1. *(25 points)* You were reading an annual report for a company in Taiwan that you have substantial investment in. One of the footnotes reads like the following.

   Income tax

   Effective 1995, the Company adopted Financial Accounting Standard No. 22, "Accounting for Income Taxes," under which the tax effects of deductible temporary differences and operating loss carryforwards are recognized as deferred tax assets and those of taxable temporary differences are recognized as deferred tax liabilities; valuation allowance is provided for deferred tax assets that are not certain to be realized.

   a. Please explain what are the major changes made in the new Standard for income taxes. (5 points)
   b. Please explain what are temporary differences and what are permanent differences. (5 points)
   c. Please give one example each to explain in what conditions will a company recognize deferred tax assets and deferred tax liabilities. (5 points)
   d. Please explain what are operating loss carryforward and how should it be recognized in a company's financial statements. (5 points)
   e. If you want to do a financial statement analysis on this company, how should you approach the tax issue? (5 points)

2. *(25 points)* The following is a record of Casper Company's transactions for the radios it sold for the month of March 1998:

May 1	Balance of 400 units at $20 each
May 10	Sold 300 units at $38 each
May 12	Purchased 600 units at $25 each
May 30	Sold 500 units at $38 each
May 31	Purchased 400 units at $30 each

   a. Assume that Casper uses the periodic inventory method, please compute the amount of cost of goods sold for March 1998 under (1) first-in, first-out assumption and (2) last-in, first-out assumption. (15 points)
   b. Please explain what is "inventory profit", what is its impacts on financial statement, and in what situations will a company have inventory profit. (5 points)
   c. Please explain what is an inventory liquidation, what is its impacts on financial statement, and how could Casper's management intentionally induce an inventory liquidation. (5 points)

3. *(30 points)* The following are a Consolidated Statement of Earnings and Retained Earnings and a partial Statement of Cash Flow for 1997 for the NCU Corporation.

NCU Corporation
For the Year Ended December 31, 1997
Consolidated Statement of Earnings and Retained Earnings

Sales	$339,070
Cost of sales	290,192
Gross profit	$48,878
Selling and administrative expense	45,727
Operating income	$3,151
Interest income	6,306
Gain (loss) on sales of property, plant, and equipment	(87)
Earnings before income taxes	$9,370
Income taxes	3,580
Net earnings	$5,790

Retained earnings

Balance at beginning of year	$151,626
Add: Net earnings	5,790
Less: Cash dividends paid	5,384
Balance at end of year	$152,032

NCU Corporation
Consolidated Statement of Cash Flows
For the Year Ended December 31, 1997

Net earnings	$5,790
Adjustments to reconcile net earnings to net cash provided by operating activities	
Interest income earned on zero-coupon bonds	(6,101)
Depreciation	2,656
Amortization of premium on notes receivable	7
Loss on sale of property, plant, and equipment	87
Working capital items:	
Accounts receivable	(6,781)
Inventories	(354)
Interest receivable	(195)
Other current assets	(253)
Accounts payable, trade	2,719
Accrued liabilities	605
Income taxes payable	127
Total adjustments	(7,483)
Net cash provided by (used in) operating activities	($1,693)

a. Please convert the above operating cash flow section of the *Statement of Cash Flow* from indirect method to direct method. Please state your assumptions clearly if you need to do so. (20 points)
b. What are the advantages and disadvantages in presenting "*Cash Flows From Operating Activities*" using the direct method over the indirect method? (5 points)
c. Please give two examples each for items that should be included in "*Cash Flows From Investing Activities*" and "*Cash Flow*[illegible]*m Financing Activities*". (5 points)

參考用

4. *(20 points)* Recently, U.S. International Trade Commission (ITC) made a decision to impose punitive tariffs of up to 113.85 percent on static random access memory (SRAM) chips from Taiwan. In a split decision, the ITC decided to uphold a finding from the U.S. Department of Commerce that SRAMs imported from Taiwan have been sold at less than their production costs. The SRAM ruling is not expected to have a major affect on Taiwanese chip makers, because most major producers here only export a small amount of their SRAMs to the U.S. The ruling, however, still resulted in a major selling of semiconductor shares on the Taiwan Stock Exchange. Winbond Electronics Corp.'s stock that week dropped to NT$62, down by NT$0.50, while fellow SRAM maker United Microelectronics Corp. saw its stock price fall NT$2 to NT$76. Taiwan's industry also is concerned about other IC products, including DRAM microchips. Many local IC firms say they fear that this SRAM-dumping case is only a prelude to a global sales war over DRAM chips, which account for more than half of all memory chips sold last year.

In order to bring up the anti-dumping activities, selling price of SRAMs must be proved to be lower than their production cost. It is interesting to realize later that when the Commerce Department sent auditors to the production sites of SRAM to determine actual production costs in late 1997, the cost structures of Taiwan's SRAM makers were partially exposed. The United States include dividends (mostly shares of stock) distributed to employees at market value as part of production costs, but Taiwan-based firms consider such bonus to be after-tax profit sharing. Therefore the cost calculated by the Commerce Department is much higher than what the SRAM makers allege.

a. Stock-based compensation plans have become a major part of executive pay. Please discuss what is the nature of these plans. (5 points)

b. Please discuss, based on generally accepted accounting principles, how should these stock-based compensation plans be reported for companies offering these plans? (10 points)

b. What are the new requirements regarding these stock-based compensation plans in the newly issued FASB Statement No. 123 in the United States? (5 points)