※ 考生請注意：本試題可使用計算機。　請於答案卷(卡)作答，於本試題紙上作答者，不予計分。

A. Multiple Choice Questions (84%, 3% for each question)

1. On December 31, 2016, Iva Majoli Company borrowed €62,092 from Paris Bank, signing a 5-year, €100,000 zero-interest-bearing note. The note was issued to yield 10% interest. Unfortunately, during 2018, Majoli began to experience financial difficulty. As a result, at December 31, 2018, Paris Bank determined that it was probable that it would receive back only €75,000 at maturity. The market rate of interest on loans of this nature is now 11%. What will be the amount of impairment of the loan recognized on December 31, 2018 by Paris Bank?
   a. 0
   b. 20,292
   c. 12,908
   d. 18,782
2. On February 1, 2015, Henson Company factored receivables with a carrying amount of €300,000 to Agee Company. Agee Company assesses a finance charge of 3% of the receivables and retains 5% of the receivables. Relative to this transaction, you are to determine the amount of loss on sale to be reported in the income statement of Henson Company for February. Assume that Henson factors the receivables on a without guarantee (recourse) basis. The loss to be reported is
   a. €0
   b. €9,000
   c. €15,000
   d. €24,000
3. On June 15, 2015, Wynne Corporation accepted delivery of merchandise which it purchased on account. As of June 30, Wynne had not recorded the transaction or included the merchandise in its inventory. The effect of this on its statement of financial position for June 30, 2015 would be
   a. assets and equity were overstated but liabilities were not affected.
   b. equity was the only item affected by the omission.
   c. assets, liabilities, and equity were understated.
   d. None of these answers are correct.
4. Lenny's Llamas purchased 1,000 llamas on January 1, 2015. These llamas will be sheared semiannually and their wool sold to specialty clothing manufacturers. The llamas were purchased for $222,000. During 2015 the change in fair value due to growth and price changes is $14,100, the wool harvested but not yet sold is valued at net realizable value of $27,000, and the change in fair value due to harvest is ($1,750). On Lenny's Llamas income statement for the year ending December 31, 2015, what amount of unrealized gain on biological assets will be reported?
   a. $39,350
   b. $41,100
   c. $14,100
   d. $12,350

5. Plank Co. uses the retail inventory method. The following information is available for the current year.

	Cost	Retail
Beginning inventory	$ 78,000	$122,000
Purchases	295,000	415,000
Freight-in	5,000	—
Employee discounts	—	2,000
Net markups	—	15,000
Net markdowns	—	20,000
Sales	—	390,000

The approximate cost of the ending inventory by the conventional retail method is

a. $95,900

b. $94,920

c. $98,000

d. $102,480

6. Dodson Company traded in a manual pressing machine for an automated pressing machine and gave $8,000 cash. The old machine cost $93,000 and had a book value of $71,000. The old machine had a fair value of $60,000. Which of the following is the correct journal entry to record the exchange?

a.	Equipment	68,000	
	Loss on Disposal	11,000	
	Accumulated Depreciation	22,000	
	Equipment		93,000
	Cash		8,000
b.	Equipment	68,000	
	Equipment		60,000
	Cash		8,000
c.	Cash	8,000	
	Equipment	60,000	
	Loss on Disposal	11,000	
	Accumulated Depreciation	22,000	
	Equipment		101,000
d.	Equipment	123,000	
	Accumulated Depreciation		22,000
	Equipment		93,000
	Cash		8,000

7. On January 1, 2015, in an effort to lure Tar-Mart, a major discount retail chain to the area, the city of Bordeaux agreed to provide the company with a €6,000,000 three-year, zero-interest bearing note. The prevailing rate of interest for a loan of this type is 10% and the present value of €6,000,000 at 10% for three years is €4,507,800. At December 31, 2015, Tar-Mart will report Deferred Grant Revenue of
   a. €1,492,200
   b. €1,041,420
   c. €0
   d. None of these answer choices are correct.
8. On January 1, 2015, Fredo Inc. purchased equipment with a cost of €2,550,000, a useful life of 15 years and no salvage value. The company uses straight-line depreciation. At December 31, 2015, an independent appraiser determines that the fair value of the equipment is €2,500,000 Fredo prepares financial statements using IFRS and elects to revalue the asset. At December 31, 2015, the journal entry to revalue the equipment will include a
   a. debit to Depreciation Expense for €255,000.
   b. credit to Equipment for €50,000.
   c. credit to Accumulated Depreciation for €170,000.
   d. credit to Unrealized Gain on Revaluation-OCI for €150,000.
9. On January 2, 2015, Q. Tong Inc. purchased equipment with a cost of HK$10,440,000, a useful life of 10 years and no salvage value. The company uses straight-line depreciation. At December 31, 2015 and December 31, 2016, the company determines that impairment indicators are present. The following information is available for impairment testing at each year end:

	12/31/2015	12/31/2016
Fair value less costs to sell	HK$9,315,000	HK$8,850,000
Value-in-use	HK$9,350,000	HK$8,915,000

   There is no change in the asset's useful life or salvage value. The 2016 income statement will report
   a. no Impairment Loss or Recovery of Impairment Loss.
   b. Impairment Loss of HK$435,000.
   c. Recovery of Impairment Loss of HK$40,889.
   d. Recovery of Impairment Loss of HK$603,889.
10. Which of the following research and development related costs should be capitalized and depreciated over current and future periods?
   a. Research and development general laboratory building which can be put to alternative uses in the future.
   b. Inventory used for a specific research project.
   c. Administrative salaries allocated to research and development.
   d. Research findings purchased from another company to aid a particular research project currently in process.

11. Which of the following statements is correct?
    a. A company may exclude a short-term obligation from current liabilities if it intends to refinance the obligation on a long-term basis.
    b. A company may exclude a short-term obligation from current liabilities if it has an unconditional right to defer settlement of the liability for at least 12 months.
    c. A company may exclude a short-term obligation from current liabilities if it is paid off after the statement of financial position date and subsequently replaced by long-term debt before the statement of financial position is issued.
    d. None of these answer choices are correct.

12. Vargas Company has 35 employees who work 8-hour days and are paid hourly. On January 1, 2014, the company began a program of granting its employees 10 days of paid vacation each year. Vacation days earned in 2014 may first be taken on January 1, 2015. Information relative to these employees is as follows:

Year	Hourly Wages	Vacation Days Earned by Each Employee	Vacation Days Used by Each Employee
2014	$25.80	10	0
2015	27.00	10	8
2016	28.50	10	10

Vargas has chosen to accrue the liability for compensated absences at the current rates of pay in effect when the compensated time is earned. What is the amount of the accrued liability for compensated absences that should be reported at December 31, 2016?
    a. $94,920.
    b. $90,720.
    c. $79,800.
    d. $95,760.

13. Electronics4U manufactures high-end whole home electronic systems. The company provides a one-year warranty for all products sold. The company estimates that the warranty cost is $200 per unit sold and reported a liability for estimated warranty costs $6.5 million at the beginning of this year. If during the current year, the company sold 50,000 units for a total of $243 million and paid warranty claims of $7,500,000 on current and prior year sales, what amount of liability would the company report on its statement of financial position at the end of the current year?
    a. $2,500,000
    b. $3,500,000
    c. $9,000,000
    d. $10,000,000

14. A company buys an oil rig for $2,000,000 on January 1, 2015. The life of the rig is 10 years and the expected cost to dismantle the rig at the end of 10 years is $400,000. 10% is an appropriate interest rate for this company. What expense should be recorded for 2015 as a result of these events?
    a. Depreciation expense of $240,000
    b. Depreciation expense of $200,000 and interest expense of $15,422
    c. Depreciation expense of $200,000 and interest expense of $40,000
    d. Depreciation expense of $215,422 and interest expense of $15,422
15. The 12% bonds payable of Nyman Co. had a carrying amount of $832,000 on December 31, 2014. The bonds, which had a face value of $800,000, were issued at a premium to yield 10%. Nyman uses the effective-interest method of amortization. Interest is paid on June 30 and December 31. On June 30, 2015, several years before their maturity, Nyman retired the bonds at 104 plus accrued interest. The loss on retirement, ignoring taxes, is
    a. $0
    b. $6,400
    c. $9,920
    d. $32,000
16. Porter Corp. purchased its own par value shares on January 1, 2015 for $20,000 and debited the treasury shares account for the purchase price. The shares were subsequently sold for $12,000. The $8,000 difference between the cost and sales price should be recorded as a deduction from
    a. share premium—treasury to the extent that previous net "gains" from sales of the same class of stock are included therein; otherwise, from retained earnings.
    b. share premium—treasury without regard as to whether or not there have been previous net "gains" from sales of the same class of shares included therein.
    c. retained earnings.
    d. net income.
17. Younger Company has outstanding both ordinary shares and nonparticipating, non-cumulative preference shares. The liquidation value of the preference shares is equal to its par value. The book value per share of the ordinary shares is unaffected by
    a. the declaration of a share dividend on preference payable in preference shares when the market price of the preference is equal to its par value.
    b. the declaration of a share dividend on ordinary shares payable in ordinary shares when the market price of the ordinary shares is equal to its par value.
    c. the payment of a previously declared cash dividend on the ordinary shares.
    d. a 2-for-1 split of the ordinary shares.
18. Companies account for transfers of investments between categories
    a. prospectively, at the end of the period after the change in the business model.
    b. prospectively, at the beginning of the period after the change in the business model.
    c. retroactively, at the end of the period after the change in the business model.
    d. retroactively, at the beginning of the period after the change in the business model.

19. Yoder, Inc. has 50,000 shares of $10 par value ordinary shares and 25,000 shares of $10 par value, 6%, cumulative, participating preference shares outstanding. Dividends on the preference shares are one year in arrears. Assuming that Yoder wishes to distribute $135,000 as dividends, the ordinary shareholders will receive
    a. $30,000.
    b. $55,000.
    c. $80,000.
    d. $105,000.
20. On January 1, 2016, Trent Company granted Dick Williams, an employee, an option to buy 100 shares of Trent Co. shares for $30 per share, the option exercisable for 5 years from date of grant. Using a fair value option pricing model, total compensation expense is determined to be $900. Williams exercised his option on September 1, 2016, and sold his 100 shares on December 1, 2016. Quoted market prices of Trent Co. shares during 2016 were:

January 1	$30 per share
September 1	$36 per share
December 1	$40 per share

    The service period is for two years beginning January 1, 2016. As a result of the option granted to Williams, using the fair value method, Trent should recognize compensation expense for 2016 on its books in the amount of
    a. $1,000
    b. $900
    c. $450
    d. $0
21. On December 31, 2015, Gonzalez Company granted some of its executives options to purchase 100,000 shares of the company's $10 par ordinary shares at an option price of $50 per share. The Black-Scholes option pricing model determines total compensation expense to be $750,000. The options become exercisable on January 1, 2016, and represent compensation for executives' services over a three-year period beginning January 1, 2016. At December 31, 2016 none of the executives had exercised their options. What is the impact on Gonzalez's net income for the year ended December 31, 2016 as a result of this transaction under the fair value method?
    a. $250,000 increase.
    b. $750,000 decrease.
    c. $250,000 decrease.
    d. $0
22. In 2016, Krasny Corporation discovered that equipment purchased on January 1, 2014, for €52,500 was expensed at that time. The equipment should have been depreciated over 5 years, with no residual value. The effective tax rate is 30%. Krasny's 2016 journal entry to correct the error would include
    a. a credit to Equipment for €52,500
    b. a debit to Retained Earnings for €52,500.
    c. a credit to Retained Earnings for €22,050.
    d. a credit to Deferred Tax Liability for €15,750.

23. Quinn, Inc. has a debt investment in the bonds issued by Blake Company. The bonds were purchased at par for €800,000 and, at the end of 2015, have a remaining life of 3 years with annual interest payments at 10%, paid at the end of each year. This debt investment is classified as held-for-collection. Blake is facing a tough economic environment and informs all of its investors that it will be unable to make all payments according to the contractual terms. The controller of Quinn, Inc. has prepared the following revised expected cash flow forecast for this bond investment. All cash flows will take place on December 31. The market rate of interest at December 31, 2015 for investments of similar risk is 12%. What amount of loss, if any, will Quinn, Inc. record on its investment in Blake Company bonds at December 31, 2015?

Cash Flows	
2016	€ 70,000
2017	70,000
2018	770,000
Total Cash Flows	€ 910,000

a. €133,626
b. €99,996
c. €90,000
d. €0

24. Kiner, Inc. began work in 2014 on a contract for $16,800,000. Other data are as follows:

	2014	2015
Costs incurred to date	$7,200,000	$11,200,000
Estimated costs to complete	4,800,000	—
Billings to date	5,600,000	16,800,000
Collections to date	4,000,000	14,400,000

If Kiner uses the percentage-of-completion method, the gross profit to be recognized in 2014 is
a. $2,880,000
b. $3,200,000
c. $4,320,000
d. $4,800,000

Use the following information for questions 25–27.

At the beginning of 2015; Elephant, Inc. had a deferred tax asset of $4,000 and a deferred tax liability of $6,000. Pre-tax accounting income for 2015 was $300,000 and the enacted tax rate is 40%. The following items are included in Elephant's pre-tax income:

Interest income from government obligations	$24,000
Accrued warranty costs, estimated to be paid in 2016	$52,000
Operating loss carryforward	$38,000
Installment sales revenue, will be collected in 2016	$26,000
Prepaid rent expense, will be used in 2016	$12,000

25. What is Elephant, Inc.'s taxable income for 2015?
    a. $300,000
    b. $252,000
    c. $348,000
    d. $452,000
26. Which of the following is required to adjust Elephant, Inc.'s deferred tax asset to its correct balance at December 31, 2015?
    a. A debit of $20,800
    b. A credit of $15,200
    c. A debit of $15,200
    d. A debit of $16,800
27. The ending balance in Elephant, Inc's deferred tax liability at December 31, 2015 is
    a. $9,200
    b. $15,200
    c. $10,400
    d. $31,200
28. Haystack, Inc. manufactures machinery used in the mining industry. On January 2, 2016 it leased equipment with a cost of $200,000 to Silver Point Co. The 5-year lease calls for a 10% down payment and equal annual payments at the end of each year. The equipment has an expected useful life of 5 years. Silver Point's incremental borrowing rate is 10%, and it depreciates similar equipment using the double-declining balance method. The selling price of the equipment is $325,000, and the rate implicit in the lease is 8%, which is known to Silver Point Co. What is the amount of interest expense recorded by Silver Point Co. for the year ended December 31, 2016?
    a. $29,250
    b. $23,400
    c. $26,000
    d. $32,500

B. Calculation (16%)

1. The information below pertains to Ace Company for 2016.

   (1) Net income was $13,200.

   (2) Weighted-average number of ordinary shares outstanding was 2,000 shares.

   (3) Tax rate was 20%.

   (4) Average market price of ordinary shares was $75 per share.

   (5) 4,000 shares of convertible preference shares (8%, cumulative, $10 par value) were outstanding for 2016. Each share is convertible into 1 ordinary share. None of preference shares were converted in 2016.

   (6) The bond with a face value of $100,000 is convertible into 2,000 ordinary shares. The interest expense on the liability component of the convertible bond for 2016 was $6,000. The convertible bond was outstanding for 2016. None of the bond was converted or redeemed in 2016.

   (7) 3,000 options were outstanding for 2016. Each was exercisable for one ordinary share at $60.

   Instructions

   a. Compute basic earnings per share for 2016. (4%)

   b. Compute diluted earnings per share for 2016. (4%)

2. On December 31, 2014, Tsang Inc. borrowed HK$3,000,000 at 12% payable annually to finance the construction of a new building. In 2015, the company made the following expenditures related to this building: March 1, HK$360,000; June 1, HK$600,000; July 1, HK$1,500,000; December 1, HK$1,200,000. Additional information is provided as follows.

   1. Other debt outstanding

10-year, 11% bond, December 31, 2008, interest payable annually	HK$4,000,000
6-year, 10% note, dated December 31, 2012, interest payable annually	HK$1,600,000

   2. March 1, 2015, expenditure included land costs of HK$150,000

   3. Interest revenue earned in 2015 on funds related to specific borrowing　HK$49,000

   Instructions

   a. Determine the amount of interest to be capitalized in 2015 in relation to the construction of the building. (4%)

   b. Prepare the journal entry to record the capitalization of interest and the recognition of interest expense, if any, at December 31, 2015. (4%)