On my honor, I have neither given nor received assistance on this test.

__________________________
Signature

CODE:

__________________________
PRINTED NAME
1. Windsor Enterprises incurred the following expenditures relating to its plant building during 1996:

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continuing and frequent repairs</td>
<td>$30,000</td>
</tr>
<tr>
<td>Repainting the plant building</td>
<td>10,000</td>
</tr>
<tr>
<td>Major improvements to the electrical wiring system</td>
<td>32,000</td>
</tr>
<tr>
<td>Partial replacement of roof tiles</td>
<td>14,000</td>
</tr>
</tbody>
</table>

How much should be charged to repair and maintenance expense in 1996?

2. Boris Brothers purchased a machine that was installed and placed in service on January 2, 1994, at a total cost of $180,000. Residual value was estimated at $30,000. The machine is being depreciated over ten years by the double-declining balance method. For the year 1995, Graf should record depreciation expense of?

3. Theoretically, which of the following costs incurred in connection with a machine purchased for use in a company's manufacturing operations would be capitalized?

<table>
<thead>
<tr>
<th>Insurance on machine in transit</th>
<th>Testing and preparation of machine for use</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>
4. Alto Corporation has a portfolio of equity securities which is held as a temporary investment. At the end of the second quarter of 1997, the cost of the portfolio was $84,000, and its market value was $77,000. At the end of the first quarter of 1997, the portfolio's market value was $77,500. Based on the information given, what accounting action is needed at the end of the second quarter?

a. A balance sheet valuation allowance account should be credited for $7,000
b. A balance sheet valuation allowance should be credited for $500
c. A $500 gain should be recognized in the income statement
d. A $7,000 loss should be recognized in the income statement
e. Other — specify

5. Clay Company started construction of a new office building on January 1, 1984, and moved into the finished building on July 1, 1985. Of the building's $2,500,000 total cost, $2,000,000 was incurred in 1984 evenly throughout the year. Clay's incremental borrowing rate was 12% throughout 1984, and the total amount of interest incurred by Clay during 1984 was $102,000. What amount, if any, should Clay report as capitalized interest at December 31, 1984?
6. On March 1, 1997 Mary Jane Enterprises purchased a tract of land as a factory site for $550,000. An existing building on the property was razed and construction was begun on a new factory building in April 1997. Additional data are available as follows:

- Cost of razing old building: $55,000
- Title insurance and legal fees to purchase land: $40,000
- Architect's fees: $85,000
- New building construction cost: $1,650,000

What should the capitalized cost of the building be?

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7. Jay Corporation sets aside 2 percent of its revenues each year as a bad debt allowance. Revenues in 1989 were $50 million -- all on credit. The allowance for bad debt at the start of the year was $1 million and the accounts receivable, excluding the bad debt allowance, at the start of the year was $18 million. If $40 million of the revenues are collected, and $500,000 of the accounts receivable are written off at the end of the year, what is the receivable turnover using year end balances.

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8. On December 30, 1995, Coase Company purchased a machine from Patrick, Inc in exchange for a noninterest-bearing note requiring ten equal payments of $10,000. The first payment was made on December 30, 1995, and the others are due annually on December 30. The prevailing rate of interest for this type of note at date of issuance was 8%. What would be the book value of the note on December 31st, 1996?

- Lease term: 10 years
- Annual rental payable at beginning of each lease year: $50,000
- Useful life of machine: 15 years
- Implicit interest rate: 10%
- Fair value of the machine: $400,000

The lease has no renewal option, and the possession of the machine reverts to Saxe when the lease terminates. At the inception of the lease, what liability, if any, should Clay record?

10. Memorial Homes had 150 units of product on hand at January 1, 1995, costing $21 each. Purchases of product A during the month of January were as follows:

<table>
<thead>
<tr>
<th>Units</th>
<th>Unit cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 10</td>
<td>200</td>
</tr>
<tr>
<td>18</td>
<td>250</td>
</tr>
<tr>
<td>28</td>
<td>100</td>
</tr>
</tbody>
</table>

A physical count on January 31, 1995, shows 250 units of product A on hand. Assume all sales took place on January 20th.

a. What is the cost of the inventory at January 31, 1995 under the FIFO periodic method?
b. What is the cost of the inventory at January 31, 1995 under the LIFO perpetual method?

Ignore this question — you don’t have the financial statements!! I’ll adjust for this!!

11. Using the financial statements provided, enter onto the ledger sheet the opening and closing accounts receivable, accounts payable and inventory balances; also the revenue for 1996. Add such other accounts as you deem necessary to complete the questions.

a. From what you are given, how much was paid on accounts payable? Assume that accounts payable is used for purchased services only.

b. How much “materials and supplies” were purchased? Assume that this heading is the same as “materials and other.”

c. What were their collections from sales?

Then identify from the annual report

d. The cash from operations
e. Cash flow that is available for shareholders

12. Bonds with a par value of $6 million are issued on January 1, 1989. Assume that they have a life of ten years and that the coupon rate is 6 percent. They were issued at a time when the market rate was 8 percent.

a. What was the issue price of the bonds?

b. What will the interest expense be in the second year of the bonds life?

c. What will the change in the bond payable (net) account be in that second year?

d. If the market rate rises to 10 percent, what amount of money would need to be set aside to refund the bond?
e. If the company decided to replace the old bond with a new one and gives the new one a face value equal to the old, and a term equal to 10 years, what would the new coupon rate have to be?

13. Jay Enterprises recognized all its revenues on the delivery basis. Because of difficulties that it was having in collecting its receivables, it decided to move certain of its goods onto the collection method. The revenue affected this past year is 20 percent of the total of $60 million. Their gross margin is 25 percent. What effect will this have on inventory turnover? Currently this is 9:1. What will the new inventory turnover be?
ACCT 6422 TEST II
October 31, 1997

9. [5]
11e. [4]
11e. [4]
13. [5]