



**THE UNIVERSITY OF THE WEST INDIES
FIVE ISLANDS CAMPUS**

Semester II

Examinations of APRIL/MAY 2023

Course Code: ACCT 2015

Course Title: Financial Accounting II

Date of Assessment: April 28, 2023

Time: 9:00 am

Duration: Two (2) Hours

INSTRUCTIONS TO CANDIDATES:

This paper has 5 pages and 5 questions.

YOU ARE REQUIRED TO ANSWER Any 3 QUESTIONS.

THIS ASSESSMENT IS WORTH 70 % OF YOUR FINAL GRADE.

Question – 1A

Joseph's Construction specializes in the construction of commercial and industrial buildings. The contractor is experienced in bidding long-term construction projects of this type, with the typical project lasting fifteen to twenty-four months. The contractor uses the percentage-of-completion method of revenue recognition since, given the characteristics of the contractor's business and contracts, it is the most appropriate method. Progress toward completion is measured on a cost-to-cost basis. Dobson began work on a lump-sum contract at the beginning of 2021. As bid, the statistics were as follows:

Lump-sum price (contract price)		\$8,000,000
Estimated costs		
Labor	\$1,700,000	
Materials and subcontractor	3,500,000	
Indirect costs	<u>800,000</u>	<u>6,000,000</u>
		<u>\$2,000,000</u>

At the end of the first year, the following was the status of the contract:

Billings to date		\$4,500,000
Costs incurred to date		
Labor	\$ 928,000	
Materials and subcontractor	1,296,000	
Indirect costs	<u>386,000</u>	<u>2,610,000</u>
Latest forecast total cost		6,000,000

It should be noted that included in the above costs incurred to date were standard electrical and mechanical materials stored on the job site, but not yet installed, costing \$210,000. These costs should **not** be considered in the costs incurred to date.

Instructions

- (a) Compute the percentage of completion on the contract at the end of 2021. **5 Marks**
- (b) Indicate the amount of gross profit that would be reported on this contract at the end of 2021. **5 Marks**
- (c) Make the journal entry to record the income (loss) for 2021 on Dobson's books. **5 Marks**

Question 1 B

Explain the differences between a direct-financing lease and a sales-type lease. **10 Marks**

Question 2

Sunday Corporation has the following capital structure at the beginning of the year:

5% Preferred stock, \$50 par value, 20,000 shares authorized, 6,000 shares issued and outstanding	\$ 300,000
Common stock, \$10 par value, 60,000 shares authorized, 40,000 shares issued and outstanding	400,000
Paid-in capital in excess of par	<u>110,000</u>
Total paid-in capital	810,000
Retained earnings	<u>440,000</u>
Total stockholders' equity	<u>\$1,250,000</u>

Instructions

- (a) Record the following transactions which occurred consecutively (show all calculations).
1. A total cash dividend of \$90,000 was declared and payable to stockholders of record. Record dividends payable on common and preferred stock in separate accounts. **5 Marks**
 2. A 15% common stock dividend was declared. The average fair value of the common stock is \$25 a share. **5 Marks**
 3. Assume that net income for the year was \$160,000 (record the closing entry) and the board of directors appropriated \$70,000 of retained earnings for plant expansion. **5 Marks**
- (b) Construct the stockholders' equity section incorporating all the above information. **10 Marks**

Question 3A

At the financial statement date of December 31, 2021, the liabilities outstanding of Phillips Corporation included the following:

1. Cash dividends on common stock, \$50,000, payable on January 15, 2022.
2. Note payable to ACB Caribbean Bank, \$470,000, due January 20, 2022.
3. Serial bonds, \$1,800,000, of which \$450,000 mature during 2022.
4. Note payable to Orlando National Bank, \$300,000, due January 27, 2022.

The following transactions occurred early in 2022:

January 15: The cash dividends on common stock were paid.

January 20: The note payable to ACB Caribbean Bank was paid.

January 25: The corporation entered into a financing agreement with ECABank, enabling it to borrow up to \$500,000 at any time through the end of 2023. Amounts borrowed under the agreement would bear interest at 1% above the bank's prime rate and would mature 3 years from the date of the loan. The corporation immediately borrowed \$400,000 to replace the cash used in paying its January 20 note to the bank.

January 26: 40,000 shares of common stock were issued for \$350,000. \$300,000 of the proceeds was used to liquidate the note payable to Orlando National Bank.

February 1: The financial statements for 2020 were issued.

Instructions

Prepare a partial balance sheet for Phillips Corporation, showing the manner in which, the above liabilities should be presented at December 31, 2021. The liabilities should be properly classified between current and long-term, and appropriate note disclosure should be included. **15-Marks**

Question 3B.

Otto's. began operations on January 1, 2020. Financial statements for 2020 and 2021 contained the following errors:

	<u>Dec. 31, 2020</u>	<u>Dec. 31, 2021</u>
Ending inventory	\$80,000 overstated	\$114,000 overstated
Depreciation expense	48,000 understated	—
Accumulated depreciation	48,000 understated	48,000 understated
Insurance expense	42,000 overstated	42,000 understated
Prepaid insurance	42,000 understated	

In addition, on December 26, 2021 fully depreciated equipment was sold for \$53,000, but the sale was not recorded until 2022. **No** corrections have been made for any of the errors.

Instructions

Ignoring income taxes, show your calculation of the total effect of the errors on 2021 net income. **10 marks**

Question 4A

Hammer Company commonly issues long-term notes payable to its various lenders. Harper has had a pretty good credit rating such that its effective borrowing rate is quite low (less than 8% on an annual basis). Harper has elected to use the fair value option for the long-term notes issued to Barclay's Bank and has the following data related to the carrying and fair value for these notes.

	<u>Carrying Value</u>	<u>Fair Value</u>
December 31, 2020	\$135,000	\$135,000
December 31, 2021	112,000	107,000
December 31, 2022	90,000	97,000

Instructions

- Prepare the journal entry at December 31 (Hammers year-end) for 2020, 2021, and 2022 to record the fair value option for these notes. **5-Marks**
- At what amount will the note be reported on Hammer 2021 balance sheet? **5-Marks**
- What is the effect of recording the fair value option on these notes on Harper's 2022 income? **5-Marks**

Question 4B

Jean established a savings account for her son's college education by making annual deposits of \$10,000 at the beginning of each of six years to a savings account paying 8%. At the end of the sixth year, the account balance was transferred to a bank paying 10%, and annual deposits of \$10,000 were made at the end of each year from the seventh through the tenth years.

What was the account balance at the end of the tenth year? **10-Marks**

Question 5A

Santana Corporation has 400,000 shares of common stock outstanding throughout 2021. In addition, the corporation has 5,000, 20-year, 9% bonds issued at par in 2019. Each \$1,000 bond is convertible into 20 shares of common stock after 9/23/22. During the year 2021, the corporation earned \$900,000 after deducting all expenses. The tax rate was 30%.

Instructions

Compute the proper earnings per share for 2021. **13-Marks**

Question 5B

Hummel Company purchased a put option on Olney common shares on July 7, 2021, for \$100. The put option is for 200 shares, and the strike price is \$30. The option expires on January 31, 2022. The following data are available with respect to the put option:

<u>Date</u>	<u>Market Price of Olney Shares</u>	<u>Time Value of Put Option</u>
September 30, 2021	\$32 per share	\$55
December 31, 2021	\$31 per share	23
January 31, 2022	\$33 per share	0

Instructions

Prepare the journal entries for Hummel Company for the following dates:

- July 7, 2021—Investment in put option on Olney shares. **3-Marks**
- September 30, 2021—Hummel prepares financial statements. **3-Marks**
- December 31, 2021—Hummel prepares financial statements. **3-Marks**
- January 31, 2022—Put option expires. **3-Marks**

END OF QUESTION PAPER