TEST II PMBA 1996  
October 31, 1996 (Halloween)

1. Use a periodic inventory system so compute closing inventory. LIFO means oldest stuff left in inventory $\text{ie } 20 \times 170 + 20 \times 125 + 10 \times 160 = $7,500

2. Use a perpetual and computing cost of goods sold \text{en route with just bought being sold:}
   
   \[
   c_1 = 20 \times 125 + 20 \times 170 = 5,900
   \]
   
   \[
   c_2 = 300 \times 160 = 48,000
   \]
   
   \[
   c_3 = 100 \times 175 + 50 \times 160 = 79,400
   \]

   Available for sale = 87,400 less cost of goods sold of 79,400 leaves closing inventory of 8,000

3. FIFO periodic’s closing inventory = 50 x 175 = 8,750
   
   LIFO’s from part 1 = 7,500
   
   LIFO reserve = 1,250

4. Dissimilar transaction — record a gain by entering truck at $12,000 (ignore list)

5. Similar transaction — no gain, enter new software at book of old ie $8,000 (ignore list)

6. Annual depreciation is \((25,000 - 1,000)/10 = 2,400\) After 8 years and 10 months accumulated depreciation is \(21,200\) \((2,400 \times 8 + 2,400 \times 10/12)\). Net book value is 3,800. Loss is 800.

7. All except repairs add benefits.

8. All of the above

9. Bonds sold for 275,678 — enter at that number

   \[
   275,678 + 11,027 - 9,000 = 277,705
   \]
   
   \[
   277,705 + 11,108 - 9,000 = 279,813
   \]

   Interest expense for year is 11,027+ 11,108 = 22,135

10. One more period of amortization

   \[
   279,813 + 11,192 - 9,000 = 282,005
   \]

   New bond is at par ie 300,000 so they would register a loss of 17,995

11. This is entered correctly at its present value.

12. The machine will be returned at the end of 10 years so depreciate over the life of the lease and take 7,373.48 each year.
13. The use of the building is charged to R&D expense ie depreciation, not the acquisition cost.

14.  
<table>
<thead>
<tr>
<th></th>
<th>Cash</th>
<th>QA</th>
<th>CA</th>
<th>WC</th>
<th>NI</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. dr Cash</td>
<td>cr LT liabilities</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>b. dr Building</td>
<td>cr Interest payable</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>dr Expense</td>
<td>cr Interest payable</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>c. dr Inventory</td>
<td>cr Building</td>
<td>0</td>
<td>0</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>d. dr Inventory</td>
<td>cr Cash</td>
<td>-</td>
<td>-</td>
<td>w</td>
<td>w</td>
</tr>
<tr>
<td>dr Building</td>
<td>cr Cash</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>e. dr R&amp;D expense</td>
<td>cr Cash</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

15.  
<table>
<thead>
<tr>
<th></th>
<th>Op inc</th>
<th>7,000</th>
<th>7,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deprec</td>
<td>(9,600)</td>
<td>(5,760)</td>
<td></td>
</tr>
<tr>
<td>Int inc</td>
<td>0</td>
<td>700</td>
<td></td>
</tr>
<tr>
<td>Opp cost</td>
<td>(2,400)</td>
<td>(2,640)</td>
<td></td>
</tr>
<tr>
<td>RI</td>
<td>(5,000)</td>
<td>(700)</td>
<td></td>
</tr>
</tbody>
</table>