par value common stock in May 1977	300,000	$3,000,000	$300,000	
Net income for 1977				$125,000
Balance, December 31, 1977	300,000	$3,000,000	$300,000	$125,000

1M80
Answer 5 (cont.)

Gilroy, Inc.
COMPUTATION OF STOCKHOLDERS' EQUITY ACCOUNTS
December 31, 1978

	Capital Stock		*Additional Paid-In*	*Retained*
	Shares	*Amount*	*Capital*	*Earnings*
Balance, December 31, 1977	300,000	$3,000,000	$ 300,000	$125,000
Issuance of $10 par value common stock in July 1978	500,000	5,000,000	1,250,000	
5% stock dividend issued on November 6, 1978 *(Schedule 1)*	40,000	400,000	40,000	(440,000)
Net income for 1978				350,000
Balance, December 31, 1978	840,000	$8,400,000	$1,590,000	$ 35,000

Schedule 1

Stock Dividend

Common stock issued and outstanding at October 23, 1978, the record date	800,000 shares
Stock dividend shares issued on November 6, 1978 (5% × 800,000)	40,000 shares
Market value of common stock on October 23, 1978	×$11.00
Charge to retained earnings for stock dividend	$440,000

1M80
Answer 5 (cont.)

Gilroy, Inc.
COMPUTATION OF STOCKHOLDERS' EQUITY ACCOUNTS
December 31, 1979

	Capital Stock		*Additional Paid-In*	*Retained*	*Treasury Stock*	
	Shares	*Amount*	*Capital*	*Earnings*	*Shares*	*Amount*
Balance, December 31, 1978	840,000	$ 8,400,000	$1,590,000	$ 35,000		
Reacquisition of shares for $9 per share in February 1979					30,000	$270,000
Sale of treasury stock for $12 per share in June 1979			45,000		(15,000)	(135,000)
Exercise of stock rights for $13 per share in October 1979 (250,000 × 2)	500,000	5,000,000	1,500,000			
Exercise of stock rights for $13 per share in November 1979 (400,000 × 2)	800,000	8,000,000	2,400,000			
Cash dividend of $0.20 declared on December 15, 1979 *(Schedule 2)*				(425,000)		
Retirement of treasury stock on December 21, 1979	(10,000)	(100,000)	10,000		(10,000)	(90,000)
Net income for 1979				750,000		
Balance, December 31, 1979	2,130,000	$21,300,000	$5,545,000	$360,000	5,000	$ 45,000

Schedule 2

	Cash Dividend
Common stock issued and outstanding at December 31, 1979, the record date	2,130,000 shares
Deduct treasury stock held at December 31, 1979	5,000 shares
Common stock shares subject to dividend	2,125,000 shares
Cash dividend of $0.20 per share	×$0.20
Cash dividend	$ 425,000

E. Consolidated Financial Statements or Worksheets

1N83
Answer 5 (10 points)

Amboy Corporation and Subsidiary
CONSOLIDATING STATEMENT WORKSHEET
December 31, 1982

Income Statement	*Amboy Corp.*	*Taft Inc.*	*Adjustments & Eliminations** *Debit*	*Credit*	*Adjusted Balance*
Net sales	$(1,900,000)	$(1,500,000)	[6] $180,000		$(3,220,000)
Dividends from Taft	(40,000)		[3] 40,000		—
Gain on sale of warehouse	(30,000)		[4] 30,000		—
Cost of goods sold	1,180,000	870,000		[6] $162,000	1,888,000
Operating expenses (incl. deprec.)	550,000	440,000	[2] 12,000	[5] 2,000	1,000,000
Net income	$ (240,000)	$ (190,000)	[a] 262,000	[a] 164,000	$ (332,000)
Retained Earnings Statement					
Balance, 1/1/82	$ (220,000)	$ (156,000)	[1] $156,000		$ (220,000)
Net income	(240,000)	(190,000)	[a] 262,000	[a] $164,000	(332,000)
Dividends paid		40,000		[3] 40,000	—
Balance, 12/31/82	$ (460,000)	$ (306,000)	[b] $418,000	[b] $204,000	$ (552,000)
Balance Sheet					
Assets:					
Cash	$ 285,000	$ 150,000			$ 435,000
Accounts receivable (net)	430,000	350,000		[7] 75,000	705,000
Inventories	530,000	410,000		[6] 18,000	922,000
Land, plant & equipment	660,000	680,000	[1] 54,000	[4] 30,000	1,364,000
Accumulated depreciation	(185,000)	(210,000)	[5] 2,000	[2] 9,000	(402,000)
Investment in Taft (at cost)	750,000			[1] 750,000	—
Goodwill			[1] 60,000	[2] 3,000	57,000
	$ 2,470,000	$ 1,380,000			$3,081,000
Liabilities & Stockholders' Equity:					
Accounts pay. & accrued exp.	$ (670,000)	$ (594,000)	[7] 75,000		$(1,189,000)
Common stock ($10 par)	(1,200,000)	(400,000)	[1] 400,000		(1,200,000)
Additional paid-in capital	(140,000)	(80,000)	[1] 80,000		(140,000)
Retained earnings	(460,000)	(306,000)	[b] 418,000	[b] 204,000	(552,000)
	$(2,470,000)	$(1,380,000)	$1,089,000	$1,089,000	$(3,081,000)

***Explanations of Adjustments & Eliminations**

[1] To eliminate the reciprocal elements in investment, equity and property accounts. Amboy's investment is carried at cost at December 31, 1982.

[2] To record amortization of current value in excess of book value of Taft's machinery at date of acquisition ($54,000 ÷ 6) and amortization of goodwill ($60,000 ÷ 20) for the year ended December 31, 1982.

[3] To eliminate Amboy's dividend income from Taft.

[4] To eliminate the intercompany profit on the sale of the warehouse by Amboy to Taft.

[5] To eliminate the excess depreciation on the warehouse building sold by Amboy to Taft [($86,000 − $66,000) ÷ 5] × ½.

[6] To eliminate intercompany sales from Taft to Amboy and the intercompany profit in Amboy's ending inventory as follows:

	Total	*On hand*
Sales	$180,000	$36,000
Gross profit	90,000	18,000

[7] To eliminate Amboy's intercompany balance for merchandise owed to Taft.

1N80
Answer 5 (10 points)

Madison, Inc. and Subsidiary
CONSOLIDATED BALANCE SHEET WORKSHEET
December 31, 1979

Balance Sheet	Madison Inc.	Adams Corporation	Adjustments and Eliminations: Debit	Adjustments and Eliminations: Credit	Consolidated
Assets					
Cash	$ 750,000	$ 300,000			$ 1,050,000
Accounts receivable, net	1,950,000	750,000		(2)$ 600,000	2,100,000
Inventories	2,100,000	950,000		(3) 60,000	2,990,000
Land	500,000	200,000			700,000
Depreciable assets, net	4,160,000	1,800,000			5,960,000
Investment in Adams Corporation	2,205,000			(1) 2,205,000	—
Long-term investments and other assets	785,000	350,000		(4) 250,000	885,000
	$12,450,000	$4,350,000			$13,685,000
Liabilities and Stockholders' equity					
Accounts payable and other current liabilities	$ 1,750,000	$ 945,000	(2)$ 600,000		$ 2,095,000
Long-term debt	1,500,000	1,200,000	(4) 250,000		2,450,000
Common stock, $10 par value	3,000,000	900,000	(1) 900,000		3,000,000
Additional paid-in capital	1,370,000	175,000	(1) 175,000		1,370,000
			(3) 1,130,000		
Retained earnings	4,830,000	1,130,000	(3) 60,000		4,770,000
	$12,450,000	$4,350,000	$3,115,000	$3,115,000	$13,685,000

Madison, Inc., and Subsidiary
ELIMINATION ENTRIES
December 31, 1979

(Not Required)

	Debit	Credit
1. Common stock—Adams Corporation	$ 900,000	
Additional paid-in capital—Adams Corporation	175,000	
Retained earnings—Adams Corporation	1,130,000	
Investment in Adams Corporation		$2,205,000
To eliminate reciprocal elements in investment and equity accounts. Madison's investment account was recorded at the underlying equity in the net assets of Adams		

	Debit	Credit
2. Accounts payable and other current liabilities	600,000	
Accounts receivable, net		600,000
To eliminate Madison's intercompany balance for merchandise owed to Adams		
3. Retained earnings	60,000	
Inventories		60,000
To eliminate intercompany profit in ending inventory of Madison ($120,000 × ½ = $60,000)		
4. Long-term debt	$ 250,000	
Long-term investments and other assets		$ 250,000
To eliminate Madison's investment in Adams's bonds		

1N80
Answer 5 (cont.)

Madison, Inc., and Subsidiary
CONSOLIDATED STATEMENT OF RETAINED EARNINGS
For the Year Ended December 31, 1979

Balance, December 31, 1978	
As originally reported	$1,600,000
Adjustment for pooling of interests with Adams Corporation	275,000
As restated	1,875,000
Net income *(Schedule 1)*	3,165,000
	5,040,000
Deduct cash dividend paid by pooled company prior to combination ($3 × 90,000 shares)	270,000
Balance, December 31, 1979	$4,770,000

Schedule 1

Computation of Consolidated Net Income for the Year Ended December 31, 1979

Madison, Inc.	$2,100,000
Adams Corporation	1,125,000
	3,225,000
Deduct intercompany profit in inventory ($120,000 × ½)	60,000
Consolidated net income	$3,165,000

2M80
Answer 3 (10 points)

Encanto Corporation and Subsidiary
ADJUSTING AND ELIMINATION ENTRIES
December 31, 1979
(Not Required)

	Debit	*Credit*
(1)		
Excess of cost over net assets acquired	$ 14,000	
Investment in Norris Corporation		$ 14,000
To reclassify excess of cost over net assets required $260,000* × 30% = $78,000; 30% of investment 92,000; $14,000		
(2)		
Retained earnings — Encanto Corporation	$ 933	
Excess of cost over net assets acquired		$ 933
To record amortization for four months $14,000 ÷ 60 × 4		
(3)		
Common Stock — Norris Corporation	90,000	
Retained earnings — Norris Corporation	136,800	
Investment in Norris Corporation		226,800
To eliminate reciprocal elements in investment and equity accounts		
(4)		
Common stock — Norris Corporation	10,000	
Retained earnings — Norris Corporation	15,200	
Minority interest in common stock of Norris Corporation		10,000
Minority interest in retained earnings of Norris Corporation		15,200
To record minority interest's share of common stock and retained earnings of Norris Corporation		
(5)		
Dividends payable	36,000	
Dividends receivable		36,000
To eliminate Encanto's share of intercompany dividends $40,000 × 90%		
(6)		
Retained earnings — Encanto Corporation	7,000	
Inventory — Norris Corporation		7,000
To eliminate intercompany profit in ending inventory of Norris Corporation $35,000 ÷ 125% = $28,000; $35,000 − $28,000 = $7,000 profit		
(7)		
Accumulated depreciation	150	
Retained earnings — Encanto Corporation	5,850	
Property, plant, and equipment		6,000
To eliminate intercompany gain and adjust accumulated depreciation on equipment sold by Encanto to Norris		

*[$100,000 + ($152,000 − 96,000 + 40,000) + 2/3 × 96,000]

2M80
Answer 3 (cont.)

	Equipment	*Depreciation*
Encanto's book value	$36,000	$ 900
Selling price	42,000	1,050
Excess	($ 6,000)	($ 150)

(8)	*Debit*	*Credit*
Cash	$ 8,000	
Accounts receivable		$ 8,000
To record payment in transit		

Encanto Corporation and Subsidiary
CONSOLIDATED BALANCE SHEET WORKSHEET
As of December 31, 1979

	Encanto Corporation	*Norris Corporation*	*Total*	*Adjustments and Eliminations — Debit*	*Adjustments and Eliminations — Credit*	*Minority Interest*	*Consolidated*
Assets:							
Cash	$ 167,250	$101,000	$ 268,250	(8)$ 8,000			$ 276,250
Accounts receivable	178,450	72,000	250,450		(8)$ 8,000		242,450
Notes receivable	87,500	28,000	115,500				115,500
Dividends receivable	36,000		36,000		(5) 36,000		—
Inventories	122,000	68,000	190,000		(6) 7,000		183,000
Property, plant, and equipment	487,000	252,000	739,000		(7) 6,000		733,000
Accumulated depreciation	(117,000)	(64,000)	(181,000)	(7) 150			(180,850)
Investment in Norris Corporation	240,800		240,800		(3) 226,800 (1) 14,000		—
Excess of cost over net assets acquired				(1) 14,000	(2) 933		13,067
Total assets	$1,202,000	$457,000	$1,659,000				$1,382,417
Liabilities and stockholders' equity:							
Accounts payable	$ 222,000	$ 76,000	$ 298,000				$ 298,000
Notes payable	79,000	89,000	168,000				168,000
Dividends payable		40,000	40,000	(5) 36,000			4,000
Common stock							
Encanto Corporation	400,000		400,000				400,000
Norris Corporation		100,000	100,000	(3) 90,000 (4) 10,000			—
Minority interest in Norris Corporation					(4) 10,000	(4)$(10,000)	·
Retained earnings							
Encanto Corporation	501,000		501,000	(2) 933 (7) 5,850 (6) 7,000			487,217
Norris Corporation		152,000	152,000	(3) 136,800 (4) 15,200			—
Minority interest in Norris Corporation					(4) 15,200	(4) (15,200)	
Minority interest						$25,200	$25,200
Total liabilities and stockholders' equity	$1,202,000	$457,000	$1,659,000				$1,382,417

II. Measurement, Valuation, Realization, and Presentation of Assets in Conformity With Generally Accepted Accounting Principles (10%).

B. Marketable Securities and Investments

2N83
Answer 5 (10 points)

a.

Winsor Company
SCHEDULE OF CURRENT MARKETABLE EQUITY SECURITIES
December 31, 1983

	Number of shares	*Cost*	*Market price per share*	*Market value*	*Unrealized gross gain or (loss)*
Bea—preferred	500	$ 20,000	$56	$ 28,000	$ 8,000
Bea—common	1,500	20,000	20	30,000	10,000
Cha—common	3,500	35,000	11	38,500	3,500
Dey—common	1,700	42,500	22	37,400	(5,100)
		$117,500		$133,900	$16,400
Valuation allowance		-0-			
Carried at cost		$117,500			

The valuation allowance of $7,000 at December 31, 1982 for current marketable equity securities should be eliminated by a debit to valuation allowance—current, and a credit to unrealized gain on current marketable equity securities. This $7,000 unrealized gain should be included in Winsor's income statement for the year ended December 31, 1983.

b.

Winsor Company
SCHEDULE OF NONCURRENT MARKETABLE EQUITY SECURITIES
December 31, 1983

Eddie Corp.—100,000 shares of common stock:

Cost:		
In underlying equity		$1,400,000
In excess of underlying equity	$300,000	
Less amortization of excess of cost over underlying equity	(7,500)	292,500
Net cost		1,692,500
Increase in equity during 1983:		
Equity in Eddie's earnings		360,000
Less dividends received		(200,000)
Carrying amount of Eddie Corp. investment		$1,852,500

c.

Winsor Company
SCHEDULE OF INVESTMENT INCOME
For the Year Ended December 31, 1983

Dividends:

Bea Corp.—preferred (1,000 shares × $2.40 per share)	$ 2,400
Cha, Inc.—common (3,500 shares × $1.00 per share)	3,500
Total dividend income	$ 5,900

2N83
Answer 5 (cont.)

Realized gain (loss) on sale of securities:

Cha, Inc.—common ($13 − $10 = $3 × 2,500 shares)	$ 7,500
Dey Co.—common ($55,000/(2,000 shares × 110%), or cost per share of $25 − $21 selling price per share = $4 loss per share × 500 shares sold)	(2,000)
Net realized gain on sale of securities	$ 5,500
Unrealized gain on current marketable equity securities (see Required a.)	$ 7,000
Equity in income of Eddie Corp.	
Winsor's 30% interest in Eddie's net income of $1,200,000	$360,000
Amortization of excess of cost over underlying equity	(7,500)
Equity in income of Eddie Corp.	$352,500

1M81
Answer 4 (10 points)
Part a.

Warner, Inc.
INCOME BEFORE INCOME TAXES FROM BOND INVESTMENT
For the Years Ended December 31, 1979 and 1980

	1979	*1980*
Interest income before amortization (*Schedules 1 and 2*)	$37,333	$53,334
Amortization of bond discount (*Schedule 3*)	5,775	8,817
Gain on sale of bonds (*Schedule 4*)	—	5,441
Income before income taxes	$43,108	$67,592

Schedule 1

Interest Income Before Amortization for 1979

Face value of bonds (800 × $1,000)	$800,000
Interest rate	×8%
Interest for year	$ 64,000
Interest received December 1, 1979 ($64,000 × 1/2)	$32,000
Interest accrued at December 31, 1979 ($64,000 × 1/12)	5,333
Interest income before amortization for 1979	$37,333

Schedule 2

Interest Income Before Amortization for 1980

Interest accrued at December 31, 1979, reversed	$(5,333)
Interest received June 1, 1980 (6 months)	32,000
Accrued interest paid by buyer (June 1 to November 1, 5/12 × $64,000)	26,667
Interest income before amortization for 1980	$53,334

Schedule 3

Amortization of Bond Discount—Effective Interest Method for 1979 and 1980

Face value of bonds (800 × $1,000)		$800,000
Purchase price of bonds		738,300
Bond discount		61,700
Amortization of bond discount for 1979		
6 months ended December 1, 1979 ($738,300 × 5% = $36,915 effective interest − $32,000 cash interest)	$4,915	
Month of December 1979 [$743,215 ($738,300 + $4,915) × 5% = $37,161 effective interest − $32,000 cash interest = $5,161 × 1/6]	860	5,775
Balance of unamortized bond discount December 31, 1979		55,925
Amortization of bond discount for 1980		
5 months ended June 1, 1980 ($5,161 − $860)	4,301	
5 months ended November 1, 1980 [$748,376 ($743,215 + $5,161) × 5% = $37,419 effective interest − $32,000 cash interest = $5,419 × 5/6]	4,516	8,817
Balance of unamortized bond discount November 1, 1980		$ 47,108

1M81
Answer 4 (cont.)

Schedule 4

Gain on Sale of Bonds for 1980

Selling price of bonds		
Selling price of bonds, including accrued interest paid by buyer	$785,000	
Accrued interest paid by buyer (*Schedule 2*)	(26,667)	
Selling price of bonds		$758,333
Book value of bonds		
Purchase price of bonds	738,300	
Amortization of bond discount for 1979 (*Schedule 3*)	5,775	
Amortization of bond discount for 1980 (*Schedule 3*)	8,817	
Book value of bonds at date of sale		752,892
Gain on sale of bonds		$ 5,441

Warner, Inc.
SCHEDULE OF INTEREST INCOME AND BOND DISCOUNT AMORTIZATION—EFFECTIVE INTEREST METHOD
8% Bonds Purchased to Yield 10%
(Not Required)

Date	*Cash interest (4% semiannual)*	*Effective interest (5% semiannual)*	*Discount amortization*	*Balance unamortized discount*	*Carrying value of bonds*
6–1–79	—	—	—	$61,700[b]	$738,300[a]
12–1–79	$ 32,000	$ 36,915	$ 4,915	56,785	743,215
6–1–80	32,000	37,161	5,161	51,624	748,376
12–1–80	32,000	37,419	5,419	46,205	753,795
6–1–81	32,000	37,690	5,690	40,515	759,485
12–1–81	32,000	37,974	5,974	34,541	765,459
6–1–82	32,000	38,273	6,273	28,268	771,732
12–1–82	32,000	38,587	6,587	21,681	778,319
6–1–83	32,000	38,916	6,916	14,765	785,235
12–1–83	32,000	39,262	7,262	7,503	792,497
6–1–84	32,000	39,625	7,625	(122)	800,122
6–1–84	—	– (122)[c]	(122)[c]	122[c]	800,000
	$320,000	$381,700	$61,700	—0—	$800,000

[a] Price paid for $800,000 bonds equals present value of principal plus present value of interest payments:

Principal $800,000 × .614 (present value of $1, at 5% for 10 periods)	$491,200
Interest payments $32,000 (4% × $800,000) × 7.722 (present value of an annuity of $1 at 5% for 10 periods).	247,100
	$738,300

[b] $800,000 − $738,300 = $61,700.

[c] Adjustment for fractional differences.

1M81
Answer 4 (cont.)
Part b.

1. *Jeffries, Inc.*
INCOME BEFORE INCOME TAXES FROM INVESTMENT IN WOLF COMPANY
For the Year Ended December 31, 1979

October 1, 1979—dividend received from Wolf Company (10,000 shares × \$0.90)	\$ 9,000

2. *Jeffries, Inc.*
INCOME BEFORE INCOME TAXES FROM INVESTMENT IN WOLF COMPANY
For the Years Ended December 31, 1980, and 1979, Restated

	1980	*1979 Restated*
Equity in earnings of Wolf Company (*Schedule 1*)	\$110,000	\$ 40,000
Amortization of goodwill (*Schedule 2*)	(6,875)	(2,500)
Income before income taxes	\$103,125	\$ 37,500

Schedule 1

Equity in Earnings of Wolf Company

Year ended December 31, 1979 (\$400,000 × 10%)	\$ 40,000
Year ended December 31, 1980	
Six months ended June 30, 1980 (\$300,000 (\$500,000 − \$200,000) × 10%)	\$ 30,000
Six months ended December 31, 1980 (\$200,000 × 40%)	80,000
Total	\$110,000

Schedule 2

Amortization of Goodwill

Cost of 10% investment in Wolf common stock (January 1, 1979)	\$ 700,000
Deduct underlying equity in net assets of Wolf at January 1, 1979 (\$6,000,000 × 10%)	600,000
Goodwill on 10% investment	\$ 100,000
Amortization rate (40 years)	×2.5%
Annual amortization of goodwill	\$ 2,500
Amortization for year ended December 31, 1979	\$ 2,500
Cost of 30% investment in Wolf common stock (July 1, 1980)	\$2,300,000
Deduct underlying equity in net assets of Wolf at July 1, 1980 (\$6,500,000 × 30%)	1,950,000
Goodwill on 30% investment	\$ 350,000
Amortization rate (40 years)	×2.5%
Annual amortization of goodwill	\$ 8,750
Amortization for year ended December 31, 1980	
On 10% investment	\$ 2,500
On 30% investment (\$8,750 × 1/2)	4,375
Amortization for year ended December 31, 1980	\$ 6,875

C. Receivables and Accruals

1M84
Answer 5 (10 points)

1.

Linden, Inc.
LONG-TERM RECEIVABLES SECTION OF BALANCE SHEET
December 31, 1983

9% note receivable from sale of division, due in annual installments of $500,000 to May 1, 1985, less current installment	$ 500,000	[1]
8% note receivable from officer, due December 31, 1985, collateralized by 10,000 shares of Linden, Inc., common stock with a fair value of $450,000	400,000	
Non-interest-bearing note from sale of patent, net of 15% imputed interest, due April 1, 1985	84,105	[2]
Installment contract receivable, due in annual installments of $50,000 to July 1, 1987, less current installment	112,400	[3]
Total long-term receivables	$1,096,505	

2.

Linden, Inc.
SELECTED BALANCE SHEET BALANCES
December 31, 1983

Current portion of long-term receivables:		
Note receivable from sale of division	$ 500,000	[1]
Installment contract receivable	27,600	[3]
Total	$ 527,600	
Accrued interest receivable:		
Note receivable from sale of division	$ 60,000	[4]
Installment contract receivable	11,200	[5]
Total	$ 71,200	

3.

Linden, Inc.
INTEREST INCOME FROM LONG-TERM RECEIVABLES AND GAINS RECOGNIZED ON SALE OF ASSETS
For the Year Ended December 31, 1983

Interest income:		
Note receivable from sale of division	$ 105,000	[6]
Note receivable from sale of patent	8,505	[2]
Note receivable from officer	32,000	[7]
Installment contract receivable from sale of land	11,200	[5]
Total interest income for year ended 12/31/83	$ 156,705	
Gains recognized on sale of assets:		
Patent	$ 37,600	[8]
Land	50,000	[9]
Total gains recognized for year ended 12/31/83	$ 87,600	

1M84

Answer 5 (cont.)

Explanations of Amounts

[1] Long-term Portion of 9% Note Receivable at 12/31/83		
Face amount, 5/1/82		$1,500,000
Less installment received 5/1/83		500,000
Balance, 12/31/83		1,000,000
Less installment due 5/1/84		500,000
Long-term portion, 12/31/83		$ 500,000
[2] Non-interest-bearing Note, Net of Imputed Interest at 12/31/83		
Face amount, 4/1/83		$ 100,000
Less imputed interest [$100,000 — ($100,000 × 0.756)]		24,400
Balance, 4/1/83		75,600
Add interest earned to 12/31/83 ($75,600 × 15% × 9/12)		8,505
Balance, 12/31/83		$ 84,105
[3] Long-term Portion of Installment Contract Receivable at 12/31/83		
Contract selling price, 7/1/83		$ 200,000
Less down payment, 7/1/83		60,000
Balance, 12/31/83		140,000
Less installment due, 7/1/84 [$50,000 — ($140,000 × 16%)]		27,600
Long-term portion, 12/31/83		$ 112,400
[4] Accrued Interest — Note Receivable, Sale of Division, at 12/31/83		
Interest accrued from 5/1 to 12/31/83 ($1,000,000 × 9% × 8/12)		$ 60,000
[5] Accrued Interest — Installment Contract at 12/31/83		
Interest accrued from 7/1 to 12/31/83 ($140,000 × 16% × ½)		$ 11,200
[6] Interest Income — Note Receivable, Sale of Division, for 1983		
Interest earned from 1/1 to 5/1/83 ($1,500,000 × 9% × 4/12)		$ 45,000
Interest earned from 5/1 to 12/31/83 ($1,000,000 × 9% × 8/12)		60,000
Interest income		$ 105,000
[7] Interest Income — Note Receivable, Officer, for 1983		
Interest earned 1/1 to 12/31/83 ($400,000 × 8%)		$ 32,000
[8] Gain Recognized on Sale of Patent		
Stated selling price		$ 100,000
Less imputed interest		24,400 [2]
Actual selling price		75,600
Less cost of patent (net)		
Carrying value 1/1/83	$40,000	
Less amortization 1/1 to 4/1/84 ($8,000 × ¼)	2,000	38,000
Gain recognized		$ 37,600
[9] Gain Recognized on Sale of Land		
Selling price		$ 200,000
Less cost		150,000
Gain recognized		$ 50,000

1M83
Answer 4 (10 points)

Part a.

1.

Harris Corporation
ANALYSIS OF CHANGES IN THE ALLOWANCE FOR DOUBTFUL ACCOUNTS
For the Year Ended December 31, 1982

Balance at January 1, 1982	$130,000
Provision for doubtful accounts ($9,000,000 × 2%)	180,000
Recovery in 1982 of bad debts written off previously	15,000
	325,000
Deduct write-offs for 1982 ($90,000 + $60,000)	150,000
Balance at December 31, 1982, before change in accounting estimate	175,000
Increase due to change in accounting estimate during 1982 ($235,300 − $175,000)	60,300
Balance at December 31, 1982, adjusted (Schedule 1)	$235,300

Schedule 1

Computation of Allowance for Doubtful Accounts
at December 31, 1982

Aging category	*Balance*	*Percent*	*Doubtful accounts*
November–December 1982	$1,140,000	2	$ 22,800
July–October	600,000	10	60,000
January–June	400,000	25	100,000
Prior to 1/1/82	70,000[a]	75	52,500
			$235,300

[a] $130,000 − $60,000

2.

Harris Corporation
JOURNAL ENTRY
December 31, 1982

Account	*Dr.*	*Cr.*
Provision for doubtful accounts	$60,300	
Allowance for doubtful accounts		$60,300
To increase the allowance for doubtful accounts at December 31, 1982, resulting from a change in accounting estimate.		

1M80
Answer 4 (10 points)

Part a.

1. *Summit Company*
JOURNAL ENTRY
January 1, 1979

Account	Dr.	Cr.
Retained earnings	$20,000	
Allowance for doubtful accounts		$20,000

To set up the allowance for doubtful accounts at January 1, 1979, resulting from the correction of an error *(Schedule 1)*

Schedule 1

Computation of Allowance for Doubtful Accounts
at January 1, 1979

Accounts receivable at December 31, 1978	$1,250,000
Doubtful accounts expense as a percentage of sales for the four years ended December 31, 1978 *(Schedule 2)*	×1.60%
Allowance for doubtful accounts	$ 20,000

Schedule 2

Computation of Doubtful Accounts Expense
as a Percentage to Credit Sales
From Inception to December 31, 1978

Year	Credit Sales	Accounts Written Off Net of Recoveries	
1975	$ 1,500,000	$ 15,000	($ 15,000 − $ 0)
1976	2,250,000	35,300	($ 38,000 − $ 2,700)
1977	2,950,000	49,500	($ 52,000 − $ 2,500)
1978	3,300,000	60,200	($ 65,000 − $ 4,800)
	$10,000,000	$160,000	($170,000 − $10,000)

Percentage of doubtful accounts expense to installment sales 1.60%($160,000 ÷ $10,000,000)

2. *Summit Company*
ANALYSIS OF CHANGES IN THE ALLOWANCE FOR DOUBTFUL ACCOUNTS
For the Year Ended December 31, 1979

Balance at January 1, 1979	$ 20,000
Provision for doubtful accounts required for 1979 ($83,000 − $20,000 − $5,000 + $24,820)	82,820
Recovery in 1979 of bad debts written off previously	5,000
	107,820
Deduct write-offs for 1979	83,000
Allowance for doubtful accounts at December 31, 1979 *(Schedule 3)*	$ 24,820

Schedule 3

Computation of Allowance for Doubtful Accounts
at December 31, 1979

Accounts receivable at December 31, 1979	$1,460,000
Doubtful accounts expense as a percentage of sales for the 5 years ended December 31, 1979 *(Schedule 4)*	×1.70%
Allowance for doubtful accounts	$ 24,820

Schedule 4

Computation of Doubtful Accounts Expense
as a Percentage to Credit Sales
Five Years Ended December 31, 1979

Year	Credit Sales	Accounts Written Off Net of Recoveries	
1975-1978 *(Schedule 2)*	$10,000,000	$160,000	($170,000 − $10,000)
1979	4,000,000	78,000	($ 83,000 − $ 5,000)
	$14,000,000	$238,000	($253,000 − $15,000)

Percentage of doubtful accounts expense to credit sales 1.70% ($238,000 ÷ $14,000,000)

D. Inventories

1M83
Answer 4

Part b.

1.

Lucas Distributors, Inc.
COMPUTATION OF INTERNAL CONVERSION PRICE INDEX
FOR INVENTORY POOL NO. 1
DOUBLE EXTENSION METHOD

	December 31, 1981	*December 31, 1982*
Current inventory at current year cost		
Product A	17,000 × \$35 = \$595,000	13,000 × \$40 = \$520,00
Product B	9,000 × \$28 = 252,000	10,000 × \$32 = 320,00
	\$847,000	\$840,00
Current inventory at base cost		
Product A	17,000 × \$30 = \$510,000	13,000 × \$30 = \$390,00
Product B	9,000 × \$25 = 225,000	10,000 × \$25 = 250,00
	\$735,000	\$640,00
Conversion price index	\$847,000 ÷ \$735,000 = 1.15	\$840,000 ÷ \$640,000 = 1.3

2.

Lucas Distributors, Inc.
COMPUTATION OF INVENTORY AMOUNTS
UNDER DOLLAR VALUE LIFO METHOD
FOR INVENTORY POOL NO. 1
At December 31, 1981 and 1982

	Current inventory at base cost	*Conversion price index*	*Inventory at LIFO cost*
December 31, 1981			
Base inventory	\$560,000	1.00	\$560,000
1981 layer (\$735,000 − \$560,000)	175,000	1.15[a]	201,250
Total	\$735,000[a]		\$761,250
December 31, 1982			
Base inventory	\$560,000	1.00	\$560,000
1981 layer (remaining)	80,000[b]	1.15[a]	92,000
1982 layer	0	1.31[a]	0
Total	\$640,000[a]		\$652,000

[a] See Computation of Internal Conversion Price Index, above.
[b] After liquidation of \$95,000 at base cost:

Product A (4,000 × \$30)	\$120,000
Product B (1,000 × \$25)	(25,000)
Net	\$ 95,000

1N81
Answer 4 (10 points)

Part a.

1. *Grover Company*

COMPUTATION OF INVENTORY FOR CLASS F INVENTORY POOL UNDER LIFO METHOD

December 31, 1979

	Units	*Weighted average unit cost*	*Total cost*
Base year inventory—1976	9,000	$10.00	$ 90,000
Incremental layer—1977 (Portion)	2,000	11.00	22,000
Inventory, December 31, 1979 (*Schedule 1*)	11,000		$112,000

Schedule 1

Computation of Units in Inventory for Class F Inventory Pool

	Units
Inventory, December 31, 1978	14,000
Add purchases during 1979 (4,800 + 7,200)	12,000
Inventory available for use	26,000
Deduct units used for production during 1979	15,000
Inventory, December 31, 1979	11,000

2. *Grover Company*

COMPUTATION OF COST OF CLASS F RAW MATERIALS USED IN PRODUCTION UNDER LIFO METHOD

For Year Ended December 31, 1979

	Units	*Unit cost*	*Total cost*
From purchase of September 1, 1979	7,200	$14.00	$100,800
From purchase of March 1, 1979	4,800	13.50	64,800
From incremental layer—1978	2,000	12.50	25,000
From incremental layer—1977 (Portion)	1,000	11.00	11,000
Used in production during 1979	15,000		$201,600

3. *Grover Company*

COMPUTATION OF INVENTORY FOR CLASS F INVENTORY POOL UNDER LIFO METHOD

December 31, 1980

	Units	*Weighted average unit cost*	*Total cost*
Base year inventory—1976	9,000	$10.00	$ 90,000
Incremental layer—1977 (Portion) (Part a. 1)	2,000	11.00	22,000
Incremental layer—1980 (*Schedule 2*)	4,000	15.30	61,200
Inventory, December 31, 1980 (*Schedule 3*)	15,000		$173,200

Schedule 2

Average Unit Cost for Incremental Layer—1980

	Units	*Total cost*
Purchase of January 10, 1980	7,500	$108,750
Purchase of May 15, 1980	5,500	85,250
Purchase of December 29, 1980	7,000	112,000
Totals	20,000	$306,000
Average unit cost ($306,000 ÷ 20,000)		$ 15.30

Schedule 3

Computation of Units in Inventory for Class F Inventory Pool

	Units
Inventory, December 31, 1979 (*Schedule 1*)	11,000
Add purchases during 1980 (*Schedule 2*)	20,000
Inventory available for use	31,000
Deduct units used for production during 1980	16,000
Inventory, December 31, 1980	15,000

1N81
Answer 4 (cont.)
Part b.

Layne Corporation
ADJUSTMENTS TO INITIAL AMOUNTS
As of December 31, 1980

	Inventory	*Accounts payable*	*Net sales*
Initial amounts	$1,750,000	$1,200,000	$8,500,000
Adjustments Increase (Decrease)			
1	NONE	NONE	(35,000)
2	50,000	50,000	NONE
3	20,000	NONE	NONE
4	26,000	NONE	(40,000)
5	25,000	NONE	NONE
6	30,000	NONE	NONE
7	NONE	60,000	NONE
8	2,000	4,000	NONE
Total adjustments	153,000	114,000	(75,000)
Adjusted amounts	$1,903,000	$1,314,000	$8,425,000

E. Property, Plant, and Equipment

1N82
Answer 5

Part b.

1. *Brock Corporation*
LAND ACCOUNT (SITE NUMBER 101)
As of September 30, 1981

Acquisition cost	$600,000
Real estate broker's commission	36,000
Legal fees	6,000
Title guarantee insurance	18,000
Cost of razing existing building	75,000
Balance, September 30, 1981	$735,000

2. *Brock Corporation*
CAPITALIZED COST OF OFFICE BUILDING
As of September 30, 1981

Contract cost	$3,000,000
Plans, specifications and blueprints	12,000
Architects' fees for design and supervision	95,000
Capitalized interest—1980 ($900,000 × 14% × 10/12)	105,000
Capitalized interest—1981 ($2,300,000 × 14% × 9/12)	241,500
Total capitalized cost, September 30, 1981	$3,453,500

3. *Brock Corporation*
COMPUTATION OF DEPRECIATION OF OFFICE BUILDING USING 150% DECLINING BALANCE METHOD
For the Year Ended December 31, 1981

Capitalized cost	$3,453,500
150% declining balance rate (100% ÷ 40 years = 2.5% × 1.5)	×3.75%
Annual depreciation	$ 129,506
Depreciation October 1 to December 31, 1981 ($129,506 × 3/12)	$ 32,377

F. Capitalized Leased Assets

1M81
Answer 5

Part b.
1. *Dumont Corporation*
COMPUTATION OF ANNUAL RENTAL UNDER DIRECT FINANCING LEASE
Dated December 31, 1979

Cost of leased machine	$500,000
Deduct investment tax credit ($500,000 × 10%)	50,000
Net cost to Dumont	450,000
Deduct present value of estimated residual value ($60,000 × 0.452 (present value of $1 at 12% for 7 periods))	27,120
Net investment to be recovered	422,880
Present value of an annuity of $1 in advance for 7 periods at 12%	÷5.111
Annual rental	$ 82,739

1M81
Answer 5 (cont.)

2. *Dumont Corporation*

COMPUTATION OF GROSS LEASE RENTALS RECEIVABLE AND UNEARNED INTEREST REVENUE AT INCEPTION OF DIRECT FINANCING LEASE

Dated December 31, 1979

Gross lease rentals receivable ($82,739 × 7)		$579,173
Deduct recovery of net investment in machine on capital lease		
Cost of machine	$500,000	
Investment tax credit ($500,000 × 10%)	(50,000)	
Residual value of machine	(60,000)	390,000
Unearned interest revenue		$189,173

3. *Finley Company*

COMPUTATION OF EXPENSE ON LEASE RECORDED AS A CAPITAL LEASE

For the Year Ended December 31, 1980

Depreciation [$422,880 (*Schedule 1*) ÷ 7]	$ 60,411
Interest expense (*Schedule 1*)	40,817
Total expense on lease	$101,228

Schedule 1

Interest Expense Year Ended December 31, 1980

Liability under capital lease (initial value) [$82,739 × 5.111 (present value of an annuity of $1 in advance for 7 periods at 12%*)]	$422,880
Deduct lease payment on December 31, 1979	82,739
Balance December 31, 1979 (after initial payment)	340,141
Interest rate	×12%*
Interest expense year ended December 31, 1980	$ 40,817

* Finley Company must use Dumont Corporation's (Lessor's) implicit rate of 12% (which is known to it), since it is lower than Finley's incremental borrowing rate of 14%.

Dumont Corporation

SCHEDULE OF AMORTIZATION—DIRECT FINANCING LEASE

Dated December 31, 1979

(Not Required)

Date	*Lease Rental*	*Interest Income (12%)*	*Investment Recovery*	*Net Investment*
12–31–79	Initial Value	—	—	$450,000[a][d]
12–31–79	$ 82,739	—	$ 82,739	367,261
12–31–80	82,739	$ 44,071	38,668	328,593
12–31–81	82,739	39,431	43,308	285,285
12–31–82	82,739	34,234	48,505	236,780
12–31–83	82,739	28,414	54,325	182,455
12–31–84	82,739	21,895	60,844	121,611
12–31–85	82,739	14,593	68,146[e]	53,465[f]
12–31–86	—	6,416	(6,416)	59,881
12–31–86	—	119[c]	(119)[c]	60,000[b]
	$579,173	$189,173	$390,000	$ 60,000

[a] Net investment equals cost less investment tax credit ($500,000 − $50,000).
[b] Residual value that remains in the asset account at expiration of the lease.
[c] Adjustment for fractional differences.
[d] Present value of lease payments ($422,880) plus present value of the residual value ($27,120) = $450,000.
[e] Includes unearned interest income of $6,416.
[f] Net of unearned interest income of $6,416.

G. Intangibles

1N82
Answer 5

Part a.

1. *Tully Corporation*
INTANGIBLES SECTION OF BALANCE SHEET
December 31, 1981

Franchise from Rapid Copy Service, Inc., net of accumulated amortization of \$6,870 (*Schedule 1*)	\$ 61,830
Patent, net of accumulated amortization of \$2,050 (*Schedule 2*)	14,350
Trademark, net of accumulated amortization of \$7,294 (*Schedule 3*)	42,706
Total intangibles	\$118,886

Schedule 1

Computation of Franchise From Rapid Copy Service, Inc.

Cost of franchise at January 1, 1981	
Down payment	\$ 25,000
Present value of installments	43,700
Initial amount capitalized	68,700
Amortization of franchise for 1981 (\$68,700 ÷ 10 years)	(6,870)
Franchise balance, December 31, 1981	\$ 61,830

Schedule 2

Computation of Patent

Capitalized cost of patent at January 2, 1981—legal fees and other costs associated with registration	\$ 16,400
Amortization of patent for 1981 (\$16,400 ÷ 8 years)	(2,050)
Patent balance, December 31, 1981	\$ 14,350

Schedule 3

Computation of Trademark

	Cost	*Accumulated Amortization*
Cost of trademark at July 1, 1978	\$40,000	
Amortization through December 31, 1980 (\$40,000 ÷ 20 years = \$2,000 × 2½ years)		\$5,000
Amortization for period January 1–June 30, 1981 (\$2,000 × ½)		1,000
Cost of successful litigation in defense of trademark, July 1, 1981	10,000	
Balance, July 1, 1981	50,000	6,000
Amortization for period July 1–December 31, 1981 (\$50,000 − \$6,000 = \$44,000 trademark balance ÷ 17 year remaining life = \$2,588 × ½)		1,294
Balance, December 31, 1981	50,000	\$7,294
Deduct accumulated amortization	7,294	
Trademark balance, December 31, 1981	\$42,706	

2. *Tully Company*
EXPENSES RESULTING FROM INTANGIBLES TRANSACTIONS
For the Year Ended December 31, 1981

Franchise from Rapid Copy Service, Inc.	
Amortization of franchise (*Schedule 1*)	\$ 6,870
Franchise fee on revenues from operations (\$900,000 × 5%)	45,000
Imputed interest expense on unpaid balance of initial franchise fee (\$43,700 × 14%)	6,118
	57,988
Amortization of patent (*Schedule 2*)	2,050
Amortization of trademark (\$1,000 + \$1,294) (*Schedule 3*)	2,294
Total expenses	\$62,332

III. Valuation, Recognition, and Presentation of Liabilities in Conformity With Generally Accepted Accounting Principles (5%).

1N84

Answer 4 (10 points)

a.

Bristol Corporation
LONG-TERM LIABILITIES SECTION OF BALANCE SHEET
December 31, 1983

15% note payable, bank, due in annual installments of $700,000, less current installment	$1,400,000	[1]
Liability under capital lease, net present value of lease payments, less current installment	344,828	[2]
10% bonds payable due July 1, 1993, less unamortized discount of $219,560 at effective interest rate of 12% at date of issue	1,780,440	[3]
Deferred income taxes	396,000	[4]
Total long-term liabilities	$3,921,268	

b.

Bristol Corporation
SELECTED BALANCE SHEET BALANCES
December 31, 1983

Current portion of long-term liabilities		
Note payable, bank	$700,000	[1]
Liability under capital lease	45,372	[2]
Total	$745,372	
Accrued interest payable		
Note payable, bank	$236,250	[5]
Bonds payable	100,000	[3]
Total	$336,250	

c.

Bristol Corporation
INTEREST EXPENSE FROM LONG-TERM LIABILITIES AND DEFERRED INCOME TAX EXPENSE
For the Year Ended December 31, 1983

Interest expense		
Note payable, bank	$341,250	[6]
Liability under capital lease	60,200	[2]
Bonds payable	106,440	[3]
Total	$507,890	
Deferred income tax expense	$ 36,000	[4]

1N84
Answer 4 (cont.)

Explanations of Amounts

[1]	15% Note payable, Bank		
	Note payable, 12/31/82		$2,800,000
	Deduct installment paid 4/1/83		700,000
	Balance, 12/31/83		2,100,000
	Deduct current installment due 4/1/84		700,000
	Long-term portion, 12/31/83		$1,400,000
[2]	Liability under capital lease		
	Liability under capital lease, 12/31/82		$ 430,000
	Deduct principal portion of 12/31/83 payment		
	Lease payment	$100,000	
	Less imputed interest ($430,000 × 14%)	60,200	39,800
	Balance, 12/31/83		390,200
	Deduct current principal payment due 12/31/84		
	Lease payment	100,000	
	Less imputed interest ($390,200 × 14%)	54,628	45,372
	Long-term portion, 12/31/83		$ 344,828
[3]	Bonds payable		
	Bonds payable issued 7/1/83		$1,774,000
	Add amortization of bond discount		
	Effective interest ($1,774,000 × 12% × 6/12)	106,440	
	Less accrued interest payable 12/31/83 ($2,000,000 × 10% × 6/12)	100,000	6,440
	Balance, 12/31/83		$1,780,440
[4]	Deferred income taxes		
	Deferred income taxes, 12/31/82		$ 360,000
	Add timing difference — excess of tax depreciation over book depreciation of $90,000 × 40%		36,000
	Balance, 12/31/83		$ 396,000
[5]	Accrued interest on note payable, bank		
	4/1/83 to 12/31/83 ($2,100,000 × 15% × 9/12)		$ 236,250
[6]	Interest expense on note payable, bank		
	1/1/83 to 3/31/83 ($2,800,000 × 15% × 3/12)		$ 105,000
	4/1/83 to 12/31/83 ($2,100,000 × 15% × 9/12)		236,250
	Interest, year ended 12/31/83		$ 341,250

1M82
Answer 4

Part b.

Greenlaw, Inc.
JOURNAL ENTRY—SITUATION 1
December 31, 1981

	Debit	*Credit*
Magazine subscriptions collected in advance	$ 500,000	
Magazine subscriptions revenue		$500,000
To record subscriptions earned during 1981		
Liability account		
Book balance at December 31, 1981	2,400,000	
Adjusted balance ($600,000 + $900,000 + $400,000)	1,900,000	
Credit to revenue account	$ 500,000	

Greenlaw, Inc.
SITUATION 2
December 31, 1981

No entry should be made to accrue for an expense, because the absence of insurance coverage does not mean that an asset has been impaired or a liability has been incurred as of the balance sheet date. Greenlaw may, however, appropriate retained earnings for self-insurance as long as actual costs or losses are not charged to the appropriation of retained earnings and no part of appropriation is transferred to income. The loss contingency may also be disclosed in the notes to the financial statements. Appropriation of retained earnings and/or disclosure in the notes to the financial statements are not required.

Greenlaw, Inc.
JOURNAL ENTRY—SITUATION 3
December 31, 1981

Estimated loss from pending lawsuit	$100,000	
Estimated liability from pending lawsuit		$100,000
To record estimated minimum damages on breach-of-contract litigation		

Greenlaw, Inc.
SITUATION 4
December 31, 1981

No entry should be made for this loss contingency, because it is not probable that an asset has been impaired or a liability has been incurred and the loss cannot be reasonably estimated as of the balance sheet date. The loss contingency should be disclosed in the notes to financial statements.

IV. Ownership Structure, Presentation, and Valuation of Equity Accounts in Conformity With Generally Accepted Accounting Principles.

A. Preferred and Common Stock

2M84
Answer 4

Part b.

Chee Corporation
STOCKHOLDERS' EQUITY
December 31, 1983

Capital stock	
Preferred stock, $4 cumulative, par value $50 per share; authorized 50,000 shares, issued and outstanding 10,000 shares	$ 500,000
Common stock, par value $1 per share; authorized 500,000 shares, issued 150,000 shares, and outstanding 140,000 shares	150,000
Total capital stock	650,000
Additional paid-in capital — common	
In excess of par value	1,560,000
From sale of treasury stock	250,000
Total paid-in capital	2,460,000
Retained earnings	231,000
Net unrealized loss on long-term equity securities	(25,000)
Total paid-in capital and retained earnings	2,666,000
Less treasury stock, 10,000 shares at cost	(180,000)
Total stockholders' equity	$2,486,000

E. Stock Options, Warrants, and Rights

1N81
Answer 5

Part a.

Holt, Inc.
JOURNAL ENTRY (1)
January 1, 1978

		Debit	Credit
Deferred compensation cost		$160,000	
Common stock options			$160,000
To record compensatory stock options at grant date:			
Compensation per share ($33 − $25)	$8		
Stock option shares	×20,000		
Common stock options and deferred compensation cost	$160,000		

Holt, Inc.
JOURNAL ENTRY (2)
December 31, 1978

	Debit	Credit
Compensation expense	$80,000	
Deferred compensation cost ($160,000 ÷ 2)		$80,000
To record compensation expense for 1978, based on write-off of deferred compensation cost over the stipulated two-year period of service		

Holt, Inc.
JOURNAL ENTRY (3)
April 1, 1979

		Debit	Credit
Common stock options		$16,000	
Deferred compensation cost			$8,000
Compensation expense			8,000
To record termination of 2,000 option shares held by employees at date they resigned their positions:			
Option shares terminated	2,000		
Compensation per share	× $8		
Common stock options and deferred compensation	$16,000		
Expensed year ended December 31, 1978 ($16,000 ÷ 2)	8,000		
Deferred compensation cost at April 1, 1979	$ 8,000		

Holt, Inc.
JOURNAL ENTRY (4)
December 31, 1979

	Debit	Credit
Compensation expense	$72,000	
Deferred compensation cost ($160,000 − $80,000 − $8,000)		$72,000
To record compensation expense for 1979 and write-off of remaining deferred compensation cost		

1N81
Answer 5 (cont.)

Holt, Inc.
JOURNAL ENTRY (5)
March 31, 1980

	Debit	*Credit*
Cash (12,000 × $25)	$300,000	
Common stock options (12,000 × $8)	96,000	
Common stock (12,000 × $10)		$120,000
Additional paid-in capital		276,000
To record issuance of 12,000 shares of $10 par common stock in exchange for 12,000 stock options and cash of $25 per share		

Holt, Inc.
December 31, 1980
(Not Required)

No entry for compensation expense for the stock options is required for year ended December 31, 1980, because the deferred compensation cost was properly expensed during 1978 and 1979.

G. Partnerships

1M82
Answer 4

Part a.

1.

Allen, Brown, and Cox Partnership
COMPUTATION OF SAFE INSTALLMENT PAYMENTS TO PARTNERS
January 31, 1982

	Residual equities			
	Total	*Allen*	*Brown*	*Cox*
Profit and loss ratio	100%	50%	30%	20%
Computation of January installment				
Preliquidation balances				
Capital	$282,000	$118,000	$ 90,000	$74,000
Add (deduct) loans	(10,000)	(30,000)	20,000	—
	272,000	88,000	110,000	74,000
Deduct January losses (*Schedule 1*)	(28,000)	(14,000)	(8,400)	(5,600)
Predistribution balances	244,000	74,000	101,600	68,400
Deduct potential losses (*Schedule 1*)	(199,000)	(99,500)	(59,700)	(39,800)
	45,000	(25,500)	41,900	28,600
Deduct potential loss—Allen's debit balance (Brown 3/5; Cox 2/5)	—	25,500	(15,300)	(10,200)
Safe payments to partners	$ 45,000	$ -0-	$ 26,600	$18,400

1M82
Answer 4 (cont.)

Schedule 1

Computation of Actual and Potential
Liquidation Losses
January 1982

	Actual losses	*Potential losses*
Collection of accounts receivable ($66,000 – $51,000)	$15,000	
Sale of inventory ($52,000 – $38,000)	14,000	
Liquidation expenses	2,000	
Gain resulting from January credit memorandum offset against payments to creditors	(3,000)	
Machinery and equipment, net		$189,000
Potential unrecorded liabilities and anticipated expenses		10,000
Totals	$28,000	$199,000

V. Measurement and Presentation of Income and Expense Items, Their Relationship to Matching and Periodicity, and Their Relationship to Generally Accepted Accounting Principles.

A. Sales or Revenues

1M82
Answer 5

Part a.

1.

Hobson, Inc.
APPLICATION OF CASH RECEIPTS FROM SALE OF IDLE PLANT FACILITY TO COST RECOVERY, DEFERRED INCOME, AND INCOME RECOGNIZED UNDER THE COST RECOVERY METHOD OF ACCOUNTING
For the Period January 1, 1977, to February 1, 1981

Date	Cash received	Note receivable	Idle plant (net)	Deferred income	Income recognized
	Debit	Dr. (Cr.)	(Credit)	Dr. (Cr.)	(Credit)
January 1, 1977	$100,000	$600,000	$(500,000)	$(200,000)	
July 1, 1978	190,000	(100,000)		(90,000)	
December 31, 1979	275,000	(200,000)		(10,000)	$ (65,000)*
February 1, 1981	332,500	(300,000)			(32,500)
February 1, 1981				300,000	(300,000)

* Total cash received	$565,000	($100,000 + $190,000 + $275,000)
Idle plant (net)	500,000	
Income recognized	$ 65,000	

1M82
Answer 5 (cont.)

2. *Hobson, Inc.*
JOURNAL ENTRY
April 1, 1981

	Debit	Credit
Machinery and Equipment ($190,000 + $30,000)	$220,000	
Land		$105,000
Gain on disposal of land ($190,000 − $105,000)		85,000
Cash		30,000
To record the exchange of land for a used printing press of Tyler Company		

1N80
Answer 4 (10 points)

Part a. (10 points)

1. *Curtiss Construction Company, Inc.*
COMPUTATION OF BILLINGS ON UNCOMPLETED CONTRACT IN EXCESS OF RELATED COSTS
December 31, 1977

Partial billings on contract during 1977	$720,000
Deduct construction costs incurred during 1977	350,000
Balance, December 31, 1977	$370,000

Curtiss Construction Company, Inc.
COMPUTATION OF COSTS OF UNCOMPLETED CONTRACT IN EXCESS OF RELATED BILLINGS
December 31, 1978

Balance, December 31, 1977—excess of billings over costs	$ (370,000)
Add construction costs incurred during 1978 ($2,500,000 − $350,000)	2,150,000
	1,780,000
Deduct provision for loss on contract recognized during 1978 ($2,500,000 + $1,700,000 − $4,000,000)	200,000
	1,580,000
Deduct partial billings during 1978 ($2,160,000 − $720,000)	1,440,000
Balance, December 31, 1978	$ 140,000

Curtiss Construction Company, Inc.
COMPUTATION OF COSTS RELATING TO SUBSTANTIALLY COMPLETED CONTRACT IN EXCESS OF BILLINGS
December 31, 1979

Balance, December 31, 1978—excess of costs over billings	$ 140,000
Add construction costs incurred during 1979 ($4,250,000 − $2,500,000)	1,750,000
	1,890,000
Deduct loss on contract recognized during 1979 ($4,250,000 − $4,000,000 − $200,000)	50,000
	1,840,000
Deduct partial billings during 1979 ($3,600,000 − $2,160,000)	1,440,000
Balance, December 31, 1979	$ 400,000

2. *Curtiss Construction Company, Inc.*
COMPUTATION OF PROFIT OR LOSS TO BE RECOGNIZED ON UNCOMPLETED CONTRACT
Year Ended December 31, 1977

Contract price	$4,000,000
Deduct contract costs	
Incurred to December 31, 1977	$ 350,000
Estimated costs to complete	3,150,000
Total estimated contract cost	$3,500,000
Estimated gross profit on contract at completion	$ 500,000
Profit to be recognized	$ – 0 –

(The completed-contract method recognizes income only when the contract is completed, or substantially so.)

Curtiss Construction Company, Inc.
COMPUTATION OF LOSS TO BE RECOGNIZED ON UNCOMPLETED CONTRACT
Year Ended December 31, 1978

Contract price	$4,000,000
Deduct contract costs	
Incurred to December 31, 1978	2,500,000
Estimated costs to complete	1,700,000
Total estimated contract cost	4,200,000
Loss to be recognized	$ (200,000)

(The completed-contract method requires that provision should be made for an expected loss.)

1N80
Answer 4 (cont.)

Curtiss Construction Company, Inc.
COMPUTATION OF LOSS TO BE RECOGNIZED ON SUBSTANTIALLY COMPLETED CONTRACT
Year Ended December 31, 1979

Contract price	$4,000,000
Deduct contract costs incurred	4,250,000
Loss on contract	(250,000)
Deduct provision for loss booked at December 31, 1978	200,000
Loss to be recognized	$ (50,000)

Part b.

Butler, Inc.
COMPUTATION OF GROSS PROFIT TO BE RECOGNIZED ON UNCOMPLETED CONTRACT
Year Ended December 31, 1979

Total contract price		
Estimated contract cost at completion ($700,000 + $1,400,000)	$2,100,000	
Fixed fee	300,000	
Total		2,400,000
Total estimated cost		2,100,000
Gross profit		$ 300,000
Percentage-of-completion ($700,000 ÷ $2,100,000)		33⅓%
Gross profit to be recognized ($300,000 × 33⅓%)		$ 100,000

1M80
Answer 4

Part b.

Pitt Company
INCOME BEFORE INCOME TAXES ON SALE OF PATENT
For the Years Ended December 31, 1978, and 1979

		1978	1979
Profit on Sale			
Sales price ($16,000 × 3.60)	$57,600		
Cost of patent, net of amortization	10,000	$47,600	—
Interest income (*Schedules 1 and 2*)		6,912	$5,821
Income before income taxes		$54,512	$5,821

Schedule 1

Computation of Interest Income for 1978

Sales price	$57,600
Interest rate	×12%
Interest income	$ 6,912

Schedule 2

Computation of Interest Income for 1979

Balance at December 31, 1978 ($57,600 + $6,912)	$64,512
Deduct payment made on January 1, 1979	16,000
	48,512
Interest rate	×12%
Interest income	$ 5,821

Part c.

Maple Corporation
INCOME BEFORE INCOME TAXES ON INSTALLMENT SALE CONTRACT
For the Year Ended December 31, 1979

Sales	$556,000
Cost of sales	417,000
Gross profit	139,000
Interest income (*Schedule 1*)	27,360
Income before income taxes	$166,360

Schedule 1

Computation of Interest Income on Installment Sale Contract

Cash selling price	$556,000
Deduct payment made July 1, 1979	100,000
	456,000
Interest rate	×12%
Annual interest	$ 54,720
Interest July 1, 1979, to December 31, 1979 ($54,720 × ½)	$ 27,360

C. Expenses

1M82
Answer 5

Part b.

1.

Foster Corporation
COMPUTATION OF PENSION EXPENSE REPORTED ON THE INCOME STATEMENTS
For the Years Ended December 31, 1980, and 1981

	1980	*1981*
Normal cost	$60,000	$65,000
Past service cost	29,685	29,685
Interest on liability for pension expense not funded at December 31, 1980 ($3,530 × 6%)	—	212
Total pension expense	$89,685	$94,897

Foster Corporation
COMPUTATION OF LIABILITY FOR PENSION EXPENSE NOT FUNDED REPORTED ON THE BALANCE SHEETS
As of December 31, 1980, and 1981

Past service cost amortization—1980	$29,685
Deduct past service cost funded—December 31, 1980	26,155
Liability for pension expense not funded—balance at December 31, 1980	3,530
Add interest on liability for pension expense not funded at December 31, 1980 ($3,530 × 6%)	212
Past service cost amortization—1981	29,685
	33,427
Deduct past service cost funded—December 31, 1981	26,155
Liability for pension expense not funded—balance at December 31, 1981	$ 7,272

2.

Foster Corporation
COMPUTATION OF MINIMUM PENSION PROVISION
For the Year Ended December 31, 1980

Normal cost	$60,000
Interest on unfunded past service cost ($300,000 × 6%)	18,000
Minimum pension provision	$78,000

Foster Corporation
COMPUTATION OF MAXIMUM PENSION PROVISION
For the Year Ended December 31, 1980

Normal cost	$60,000
Past service cost amortization ($300,000 × 10%)	30,000
Maximum pension provision	$90,000

1M81
Answer 5

Part a.

1.

Sutter Company
COMPUTATION OF EXPENSE ON OPERATING LEASE
For the Year Ended December 31, 1980

Rental expense ($18,000 × 10 months)	$180,000

2.

Riley, Inc.
COMPUTATION OF INCOME BEFORE INCOME TAXES ON OPERATING LEASE
For the Year Ended December 31, 1980

Rental income ($18,000 × 10 months)		$180,000
Deduct		
Depreciation ($1,200,000 ÷ 10 × 10/12)	$100,000	
Amortization of commission for negotiating lease ($60,000 × 10/48)	12,500	112,500
Income from operating lease		$ 67,500

D. Provision for Income Tax

2N82
Answer 4 (10 points)

1.

Howe Corporation
COMPUTATION OF NET DEDUCTIONS FOR TAX REPORTING PURPOSES GIVING RISE TO INTERPERIOD TAX ALLOCATION ON ORDINARY INCOME
For the Years Ended December 31,

	1979	*1980*	*1981*
Depreciation—packaging equipment			
($450,000 – $60,000) × 5/15	$130,000		
($450,000 – $60,000) × 4/15		$104,000	
($450,000 – $60,000) × 3/15			$78,000
Patent amortization ($68,000 ÷ 17)			4,000
Total deductions	130,000	104,000	82,000
Less rental income		120,000	
Net deductions for income tax reporting	$130,000	$(16,000)	$82,000

NOTE: Investment credit is ignored in computing interperiod tax allocation.

2.

Howe Corporation
COMPUTATION OF NET DEDUCTIONS FOR FINANCIAL STATEMENTS ADJUSTED FOR PERMANENT DIFFERENCE GIVING RISE TO INTERPERIOD TAX ALLOCATION ON ORDINARY INCOME
For the Years Ended December 31,

	1979	*1980*	*1981*
Depreciation—packaging equipment, based on cost less salvage value, before offset of investment credit ($450,000 – $60,000) ÷ 5	$78,000	$78,000	$78,000
Patent amortization ($68,000 ÷ 4)			17,000
Total deductions	78,000	78,000	95,000
Less rental income ($120,000 ÷ 3)		40,000	40,000
Net deductions for financial statements as adjusted	$78,000	$38,000	$55,000

3.

Howe Corporation
COMPUTATION OF DEFERRED TAX CREDIT AT CAPITAL GAINS RATE
At December 31, 1981

Gain on sale of land for financial reporting purposes ($400,000 – $300,000)	$100,000
Gain on sale of land for tax reporting purposes ($400,000 – $300,000) ÷ 10	10,000
Deferred gain for tax reporting purposes	90,000
Capital gains rate	×28%
Deferred tax credit at capital gains rate	$ 25,200

2N82
Answer 4 (cont.)

4.

Howe Corporation
COMPUTATION OF TOTAL NET DEFERRED TAX CREDITS (DEBITS)
At December 31,

	1979	*1980*	*1981*
Timing differences taxed at ordinary rates:			
Net deductions for income tax purposes	$130,000	$(16,000)	$82,000
Net deductions for financial statement purposes as adjusted	78,000	38,000	55,000
Tax deductions in excess of financial statement deductions	52,000	(54,000)	27,000
Tax rate on ordinary income	×40%	×40%	×40%
Deferred tax credits (debit) at ordinary rates	20,800	(21,600)	10,800
Deferred tax credit at 28% capital gains rate			25,200
Total net deferred tax credits (debit)	20,800	(21,600)	36,000
Cumulative total deferred tax credits	$ 28,000	$ (800)	$35,200

5.

Howe Corporation
COMPUTATION OF TOTAL INCOME TAX EXPENSE FOR FINANCIAL STATEMENT PURPOSES
For the Years Ended December 31

	1979	*1980*	*1981*
Income taxes per tax returns	$ 50,000	$142,400	$101,280
Add investment credit	30,000		
Income taxes before investment credit	80,000	142,400	101,280
Add deferred tax credits (debit)	20,800	(21,600)	36,000
Total income tax expense before investment credit	100,800	120,800	137,280
Less amortization of investment credit	6,000	6,000	6,000
Total income tax expense	$ 94,800	$114,800	$131,280

G. Earnings Per Share

1N81
Answer 5

Part b.

1. *Mason Corporation*
NUMBER OF SHARES FOR COMPUTATION OF PRIMARY EARNINGS PER COMMON SHARE
For Year Ended December 31, 1980

Weighted average number of shares outstanding (*Schedule 1*)	312,000
Common stock equivalents	
From stock options—dilutive (*Schedule 2*)	11,250
From warrants—antidilutive (*Schedule 3*)	0
Total number of shares for primary EPS computation	323,250

Schedule 1

Weighted Average Number of Common Shares Outstanding—1980

Dates	*Shares*	*Months outstanding*	*Weighted shares*
January 1—August 31	300,000	×8	2,400,000
September 1, sold additional shares	36,000		
September 1—December 31	336,000	×4	1,344,000
Total share—months			3,744,000
			÷12
Weighted average number of shares outstanding			312,000

Schedule 2

Common Stock Equivalents From Stock Options—Treasury Stock Method

	Shares
Shares that would be issued upon exercise of options	30,000
Cash proceeds that would be realized upon exercise [30,000 shares × $22.50 (option price) = $675,000]	
Treasury shares that could be purchased [$675,000 ÷ $36 (average market price)]*	18,750
Dilutive common stock equivalents	11,250

* For purposes of computing fully diluted earnings per share, the $33 market price per share at December 31, 1980, is not used because it is lower than the $36 average market price for 1980.

Schedule 3

Common Stock Equivalents From Warrants—Treasury Stock Method

Shares that would be issued upon exercise of warrants	20,000
Cash proceeds that would be realized upon exercise [20,000 shares × $38 (exercise price) = $760,000]	
Treasury shares that could be purchased [$760,000 ÷ $36 (average market price)]*	21,111
Antidilutive common stock equivalents (not included in EPS computations)	(1,111)

* For purposes of computing fully diluted earnings per share, the $33 market price per share at December 31, 1980, is not used because it is lower than the $36 average market price for 1980.

2. *Mason Corporation*
COMPUTATION OF PRIMARY EARNINGS PER COMMON SHARE
For Year Ended December 31, 1980

Income:	
Net income	$750,000
Deduct dividends paid on preferred stock (10,000 shares × $3)	30,000
Net income, adjusted	$720,000
Number of shares (Part b. 1)	323,250
Primary earnings per share ($720,000 ÷ 323,250)	$ 2.23

3. *Mason Corporation*
NUMBER OF SHARES FOR COMPUTATION OF FULLY DILUTED EARNINGS PER COMMON SHARE
For Year Ended December 31, 1980

Weighted average number of shares outstanding (*Schedule 1*)	312,000
Common stock equivalents	
From stock options—dilutive (*Schedule 2*)	11,250
From warrants—antidilutive (*Schedule 3*)	– 0 –
Shares assumed to be issued upon conversion of convertible bonds ($1,000,000 ÷ $1,000 = 1,000 bonds × 40)	40,000
Total number of shares for fully diluted EPS computation	363,250

1N81
Answer 5 (cont.)

4. *Mason Corporation*
COMPUTATION OF FULLY DILUTED EARNINGS PER COMMON SHARE
For Year Ended December 31, 1980

Income:	
Net income	$750,000
Deduct dividends paid on preferred stock (10,000 shares × $3)	30,000
	720,000
Add interest expense (net of income tax effect) on convertible bonds [$1,000,000 × 8% = $80,000 × .60 (1.00 − .40 tax rate)]	48,000
Net income, adjusted	$768,000
Number of shares (Part b. 3)	363,250
Fully diluted earnings per share ($768,000 ÷ 363,250)	$ 2.11

VII. Cost Accumulation, Planning, and Control

2N84
Answer 5 (10 points)

a.

Poe Corp.
Boston Plant
COMPUTATION OF NUMBER OF UNITS OF XOFF REQUIRED TO COVER FIXED FACTORY OVERHEAD AND FIXED REGIONAL PROMOTIONAL COSTS

	Total (000 omitted)	*Per Unit*
Sales	$2,200	$20
Variable factory costs		
Direct material	550	5
Direct labor	660	6
Factory overhead	440	4
Total variable costs	1,650	15
Contribution margin	$ 550	$ 5

Units required to cover fixed factory overhead and fixed regional promotional costs:

$$\frac{(\$700{,}000 + \$100{,}000)}{\$5} = 160{,}000 \text{ units of Xoff}$$

2N84
Answer 5 (cont.)

b.

1.

Poe Corp.
SCHEDULE OF BUDGETED CONTRIBUTION MARGIN AND OPERATING INCOME IF BOSTON OPERATIONS ARE EXPANDED *(PLAN A)*
For the Year Ending December 31, 1985

	(000 omitted) Total	Boston	Chicago
Sales	$7,400	$3,400	$4,000
Variable factory costs			
Direct material	1,850	850	1,000
Direct labor	2,020	1,020	1,000
Factory overhead	1,380	680	700
Total variable costs	5,250	2,550	2,700
Contribution margin	2,150	850	1,300
Fixed costs			
Factory overhead	1,600	700	900
Regional promotional	320	220	100
Total fixed costs	1,920	920	1,000
Plant operating income (loss)	230	(70)	300
Allocated home office costs	310	142*	168**
Operating income (loss)	$ (80)	$ (212)	$ 132

*$\frac{\$3,400}{\$7,400} \times \$310 = \$142$

**$\frac{\$4,000}{\$7,400} \times \$310 = \$168$

2.

Poe Corp.
SCHEDULE OF BUDGETED CONTRIBUTION MARGIN AND OPERATING INCOME IF BOSTON PLANT IS CLOSED AND CHICAGO OPERATIONS ARE EXPANDED *(PLAN B)*
For the Year Ending December 31, 1985

	(000 omitted) Chicago Operations
Sales	$6,200
Variable factory costs	
Direct material	1,550
Direct labor	1,550
Factory overhead	1,085
Total variable costs	4,185
Contribution margin	2,015
Fixed costs	
Factory overhead	950
Regional promotional	200
Total fixed costs	1,150
Plant operating income	865
Allocated home office costs	310
Operating income	$ 555

2N84
Answer 5 (cont.)

3.

Poe Corp.
SCHEDULE OF BUDGETED CONTRIBUTION MARGIN AND OPERATING INCOME IF BOSTON PLANT IS CLOSED AND ROYALTY AGREEMENT IS CONTRACTED *(PLAN C)*
For the Year Ending December 31, 1985

	Royalties (000 omitted)		
	Total	*Boston*	*Chicago*
Revenues			
Sales	$4,000		$4,000
Royalties	275	$275	
Total revenues	4,275	275	4,000
Variable factory costs			
Direct material	1,000		1,000
Direct labor	1,000		1,000
Factory overhead	700		700
Total variable costs	2,700		2,700
Contribution margin	1,575	275	1,300
Fixed costs			
Factory overhead	950	50	900
Regional promotional	200	100	100
Total fixed costs	1,150	150	1,000
Plant operating income and royalty	425	125	300
Allocated home office costs	310		310
Operating income (loss)	$ 115	$125	$ (10)

2M84
Answer 4

Part a.

1.

Mat Company
SCHEDULE OF COST OF GOODS MANUFACTURED
For the Month Ended March 31, 1984

Work in process — beginning inventory		$ 40,000
Production costs		
Direct materials	$104,000	
Direct labor	160,000	
Factory overhead applied	80,000	344,000
Production costs available		384,000
Less work in process — ending inventory		36,000
Cost of goods manufactured		$348,000

2.

Mat Company
SCHEDULE OF PRIME COST
For the Month Ended March 31, 1984

Direct materials	
Beginning inventory	$ 20,000
Purchases	110,000
Direct materials available	130,000
Less ending inventory	26,000
Direct materials used	104,000
Direct labor	160,000
Total prime cost	$264,000

3.

Mat Company
SCHEDULE OF CONVERSION COST
For the Month Ended March 31, 1984

Direct labor	$160,000
Factory overhead applied (50% of direct labor)	80,000
Total conversion cost	$240,000

2M84
Answer 5 (10 points)

a.

Beal Company
SCHEDULE OF BUDGETED PRODUCTION COSTS
BASED ON 7,800 UNITS
For the Month Ended January 31, 1984

Direct materials	7,800 units × 3 lbs. × $2.50	$ 58,500
Direct labor	7,800 units × 5 hrs. × $7.50	292,500
Factory overhead		
Variable	7,800 units × 5 hrs. × $3.00	117,000
Fixed	40,000 hrs. × $4.00	160,000
Total budgeted production costs		$628,000

b.

1. Direct materials price variance based on materials purchased ($2.60 − $2.50) × 25,000 lbs.	$ 2,500 unfavorable
2. Direct materials usage variance [23,100 lbs. − (7,800 units × 3 hrs.)] × $2.50	$ 750 favorable
3. Direct labor rate variance ($7.30 − $7.50) × 40,100 hrs.	$ 8,020 favorable
4. Direct labor efficiency variance [40,100 hrs. − (7,800 units × 5 hrs.)] × $7.50	$ 8,250 unfavorable
5. Factory overhead spending variance	
Actual total factory overhead	$300,000
Budgeted total factory overhead at actual hours (40,100 × $3.00) + (40,000 × $4.00)	280,300
Factory overhead spending variance	$ 19,700 unfavorable
6. Variable factory overhead efficiency variance	
Budgeted total factory overhead at actual hours	$280,300
Budgeted total factory overhead at standard hours ($117,000 + $160,000)	277,000
Variable factory overhead efficiency variance	$ 3,300 unfavorable
7. Factory overhead volume variance	
Budgeted total factory overhead at standard hours	$277,000
Applied total factory overhead (7,800 × 5 hrs. × $7.00)	273,000
Factory overhead volume variance	$ 4,000 unfavorable

2M83
Answer 4

a. The breakeven point in patient days equals total fixed cost divided by contribution margin per patient day.

Pediatrics
COMPUTATION OF BREAKEVEN POINT IN PATIENT DAYS
For the Year Ending June 30, 1983

Total fixed costs (*Schedule 1*)	$3,380,000
Divided by contribution margin per patient day (*Schedule 2*)	$ 200
Breakeven point in patient days	16,900

Schedule 1

Total Fixed Costs

Melford Hospital charges		$2,900,000
Supervising nurses	($25,000 × 4)	100,000
Nurses	($20,000 × 10)	200,000
Aides	($ 9,000 × 20)	180,000
Total fixed costs		$3,380,000

Schedule 2

Contribution Margin Per Patient Day

Revenue per patient day	$300
Variable costs per patient day ($6,000,000 ÷ $300 = 20,000 patient days) ($2,000,000 ÷ 20,000 patient days)	100
Contribution margin per patient day	$200

b.

Pediatrics
COMPUTATION OF LOSS FROM RENTAL OF ADDITIONAL 20 BEDS
For the Year Ending June 30, 1983

Increase in revenue (20 additional beds × 90 days × $300 charge per day)	$ 540,000
Increase in expenses Variable charges by Melford Hospital (20 additional beds × 90 days × $100 per day)	180,000
Fixed charges by Melford Hospital ($2,900,000 ÷ 60 beds = $48,333 per bed × 20 beds) or [$2,900,000 × (20 ÷ 60)]	966,667
Salaries expense (20,000 patient days before additional 20 beds, + 20 additional beds × 90 days = 21,800, which does not exceed 21,900 patient days; therefore, no additional personnel are required)	—
Total increase in expenses	1,146,667
Net decrease in earnings from rental of additional 20 beds	$ 606,667

2M82
Answer 5 (10 points)

Part a.

		Debit	Credit
1.	By-product inventory—Nagu	$3,000	
	Work in process—Rey (30,000 lbs. @ $.10/lb.)		$3,000
2.	By-product inventory—Nagu	9,000	
	Raw materials		2,000
	Direct labor		1,500
	Factory overhead		500
	Work in process—Rey (30,000 lbs. @ $.30/lb.)		5,000
3.	Work in process—Nagu	4,500*	
	Work in process—Rey		4,500
	Work in process—Nagu	4,000	
	Raw materials		2,000
	Direct labor		1,500
	Factory overhead		500
	Finished goods—Nagu	8,500	
	Work in process—Nagu		8,500

$$^{*}\frac{30{,}000 \text{ lbs.} \times \$.10}{394{,}000 \text{ lbs.} \times \$.50 + 30{,}000 \text{ lbs.} \times \$.10} \times \$300{,}000$$

Part b.

1. *Montero Corporation*
EXPECTED CASH COLLECTIONS
May 1982

Month	*Sales*	*Percent*	*Expected collections*
March	$60,000	9	$ 5,400
April	78,000	20	15,600
May	66,000	70	46,200
Total			$67,200

2. *Montero Corporation*
EXPECTED CASH DISBURSEMENTS
May 1982

April purchases to be paid in May	$54,000
Less: 2% cash discount	1,080
Net	$52,920
Cash disbursements for expenses	14,400
Total	$67,320

3. *Montero Corporation*
EXPECTED CASH BALANCE
May 31, 1982

Balance, May 1		$22,000
Expected collections	$67,200	
Expected disbursements	67,320	(120)
Expected balance		$21,880

2N81
Answer 4 (10 points)

a. *Armando Corporation*
COMPUTATION OF VARIABLE AND FIXED FACTORY OVERHEAD PER UNIT

Factory overhead per unit	
Variable ($30 × 2/3)	$ 20.00
Fixed ($30 × 1/3)	10.00
Total	$ 30.00

Schedule 1

Computation of Variable Factory Overhead Rate Per Direct Labor Hour

Variable factory overhead per unit	$20.00	
Direct labor hours per unit	4	$ 5.00

Schedule 2

Computation of Total Fixed Factory Overhead

Direct labor hours (2,400) × Fixed factory overhead rate per direct labor hour ($10.00 ÷ 4 hours)	$ 6,000

b. **COMPUTATION OF VARIANCES**
Month Ended July 31, 1981

Schedule 1

Materials Price Variance Based on Purchases

Direct materials actually purchased (18,000 × $1.38)	$24,840
Standard cost of above (18,000 × $1.35)	24,300
Materials price variance—unfavorable	$ 540

Schedule 2

Materials Usage Variance

Actual quantity used at standard cost (9,500 × $1.35)	$12,825
Standard quantity allowed (500 units × 20 yards) at standard cost (10,000 × $1.35)	13,500
Materials usage variance—favorable	$ 675

Schedule 3

Labor Rate Variance

Actual hours at actual rate (2,100 × $9.15)	$19,215
Actual hours at standard rate (2,100 × $9.00)	18,900
Labor rate variance—unfavorable	$ 315

2N81
Answer 4 (cont.)

Schedule 4

Labor Efficiency Variance

Actual hours at standard rate (2,100 × $9.00)	$18,900
Standard hours allowed (500 units × 4) at standard rate (2,000 × $9.00)	18,000
Labor efficiency variance—unfavorable	$ 900

Schedule 5

Controllable Factory Overhead Variance

Actual total factory overhead		$16,650
Budgeted factory overhead at standard hours		
Fixed	$ 6,000	
Variable (500 units × 4 hours × $5.00)	10,000	16,000
Controllable factory overhead variance—unfavorable		$ 650

Schedule 6

Capacity (Volume) Factory Overhead Variance

Budgeted factory overhead at standard hours	$16,000
Applied total factory overhead	
Hours allowed—2,000 × $7.50 (5/6 × $9.00)	15,000
Capacity factory overhead variance—unfavorable	$ 1,000

2M81
Answer 5 (10 points)

a. *Vogue Fashions, Inc.*
STANDARD COST OF PRODUCTION
For the Month Ended June 30, 1980

Lot	Quantity (dozens)	Standard cost per dozen	Total standard cost
22	1,000	$53.10	$ 53,100
23	1,700	53.10	90,270
24	1,200	47.76*	57,312
Standard cost of production			$200,682

* Standard material cost plus 80% of standard cost of labor and overhead [$26.40 + (.80 × $26.70)]

b. *Vogue Fashions, Inc.*
MATERIALS PRICE VARIANCE
For the Month Ended June 30, 1980

Actual cost of materials purchased	$106,400
Standard cost of materials purchased (95,000 × $1.10)	104,500
Unfavorable materials price variance	$ 1,900

c. *Vogue Fashions, Inc.*
MATERIALS AND LABOR VARIANCES
For the Month Ended June 30, 1980

	Lot no. 22	23	24
Materials quantity variance			
Standard yards			
Units in lot	1,000	1,700	1,200
Standard yards per lot	24	24	24
Total standard quantity	24,000	40,800	28,800
Actual yards used	24,100	40,440	28,825
Variance in yards	100	(360)	25
Labor efficiency variance			
Standard hours			
Units in lot	1,000	1,700	1,200
Standard hours per lot	3	3	3
Total	3,000	5,100	3,600
Percentage of completion	100	100	80
Total standard hours	3,000	5,100	2,880
Actual hours worked	2,980	5,130	2,890
Variance in hours	(20)	30	10
Labor rate variance			
Actual hours worked	2,980	5,130	2,890
Rate paid in excess of standard ($5.00 − 4.90)	$ .10	$ .10	$ .10
Variance	$ 298	$ 513	$ 289

( ) Indicates favorable variance

2M81
Answer 5 (cont.)

d. *Vogue Fashions, Inc.*
MANUFACTURING OVERHEAD VARIANCES
For the Month Ended June 30, 1980

Controllable variance		
Actual manufacturing overhead		$45,600
Budgeted for level of production attained		
Fixed (.40 × $576,000/12)	$19,200	
Variable ($4.00 × .60 × 10,980 standard hours)	26,352	
Total budgeted		45,552
Unfavorable controllable variance		$ 48
Noncontrollable variance		
Budgeted for level of production attained		$45,552
Overhead applied to production (10,980 standard hours × $4.00)		43,920
Unfavorable noncontrollable variance		$ 1,632

Alternate Solution

Fixed manufacturing overhead (as above)		$19,200
Overhead applied to production	$43,920	
Variable manufacturing overhead	26,352	17,568
Unfavorable noncontrollable variance		$ 1,632

2N80
Answer 3

Part a. *The Rebecca Corporation*
STATEMENT OF COSTS OF GOODS MANUFACTURED
For the Month Ended October 31, 1980

Materials inventory, October 1	$16,200
Purchases	20,000
Materials available	36,200
Less: Materials inventory, October 31	17,000
Materials used in production	19,200
Direct labor (3,300 hrs. × $5.00)	16,500
Factory overhead applied (3,300 hrs. × $2.60)	8,580
Total current manufacturing costs	44,280
Work-in-process inventory, October 1	3,600
Total manufacturing costs	47,880
Less: Work-in-process inventory, October 31	8,120
Cost of goods manufactured	$39,760

2N80
Answer 3 (cont.)

Part b.

Lakeview Corporation Assembling Department
COSTS OF PRODUCTION REPORT
For the Month Ended June 30, 1980

Description	*Total*	*Transferred in*	*Direct Materials*	*Direct Labor*	*Factory Overhead*
Physical units to be accounted for					
Beginning inventory	2,000				
Transferred in	10,000				
Units to be accounted for	12,000				
Equivalent units of production					
Transferred out	8,000	8,000	8,000	8,000	8,000
Ending inventory*	4,000	4,000	3,600	2,800	1,400
Equivalent units	12,000	12,000	11,600	10,800	9,400
*4,000 × percentage of completion.					
Manufacturing costs					
Beginning inventory	$ 64,700	$ 32,000	$ 20,000	$ 7,200	$ 5,500
Current—June	310,000	160,000	96,000	36,000	18,000
Total manufacturing costs	$374,700	$192,000	$116,000	$43,200	$23,500
Cost per equivalent unit*	$ 32.50	$ 16.00	$ 10.00	$ 4.00	$ 2.50
*Total manufacturing costs ÷ equivalent units.					
Allocation of total costs					
Amount of ending work-in-process	$114,700	$ 64,000	$ 36,000	$11,200	$ 3,500
Amount transferred out*	260,000	128,000	80,000	32,000	20,000
Total cost	$374,700	$192,000	$116,000	$43,200	$23,500
*8,000 × equivalent unit cost.					

2M80
Answer 5 (10 points)

Adept Company
Grading Department
COST OF PRODUCTION REPORT
For the Month of November 1979

Description	*Total*	*Material*	*Labor/Overhead*
Physical units in pounds to be accounted for:			
(a) Beginning inventory	-0-		
(b) Added	36,000		
(c) Less by-product*	−7,200		
Pounds to be accounted for	28,800		
Equivalent units in pounds:			
(d) Beginning inventory	-0-	-0-	-0-
(e) Started and completed	28,800	28,800	28,800
(f) Ending inventory	-0-	-0-	-0-
(g) Equivalent units	28,800	28,800	28,800
Manufacturing costs:			
(h) Beginning inventory	-0-	-0-	-0-
(i) Current — November	$352,080	$265,680	$86,400
(j) Less net realizable value of by-product	6,480	6,480	-0-
(k) Current costs	$345,600	$259,200	$86,400
(l) Total costs	$345,600	$259,200	$86,400
Equivalent unit cost (m) = (k ÷ g)	$ 12.00	$ 9.00	$ 3.00
Amount of ending work-in-process (m × f)	-0-	-0-	-0-
Amount transferred out (m × e)	$345,600	$259,200	$86,400
Total manufacturing cost	$345,600	$259,200	$86,400

*36,000 × 20%

2M80
Answer 5 (cont.)

Adept Company
Saturating Department
COST OF PRODUCTION REPORT (cont.)
For the Month of November 1979

Description	*Total*	*Transferred in*	*Material*	*Labor/Overhead*
Physical units in pounds to be accounted for:				
(a) Beginning inventory	1,600			
(b) Transferred in	28,800			
(c) Water added (b) × 50%	14,400			
(d) Pounds to be accounted for	44,800			
Equivalent units in pounds:				
(e) Beginning inventory	1,600	-0-	-0-	800
(f) Started and completed*	41,200	41,200	41,200	41,200
(g) Ending inventory	2,000	2,000	2,000	1,000
(h) Equivalent units	44,800	43,200	43,200	43,000
Manufacturing costs:				
(i) Beginning inventory	$ 17,600			
(j) Current — November	431,600	$345,600	-0-	$86,000
(k) Total costs	$449,200			
Equivalent unit cost (m) = (j) ÷ (h)	$ 10.00	$ 8.00	-0-	$ 2.00
Amount of ending work-in-process (g) × (m)	$ 18,000	$ 16,000	-0-	$ 2,000
Amount transferred out:				
Beginning inventory	$ 17,600			
Completion cost (e) × (m)	1,600			
First layer (1,600 lbs)	19,200			
Started and completed (e) × (m)	412,000			
Total transferred out	431,200			
Total Cost	$449,200			

*44,800 − (1,600 + 2,000) or (43,200 − 2,000)

VIII. Not-for-Profit and Governmental Accounting

2N84
Answer 4 (10 points)

City of Solna
GENERAL FUND JOURNAL ENTRIES
For the Year Ended December 31, 1983

	Dr.	*Cr.*
1. Estimated revenues — taxes	$220,000	
Estimated revenues — fines, forfeits, and penalties	80,000	
Estimated revenues — miscellaneous	100,000	
Estimated other financing sources — proceeds of bond issue	200,000	
Appropriations — program operations		$360,000
Appropriations — general administration		120,000
Appropriations — capital outlays		80,000
Appropriations — other financing uses — operating transfers out to special assessment fund		20,000
Unreserved undesignated fund balance		20,000
Encumbrances — prior year	12,000	
Appropriations — prior year		12,000
2. Taxes receivable — current	230,000	
Estimated uncollectible taxes — current		9,200
Revenues — taxes		$220,800
3. Encumbrances — current year	316,000	
Fund balance reserved for encumbrances		316,000
4. Unreserved undesignated fund balance	20,000	
Fund balance designated for capital outlays		20,000
5. Cash	664,000	
Taxes receivable — delinquent		38,000
Taxes receivable — current		226,000
Expenditures — capital outlays		4,000
Revenues — fines, forfeits, and penalties		88,000
Revenues — miscellaneous		90,000
Other financing sources — proceeds of bond issue		200,000
Unreserved undesignated fund balance		18,000

2N84
Answer 4 (cont.)

6. Fund balance reserved for encumbrances	302,000	
Encumbrances — prior year		12,000
Encumbrances — current year		290,000
Expenditures — program operations	166,000	
Expenditures — general administration	80,000	
Expenditures — capital outlays	62,000	
Vouchers payable		308,000
7. Expenditures — program operations	188,000	
Expenditures — general administration	38,000	
Expenditures — capital outlay	18,000	
Other financing uses — operating transfer out to special assessment fund	20,000	
Vouchers payable		244,000
Due to special assessment fund		20,000
8. Taxes receivable — current	2,000	
Deferred revenue — taxes		2,000
Estimated uncollectible taxes — current	3,200	
Revenues — taxes		3,200
9. Vouchers payable	580,000	
Cash		580,000
10. Fund balance reserved for stores inventory	6,000	
Stores inventory — program operations		6,000

2N83
Answer 4 (10 points)

a.

Rapapo State University
SUMMARY JOURNAL ENTRIES
For the Year Ended July 31, 1983

		Current Funds			
		Unrestricted		*Restricted*	
Entry no.	*Accounts*	*Debit*	*Credit*	*Debit*	*Credit*
1.	Cash	$3,000,000			
	Accounts receivable—tuition and fees		$ 362,000		
	Revenue—tuition and fees		2,500,000		
	Deferred revenue—tuition and fees		138,000		
2.	Deferred revenue—tuition and fees	25,000			
	Revenue—tuition and fees		25,000		
3.	Allowance for doubtful accounts	13,000			
	Accounts receivable—tuition and fees		13,000		
	Provision for uncollectible tuition and fees	8,000			
	Allowance for doubtful accounts		8,000		
4.	State appropriation receivable	60,000			
	Revenue—state appropriation		60,000		
5.	Cash	80,000			
	Revenue—gifts		80,000		
	Fund Balance	30,000			
	Cash		30,000		
6.	Cash			$31,000	
	Investments				$25,000
	Fund balance				6,000
	Investments			40,000	
	Cash				40,000
	Cash			18,000	
	Fund balance				18,000
7.	Expenditures—general expenses	2,500,000			
	Accounts payable		2,500,000		
	Accounts payable	2,525,000			
	Cash		2,525,000		
8.	Accounts payable			5,000	
	Cash				5,000
9.	Due to other funds	40,000			
	Cash		40,000		
10.	Expenditures—general expenses	10,000			
	Prepaid expenses		10,000		

2N83
Answer 4 (cont.)

b.

Rapapo State University
STATEMENT OF CHANGES IN FUND BALANCES
For the Year Ended July 31, 1983

	Current Funds	
	Unrestricted	*Restricted*
Revenues and other additions:		
Tuition and fees	$2,525,000	
State appropriation	60,000	
Gifts	80,000	
Gain on sale of investments		$ 6,000
Investment income		18,000
Total revenues and other additions	2,665,000	24,000
Expenditures and other deductions:		
Educational and general	2,518,000	
Transfer among funds (deduction):		
Allocation to loan fund	(30,000)	
Net increase for the year	117,000	24,000
Fund balance at beginning of year	435,000	215,000
Fund balance at end of year	$ 552,000	$239,000

2M83
Answer 5 (10 points)

a.

Community Sports Club
TRANSACTIONS
For the Year Ended March 31, 1983

		Dr.	*Cr.*
(1)	Cash	$20,000	
	Revenue — annual dues		$20,000
(2)	Cash	28,000	
	Revenue — snack bar and soda fountain		28,000
(3)	Cash	6,000	
	Investment income		6,000
(4)	Expense — house	17,000	
	Expense — snack bar and soda fountain	26,000	
	Expense — general and administrative	11,000	
	Accounts payable		54,000
(5)	Accounts payable	55,000	
	Cash		55,000
(6)	Assessments receivable	10,000	
	Deferred capital support		10,000
(7)	Cash	5,000	
	Revenue — bequest (unrestricted revenue)		5,000

2M83
Answer 5 (cont.)

Community Sports Club
ADJUSTMENTS
March 31, 1983

(1)	Investments	$ 7,000	
	Unrealized gain on investments		$ 7,000
(2), (3)	Expense — house	9,000	
	Expense — snack bar and soda fountain	2,000	
	Expense — general and administrative	1,000	
	Accumulated depreciation - building		4,000
	Accumulated depreciation - furniture and equipment		8,000
(4)	Expense — snack bar and soda fountain	4,000	
	Inventories		4,000

b.

Community Sports Club
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN CUMULATIVE EXCESS OF REVENUE OVER EXPENSES
For the Year Ended March 31, 1983

Revenue		
Snack bar and soda fountain sales		$28,000
Dues		20,000
Investment income		6,000
Bequest		5,000
Total revenue		59,000
Expenses		
Snack bar and soda fountain	$32,000	
House	26,000	
General and Administrative	12,000	
Total expenses		70,000
Deficiency of revenue over expenses before unrealized gain on investments		(11,000)
Unrealized gain on investments		7,000
Deficiency of revenue over expenses after unrealized gain on investments		(4,000)
Cumulative excess of revenue over expenses at April 1, 1982		12,000
Cumulative excess of revenue over expenses at March 31, 1983		$ 8,000

2N82
Answer 5 (10 points)

1.

Glendora Hospital
STATEMENT OF REVENUES AND EXPENSES
For the Year Ended June 30, 1982

Patient service revenue (*Notes A and B*)		$16,000,000
Allowances and uncollectible accounts (*Note A*)		(3,400,000)
Net patient service revenue		12,600,000
Other operating revenue (including $160,000 from specific purpose funds)		346,000
Total operating revenue		12,946,000
Operating expenses (including provision for depreciation of $500,000; *Notes A, B, and C*)		13,370,000
Loss from operations		(424,000)
Nonoperating revenue:		
Unrestricted gifts and bequests (*Note A*)	$410,000	
Unrestricted income from endowment funds	160,000	
Income from board-designated funds	82,000	
Total nonoperating revenue		652,000
Excess of revenues over expenses		$ 228,000

See accompanying Notes to Financial Statements.

2.

Glendora Hospital
NOTES TO FINANCIAL STATEMENTS

Note A—Summary of Significant Accounting Policies

Patient service revenue
Patient service revenue is accounted for at established rates on the accrual basis. Revenue under cost reimbursement agreements is subject to audit and retroactive adjustment by third-party payors. Estimated retroactive adjustments under these agreements are included in allowances.

Gifts and bequests
Gifts and bequests are recorded at fair market values when received.

Provision for depreciation
Depreciation of property, plant, and equipment is computed on a straight-line basis over the estimated useful lives of the individual assets. However, accelerated depreciation is used to determine reimbursable costs under certain third-party reimbursement agreements. Net cost reimbursement revenue resulting from the difference in depreciation methods is deferred.

Pension costs
Accrued pension costs are funded currently. Prior service cost is amortized over a period of twenty years.

Note B—Cost Reimbursement Agreements
Revenue of $6 million was recognized under cost reimbursement agreements. The net cost reimbursement revenue resulting from the difference in depreciation methods described in Note A amounted to $220,000 and was deferred.

Note C—Pension Costs
Operating expenses include pension costs of $100,000 in connection with a noncontributory pension plan covering substantially all employees. The actuarially computed value of vested and nonvested benefits at year end amounted to $3 million and $350,000, respectively. The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 8 percent. The plan's net assets available for benefits at year end was $3,050,000.

2N81
Answer 5

Judbury City
GENERAL FUND
JOURNAL ENTRIES
July 1, 1980 to June 30, 1981

		Debit	*Credit*
1.	Estimated revenues—Property taxes	$4,500,000	
	Estimated revenues—Licenses and permits	300,000	
	Estimated revenues—Fines	200,000	
	Appropriations—General government		$1,500,000
	Appropriations—Police services		1,200,000
	Appropriations—Fire department services		900,000
	Appropriations—Public works services		800,000
	Appropriations—Fire engines		400,000
	Fund balance—Unreserved		200,000
2.	Property taxes receivable	4,650,000	
	Allowance for uncollectible property taxes		150,000
	Revenue—Property taxes		4,500,000
3.	Cash	3,900,000	
	Property taxes receivable		3,900,000
	Delinquent property taxes receivable	630,000	
	Allowance for uncollectible property taxes	150,000	
	Property taxes receivable		630,000
	Allowance for uncollectible delinquent property taxes		150,000
4.	Cash	300,000	
	Notes payable		300,000
5.	Cash	485,000	
	Revenues—Licenses and permits		270,000
	Revenues—Fines		200,000
	Revenues—Sale of fixed assets		15,000
6.	Encumbrances—General government	1,050,000	
	Encumbrances—Police services	300,000	
	Encumbrances—Fire department services	150,000	
	Encumbrances—Public works services	250,000	
	Encumbrances—Fire engines	400,000	
	Fund balance—Reserved for encumbrances		2,150,000
	Fund balance—Reserved for encumbrances	2,035,000	
	Encumbrances—General government		990,000
	Encumbrances—Police services		270,000
	Encumbrances—Fire department services		135,000
	Encumbrances—Public works services		240,000
	Encumbrances—Fire engines		400,000
7.	Expenditures—General government	1,440,000	
	Expenditures—Police services	1,155,000	
	Expenditures—Fire department services	870,000	
	Expenditures—Public works services	700,000	
	Expenditures—Fire engines	400,000	
	Vouchers payable		4,565,000
8.	Vouchers payable	4,600,000	
	Cash		4,600,000

2M81
Answer 4 (10 points)
Part a.
1.

City of Merlot
CENTRAL GARAGE FUND
Journal Entries
July 1, 1979 to June 30, 1980

		Debit	Credit
1.	Inventory of materials and supplies	$ 74,000	
	Vouchers payable		$ 74,000
	To record purchases on account		
2.	Materials and supplies expense	96,000	
	Inventory of materials and supplies		96,000
	To record ending inventory and materials and supplies used		
3.	Personal service expense	230,000	
	Cash		230,000
	To record personal service expense paid		
4.	Utility expense	30,000	
	Cash		30,000
	To record payment of utility charges		
5.	Depreciation expense—building	5,000	
	Depreciation expense—machinery and equipment	8,000	
	Allowance for depreciation—building		5,000
	Allowance for depreciation—machinery and equipment		8,000
	To record depreciation		
6.	Due from General Fund	262,000	
	Due from Water and Sewer Fund	84,000	
	Due from Special Revenue Fund	32,000	
	Service Revenue		378,000
	To record billings to departments for services rendered		
7.	Cash	376,000	
	Due from General Fund		276,000
	Due from Water and Sewer Fund		84,000
	Due from Special Revenue Fund		16,000
	To record collection of receivables		
8.	Vouchers payable	98,000	
	Cash		98,000
	To record payment of vouchers		

2.

City of Merlot
CENTRAL GARAGE FUND
Closing Entries
June 30, 1980

	Debit	Credit
Service revenue	$378,000	
Materials and supplies expense		$ 96,000
Personal service expense		230,000
Utility expense		30,000
Depreciation expense—building		5,000
Depreciation expense—machinery and equipment		8,000
Income summary		9,000
To close revenue and expense accounts		
Income summary	9,000	
Retained earnings		9,000
To close income summary to retained earnings		

Part b.

City of Rom
JOURNAL ENTRIES TO RECORD BUDGETED AND ACTUAL TRANSACTIONS
For the Year Ended June 30, 1980

		Debit	Credit
1.	Estimated revenues (various subaccounts)	$2,000,000	
	Appropriations (various subaccounts)		$1,940,000
	Fund balance—unreserved		60,000
	To record budget		
2.	Taxes receivable	1,870,000	
	Allowance for uncollectible taxes		10,000
	Revenues—taxes		1,860,000
	To record tax levy		
3.	Cash	1,820,000	
	Allowance for uncollectible taxes	8,000	
	Taxes receivable		1,828,000
	To record tax collections		
4.	Encumbrances (various subaccounts)	1,070,000	
	Fund balance—reserved for encumbrances		1,070,000
	To record encumbrances		
5.	Fund balance—reserved for encumbrances	1,000,000	

2M81
Answer 4 (cont.)

	Debit	*Credit*
Encumbrances (various subaccounts)		1,000,000
To reverse encumbrances		
6. Expenditures (various subaccounts)	1,840,000	
Vouchers payable		1,840,000
To record expenditures		
7. Vouchers payable	1,852,000	
Cash		1,852,000
To record payment of vouchers		
8. Fund balance—unreserved	140,000	
Revenues—taxes	1,860,000	
Estimated revenues (various subaccounts)		2,000,000
To close actual and estimated revenues to fund balance		
9. Appropriations (various subaccounts)	1,940,000	
Expenditures (various subaccounts)		1,840,000
Encumbrances (various subaccounts)		70,000
Fund balance—unreserved		30,000
To close expenditures, encumbrances, and appropriations to fund balance		

2N80
Answer 5 (10 points)

1.

City of Westgate
LIBRARY CAPITAL PROJECTS FUND
JOURNAL ENTRIES
July 1, 1979, to June 30, 1980

	Debit	*Credit*
1. Cash	$5,100,000	
Proceeds of general obligation bonds		$5,100,000
To record issuance of bonds		
Operating transfers out	100,000	
Cash		100,000
To record transfer of premium to library debt service fund		
2. Investments	4,900,000	
Cash		4,900,000
To record purchase of commercial paper		
Estimated revenues	140,000	
Appropriations		140,000
To record estimated interest on investments		
3. Encumbrances	4,980,000	
Reserve for encumbrances		4,980,000
To record contract price for the building of the library		
4. Cash	3,040,000	
Investments		3,000,000
Interest revenue		40,000
To record maturing of commercial paper		
Operating transfers out	40,000	
Cash		40,000
To record transfer of interest earned on commercial paper to library debt service fund		
5. Expenditures	3,000,000	
Cash		2,700,000
Contracts payable—retained percentage		300,000
Reserve for encumbrances	3,000,000	
Encumbrances		3,000,000
To record progress billing and pay contractor net of retained amount and reverse encumbrances		
6. Accrued interest receivable	103,000	
Interest revenue		103,000
Operating transfers out	103,000	
Due to library debt service fund		103,000
To record accrued interest receivable and related interfund payable		
Proceeds of general obligation bonds	5,100,000	
Interest revenue	143,000	
Fund balance		5,103,000
Estimated revenues		140,000
Appropriations	140,000	
Fund balance	3,103,000	
Expenditures		3,000,000
Operating transfers out		243,000
Fund balance	1,980,000	
Encumbrances		1,980,000
To close temporary accounts		

2N80
Answer 5 (cont.)

2. *City of Westgate*
LIBRARY CAPITAL PROJECTS FUND
BALANCE SHEET
June 30, 1980

Assets	
Cash	$ 400,000
Accrued interest receivable	103,000
Investments	1,900,000
Total assets	$2,403,000
Liabilities and Fund Balances	
Contracts payable—retained percentage	$ 300,000
Due to library debt service	103,000
Total liabilities	403,000
Fund balances	
Reserve for encumbrances	1,980,000
Unappropriated	20,000
Total fund balances	2,000,000
Total liabilities and fund balances	$2,403,000

SUGGESTED REFERENCES

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APPENDIX

Content Specification Outline

Background Information

The Board of Examiners of the American Institute of Certified Public Accountants believes that content specification outlines will help assure the continuing validity and reliability of the Uniform CPA Examination. The development of the current content specification outlines was accomplished over several years. The Board of Examiners first requested subcommittees of the Board of Examiners (Accounting Practice, Accounting Theory, Auditing, and Business Law) to draft content specification outlines for their respective sections.

The content specification outlines were drafted by each subcommittee with the assistance of the AICPA Examinations Division staff. The chairman of the Board of Examiners then appointed an AICPA task force to coordinate the outlines and to recommend how the content specifications should be exposed to the profession. The task force recommended that the Board of Examiners approve the content specification outlines for exposure to the profession through an AICPA exposure draft for public comment.

On March 10, 1980, the exposure draft — *Proposed Content Specification Outlines for the Uniform Certified Public Accountant Examination* — was issued. The exposure draft was sent to

- *Members of AICPA Council.*
- *State Boards of Accountancy.*
- *Representatives of the National Association of State Boards of Accountancy (NASBA).*
- *AICPA Education Executive Committee.*
- *American Accounting Association — Committee on Professional Examinations.*
- *Persons who requested copies.*

The board considered written comments received from the public, oral comments delivered at Board of Examiners' open meetings, and information submitted by NASBA, which gathered data through various state boards sponsoring special seminar sessions to review the *Proposed Content Specification Outlines for the Uniform Certified Public Accountant Examination.* Based on this input, the board made certain modifications to the exposure draft. Content specification outlines which appear in this booklet were approved by the Board of Examiners on August 31, 1981.

Meaning and Use of Content Specification Outlines

The content specification outlines are divided into three levels — areas, groups, and topics — with the following outline notations:

- Areas by Roman numerals (I. Area)
- Groups by capital letters (A. Group)
- Topics by Arabic numbers (1. Topic)

The content specification outlines list the areas, groups, and topics to be tested, and also indicate the approximate percentage of the total test score devoted to each area. Some of the uses of the outlines will be to

- Assure consistent subject matter coverage from one examination to the next.
- Assist candidates in preparing for the examination by indicating subjects which may be covered by the examination.

- Provide guidance to those who are responsible for preparing the examination in order to assure a balanced examination.
- Alert accounting educators as to the subject matter considered necessary to prepare for the examination.

The relative weight given to each area is indicated by its approximate percentage allocation. The examination will sample from the groups and topics listed within each area in order to meet the approximate percentage allocation. Generally, the group title should be sufficient to indicate the subject matter to be covered. However, in certain instances, topics have been explicitly listed in order to clarify or limit the subject matter covered within a group.

No weight allocation is given for groups or topics. For example, if there are several groups within an area or several topics within a group, no inference should be drawn about the relative importance or weight to be given to these groups or topics on an examination.

Candidates should realize that clear-cut distinctions as to subject matter do not always exist. Thus, there may be overlapping of subjects in the four sections of the examination. For example, Auditing questions often require a knowledge of accounting theory and practice, as well as of auditing procedures. Also, Business Law questions may be set in an accounting or auditing environment, and answers may involve integration with accounting and auditing knowledge.

The content specification outlines are considered to be complete as to the subjects to be tested on an examination, including recent professional developments as they affect these subjects. Candidates should answer examination questions, developed from these outlines, in terms of the most recent developments, pronouncements, and standards in the accounting profession. When new subject matter is identified, the outlines will be amended to include it and this will be communicated to the profession.

Accounting Practice Section

The Accounting Practice section tests the candidates' ability to apply current conceptual accounting knowledge. The scope of the Accounting Practice section includes financial accounting concepts relating to financial reports, assets, liabilities, equity, income and expense, and other financial topics; cost/managerial accounting concepts of cost accumulation, planning, and control; not-for-profit and governmental accounting; and federal taxation.

In preparing for this section, candidates should study the pronouncements of the Financial Accounting Standards Board, Internal Revenue Code and Income Tax Regulations, accounting textbooks, leading accounting journals, and other literature pertaining to accounting.

Accounting Practice — Content Specification Outline

I. Presentation of Financial Statements or Worksheets (15%).

   A. Balance Sheet
   B. Income Statement
   C. Statement of Changes in Financial Position
   D. Statement of Owners' Equity
   E. Consolidated Financial Statements or Worksheets

      1. Pooled Companies
      2. Purchased Companies
      3. Corrections
      4. Eliminations
      5. Intangibles - Goodwill

   F. Disclosures in Notes to the Financial Statements
   G. Supplementary Statements

II. Measurement, Valuation, Realization, and Presentation of Assets in Conformity With Generally Accepted Accounting Principles (10%).

A. Cash
B. Marketable Securities and Investments

1. Marketable Equity Securities
2. Other Securities
3. Investment in Bonds
4. Investment in Stocks
5. Sinking and Other Funds

C. Receivables and Accruals

1. Accounts and Notes Receivable
2. Affiliated Company Receivables
3. Discounting of Notes
4. Installment Accounts
5. Interest and Other Accrued Income
6. Allowance for Doubtful Accounts

D. Inventories

1. Acquisition Costs
2. Costing Methods
3. Valuation Methods

E. Property, Plant, and Equipment

1. Acquisition Costs
2. Additions and Betterments
3. Depreciation, Amortization, and Depletion
4. Insurance
5. Involuntary Conversion
6. Leasehold Improvements
7. Maintenance and Repairs
8. Obsolescence and Write-Downs
9. Rearrangement and Moving Costs
10. Disposition

F. Capitalized Leased Assets

1. Acquisition Costs
2. Amortization

G. Intangibles

1. Acquisition Costs
2. Amortization
3. Intangibles Carried as Investments (equity method)

H. Prepaid Expenses and Deferred Charges

1. Prepaid Expenses
2. Deferred Income Taxes
3. Deferred Pension Costs

III. Valuation, Recognition, and Presentation of Liabilities in Conformity With Generally Accepted Accounting Principles (5%).

A. Payables and Accruals

1. Accounts and Notes Payable
2. Accrued Employees' Costs
3. Interest and Other Accrued Expenses
4. Accrued Pension Expense
5. Taxes Payable
6. Guaranties and Warranties
7. Deposits and Escrows

B. Deferred Revenues

1. Unperformed Service Contracts
2. Subscriptions or Tickets Outstanding
3. Installment Sales
4. Sale and Leaseback

C. Deferred Income Tax Liabilities

1. Equity Method of Accounting for Investments
2. Depreciation of Plant Assets
3. Long-term Construction Contracts
4. Other Timing Differences

D. Capitalized Lease Liability

1. Measurement at Present Value
2. Amortization

E. Bonds Payable

1. Issue of Bonds
2. Issue Costs
3. Amortization of Discount or Premium
4. Types of Bonds
5. Conversion of Bonds
6. Detachable Stock Warrants
7. Retirement of Bonds

F. Long-Term Notes Payable
G. Contingent Liabilities and Commitments

IV. Ownership Structure, Presentation, and Valuation of Equity Accounts in Conformity With Generally Accepted Accounting Principles (5%).

A. Preferred and Common Stock

1. Issued
2. Outstanding
3. Legal Capital
4. Retirement of Stock
5. Book Value Per Share
6. Classification

B. Additional Paid-in Capital
C. Retained Earnings and Dividends

1. Prior Period Adjustments
2. Net Income

3. Cash Dividends
4. Property Dividends
5. Liquidating Dividends
6. Stock Dividends and Splits
7. Appropriations of Retained Earnings

D. Treasury Stock and Other Contra Accounts

1. Cost Method
2. Par Value Method
3. Restrictions on Acquisition of Treasury Stock

E. Stock Options, Warrants, and Rights

F. Reorganization and Change in Entity

1. Incorporation of an Unincorporated Enterprise
2. Business Combinations
3. Quasi-Reorganization
4. Bankruptcy

G. Partnerships

1. Formation
2. Admission, Retirement, and Dissolution
3. Profit or Loss Distribution and Other Special Allocations

V. Measurement and Presentation of Income and Expense Items, Their Relationship to Matching and Periodicity, and Their Relationship to Generally Accepted Accounting Principles (15%).

A. Sales or Revenues

1. Cash
2. At Time of Sale
3. At Completion of Production
4. During Production (percentage of completion)
5. Installment Method or Cost Recovery
6. Equity in Earnings of Investee
7. Interest
8. Dividends
9. Royalties
10. Rent
11. Disposal of Assets and Liquidation of Liabilities
12. Foreign Exchange

B. Cost of Goods Sold

C. Expenses

1. General and Administrative
2. Selling
3. Financial (interest)
4. Depreciation, Amortization, and Depletion
5. Research and Development
6. Foreign Exchange
7. Bad Debts
8. Royalties
9. Rent
10. Compensation
11. Unusual Gains or Losses

D. Provision for Income Tax

1. Current
2. Deferred

E. Recurring Versus Nonrecurring Transactions and Events

1. Discontinued Operations
2. Extraordinary Items

F. Accounting Changes
G. Earnings Per Share

VI. Other Financial Topics (5%).

A. Accounting Policies
B. Nonmonetary Transactions
C. Interim Financial Statements
D. Historical Cost, Constant Dollar Accounting, and Current Cost
E. Loss or Gain Contingencies
F. Segments and Lines of Business
G. Long-Term Contracts
H. Employee Benefits
I. Analysis of Financial Statements
J. Development Stage Enterprises
K. Personal Financial Statements

VII. Cost Accumulation, Planning, and Control (15%).

A. Nature of Cost Elements

1. Direct Materials
2. Direct Labor
3. Overhead (actual, applied, and allocation methods)

B. Job Order Costing
C. Process Costing
D. Standard Costing and Variance Analysis
E. Joint Costing
F. By-Product Costing
G. Spoilage, Waste, and Scrap
H. Absorption and Direct Costing
I. Transfer Pricing
J. Product Pricing
K. Budgeting and Flexible Budgeting
L. Breakeven and Cost-Volume-Profit Analysis
M. Gross Profit Analysis
N. Differential Cost Analysis

1. Activity Levels
2. Sunk Costs
3. Contribution to Profit
4. Uncertainty
5. Time Periods

O. Capital Budgeting Techniques

1. Net Present Value
2. Internal Rate of Return
3. Payback Period
4. Accounting Rate of Return

P. Performance Analysis

1. Return on Investment
2. Residual Income
3. Controllable Revenue and Costs

Q. Quantitative Techniques for Planning and Control

1. Regression and Correlation Analysis
2. Learning Curves
3. Economic Order Quantity
4. PERT/Cost
5. Sensitivity Analysis
6. Probability Analysis
7. Linear Programming

VIII. Not-for-Profit and Governmental Accounting (10%).

A. Fund Accounting

1. Fund Balance
2. Estimated Revenues
3. Appropriations
4. Encumbrances
5. Reserve for Encumbrances
6. Revenues
7. Expenditures

B. Types of Funds and Fund Accounts

1. General Fund
2. Special Revenue Funds
3. Debt Service Funds
4. Capital Projects Funds
5. Enterprise Funds
6. Internal Service Funds
7. Trust and Agency Funds
8. Special Assessment Funds
9. General Fixed Asset Account Group
10. General Long-Term Debt Account Group
11. Endowment and Quasi-Endowment Funds
12. Restricted Funds
13. Nonrestricted Funds
14. Property Funds

C. Presentation of Financial Statements for Various Not-for-Profit and Governmental Organizations

D. Various Types of Not-for-Profit and Governmental Organizations

1. Local and State Governments
2. Educational Institutions
3. Hospitals
4. Charitable, Religious, and Other Organizations

IX. Federal Taxation - Individuals (10%).

A. Inclusions for Gross Income and Adjusted Gross Income

1. Reporting Basis of Taxpayer — Cash, Accrual, or Modified
2. Compensation for Services
3. Business Income
4. Interest
5. Rent and Royalties
6. Dividends
7. Alimony
8. Capital Gains and Losses
9. Miscellaneous Income

B. Exclusions and Other Deductions (including adjustments to arrive at Adjusted Gross Income)
C. Gain or Loss on Property Transactions

1. Character
2. Recognition
3. Basis and Holding Period

D. Deductions from Adjusted Gross Income

1. Zero Bracket Amount
2. Interest
3. Taxes
4. Contributions
5. Medical Expenses
6. Casualty Losses
7. Miscellaneous Deductions

E. Filing Status and Exemptions
F. Tax Determination

1. Tax Computations
2. Tax Credits and Other Allowances

G. Statute of Limitations

1. Claims for Refund
2. Assessments

H. Effect of Gift and Estate Taxation on Individuals

X. Federal Taxation — Corporations and Partnerships (10%).

Corporations

A. Determination of Taxable Income or Loss

1. Determination of Gross Income Including Capital Gains and Losses
2. Deductions from Gross Income
3. Reconciliation of Taxable Income and Book Income
4. Reconciliation of Opening and Closing Retained Earnings
5. Consolidations

B. Tax Determination

1. Tax Computations
2. Tax Credits

C. S Corporations
D. Personal Holding Companies
E. Accumulated Earnings Tax
F. Distributions
G. Tax-Free Incorporation
H. Reorganizations
I. Liquidations and Dissolutions

Partnerships

J. Formation of Partnership

1. Contribution of Capital
2. Contribution of Services

K. Basis of Partner's Interest

1. Acquired through Contribution
2. Interest Acquired from Another Partner
3. Holding Period of Partner's Interest
4. Adjustments to Basis of Partner's Interest

L. Basis of Property Contributed to Partnership

M. Determination of Partners' Taxable Income

1. Partner's Distributive Share of Income
2. Elections Available to Partners (different reporting methods)

N. Accounting Periods of Partnership and Partners

O. Partner Dealing with Own Partnership

1. Sales and Exchanges
2. Guaranteed Payments

P. Treatment of Liabilities

Q. Distributions of Partnership Assets

1. Current Distributions
2. Distributions in Complete Liquidation
3. Basis of Distributed Property

R. Termination of Partnership

1. Change in Membership
2. Merger or Split-up of Partnership
3. Sale or Exchange of Partnership Interest
4. Payments to a Retiring Partner
5. Payments to a Deceased Partner's Successor