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Section _____

ACCOUNTING 15.511
SUMMER 2004
FINAL EXAM

Exam Guidelines:

- You have 120 minutes to complete the exam. Please use your time efficiently.
- This exam contains 11 pages. Please make sure your copy is not missing pages.
- If necessary, make assumptions to solve problems. State your assumptions clearly.

Good luck!

Problem 1 (15 marks, 15 minutes)

A company provides you with the following information about their inventory purchases and sales:

Date		Units	Unit Cost	Total
January 1, 2004	Beginning Inventory	6	\$14.00	\$84.00
January 10, 2004	Purchase #1	20	\$14.25	\$285.00
January 20, 2004	Purchase #2	10	\$14.50	\$145.00
January 15, 2004	Sale #1	12	\$32.00	\$384.00
January 25, 2004	Sale #2	15	\$32.50	\$487.50

A. Using the FIFO method, calculate the company's cost of goods sold for January 2004 and the company's ending inventory as of Jan. 31, 2004.

B. Using the LIFO method, calculate the company's cost of goods sold for January 2004 and the company's ending inventory as of Jan. 31, 2004.

Problem 2 (30 marks, 30 minutes)

(You may answer using journal entries, T-accounts, or balance sheet equation.)

On January 1, 2005, Golf Tee Inc. will acquire a vehicle from a car dealership for \$50,000. The dealership offers to lease the vehicle to Golf Tee Inc. for five years with payments of \$12,462 due on December 31 of each year. The expected resale value of the car after five years is \$0, and the borrowing rate for Golf Tee Inc. is 12%.

A. By simply examining the terms, do you believe this lease qualifies as a capital lease or an operating lease? Explain.

B. What borrowing rate is the car dealership charging Golf Tee Inc.? Is it 10%, 12%, or 14%? Explain.

C. Assuming the borrowing rate is 12%, and assuming the lease qualifies as an *operating lease*, provide the journal entrees for Golf Tee Inc. for the first two years of the lease.

D. Assuming the borrowing rate is 12% and assuming the lease qualifies as a *capital lease*, provide the journal entries for Golf Tee Inc. for the first two years of the lease.

Problem 3 (25 marks, 25 minutes)

Use financial statement information for Coca-Cola to answer parts a, b and c of this question.

For this financial data, please see the Income Statement and Balance Sheet (pp. 51-53) from: The Coca-Cola Company. "United States Securities and Exchange Commission Form 10-K." 27 February 2004. Available at: <http://www.coca-cola.com/> (accessed July 31, 2004).

Use financial statement information for Coca-Cola and PepsiCo to answer parts d and e of this question.

For this financial data, please see the Income Statement and Balance Sheet (pp. 58 and 60) from: PepsiCo. "PepsiCo 2003 Annual Report." 9 February 2004. Available at: <http://www.pepsico.com/> (accessed July 31, 2004).

A. Using information from the financial statements for Coca-Cola, compute the current ratio and the quick ratio for 2003.

B. What is your analysis of the short-term liquidity of Coca-Cola?

C. Using information from the financial statements for Coca-Cola, compute the interest coverage ratio 2003.

D. Using the financial statement information for Coca-Cola and PepsiCo for 2003, which company's profit margin is higher?

E. Using the financial statement information for Coca-Cola and PepsiCo for 2003, which company is more efficient in using assets to generate sales?

Problem 4 (50 marks, 50 minutes)

(You may answer using journal entries, T-accounts, or balance sheet equation.)

Ignoring taxes unless otherwise stated, fully account for the following events related to Nanosoft Corporation as they occur:

A. January 1, 2000: Nanosoft Corporation acquires a building for \$1,500,000.

B. February 1, 2000: Nanosoft Corporation acquires 10,000 shares of Pear Corporation at \$20 per share for short-term profit potential. Pear Corporation has 200 million shares outstanding.

C. June 6, 2000: On good news, the stock price of Pear Corporation appreciates to \$25 per share.

D. September 1, 2000: Nanosoft Corporation sells one-fourth of its shares in Pear Corporation for \$75,000.

E. December 31, 2000: The office building acquired in part A has an estimated useful life of 5 years, after which point, the company expects to sell it for \$500,000. Nanosoft Corporation decides to use a straight-line depreciation schedule. Record the financial accounting (GAAP) depreciation for the year 2000.

F. December 31, 2000: Nanosoft Corporation reports Sales Revenues of \$1,000,000, COGS of \$200,000, SG&A Expenses of \$50,000. Pear Corporation's stock closes at \$30 per share during the last trade of the year.

At this stage ignore taxes. Prepare Nanosoft Corporation's GAAP income statement for the year 2000 up to income before taxes.

G. Given a 20% tax rate, calculate the GAAP tax expense and the Net Income for the year 2000.

H. Tax authorities prescribe an accelerated depreciation schedule, which stipulates a depreciation of 60% and 40% of the assets historical cost in the first and second year, respectively, and no depreciation after that point. Calculate the depreciation expense for tax accounting purposes for year 2000.

I. Will item H. cause the deferred tax liability to increase? {For extra credit: By how much?}