

國立中央大學八十七學年度碩士班研究生入學試題卷

所別: 企業管理研究所 乙組 科目: 會計學 共 2 頁 第 1 頁

1. During 1994 Central Corporation engaged in a number of complex transactions to restructure the business—selling off a division, retiring bonds, and changing accounting methods. The company has always issued a simple single-step income statement, and the accountant has accordingly prepared the following December 31 year-end income statements for 1993 and 1994:

Central Corporation Income Statements For the Years Ended December 31, 1994 and 1993		
	1994	1993
Sales	\$500,000	\$600,000
Cost of Goods Sold	(275,000)	(300,000)
Operating Expenses	(112,500)	(75,000)
Income Taxes Expenses	(82,350)	(67,500)
Income from Operations of a Discontinued Segment	80,000	
Gain on Disposal of Segment	70,000	
Extraordinary Gain on Retirement of Bonds	36,000	
Cumulative Effect of a Change in Accounting Principle	(24,000)	
Net Income	<u>\$192,150</u>	<u>\$157,500</u>
Earnings per share	<u>\$ 0.96</u>	<u>\$ 0.79</u>

The president of the company, Paul Lee, is pleased to see that both net income and earnings per share increased by 22 percent from 1993 to 1994 and intends to announce to the stockholders that the restructuring is a success.

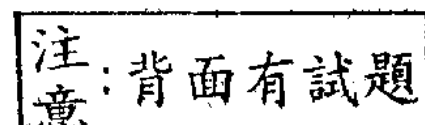
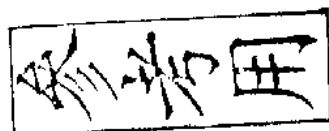
Required:

- (1) Recast the 1994 income statement in proper multistep form, including allocating income taxes to appropriate items (assume a 30% income tax rate) and showing earnings per share figures (200,000 shares outstanding). (13%)
- (2) What is your assessment of the restructuring plan and business operations in 1994? (6%)
- (3) Why should a gain or loss on a discontinued operations be disclosed separately on the income statement? (6%)

2. In 1994 and 1995 AB CORP. experienced what is called a LIFO liquidation, as explained in its 1995 annual report: "Certain LIFO inventories carried at lower costs prevailing in prior years, as compared with the costs of current purchases, were liquidated in 1995 and 1994. These inventory adjustments favorably affected income before income taxes by approximately \$76.4 million in 1995 and \$41.8 million in 1994." AB's average income tax rate for 1994 and 1995 was 22%.

Required:

- (1) Explain why a reduction in the quantity of inventory resulted in favorable effects on income before income taxes. Would the same result have occurred if AB had used the FIFO method to value inventory? Explain your answer. (12%)
- (2) What is the income tax effect of the LIFO liquidation? Is it really a "favorable" outcome? (13%)



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3. CD Company began operations this year. At the beginning of the year the company purchased plant assets of \$1,800,000, with an estimated useful life of ten years and a salvage value of \$260,000. During the year, the company had sales of \$2,600,000, salary expense of \$400,000, and other expenses of \$160,000, excluding depreciation. In addition, CD Company purchased inventory as follows:

January 20	800 units at \$400	\$320,000
March 12	400 units at \$408	163,200
June 5	1,600 units at \$416	665,600
September 21	1,200 units at \$412	494,400
December 17	600 units at \$420	252,000
Total	<u>4,600</u>	<u>\$1,895,200</u>

At the end of the year on December 31, a physical inventory disclosed 1,000 units still on hand. The managers of CD Company know that they have a choice of accounting methods, but are unsure how these methods will affect net income. They have heard of the FIFO and LIFO inventory methods and the straight-line and double-declining-balance depreciation methods.

Required:

- (1) Prepare two income statements for CD Company, one using the FIFO and Straight-line methods, the other using the LIFO and double-declining-balance methods. (6%)
- (2) Prepare a schedule accounting for the difference in the two net income figures obtained in (1). (6%)
- (3) What effect does the choice of accounting methods have on CD's inventory turnover? What conclusions can you draw? (6%)
- (4) How does the choice of accounting methods affect CD's return on assets? (7%)

Use year-end balances to compute the ratios. Assume that the only asset other than plant assets and inventory is \$160,000 cash. Is your evaluation of CD's profitability affected by the choice of accounting methods?

4. Please answer the following questions:

- (1) How do cash equivalents differ from cash? From short-term investments? (8%)
- (2) How is accounting for software development costs similar to and different from accounting for research and development costs? (8%)
- (3) Define free cash flow and identify its components. What does it mean to have a positive or a negative free cash flow? (9%)

