1. If an intangible asset is being amortized over a definite life, the following is true:
   a. Impairment testing is never required.
   b. Impairment testing is required whenever there is an event or change in circumstances indicating a possible impairment.
   c. Impairment testing is required to be performed on an annual basis.
   d. Impairment testing is required only if the auditor deems it to be necessary.

2. Indefinite lived intangible assets should be tested for impairment:
   a. At least annually.
   b. Only if there has been an event or change in circumstance indicating an impairment.
   c. Only if the undiscounted cash flows are less than net book value.
   d. Only if the discounted cash flows are less than net book value.

3. A definite life intangible should be tested for impairment:
   a. At least annually.
   b. Only if there has been an event or change in circumstance indicating an impairment.
   c. Only if the undiscounted cash flows are less than net book value.
   d. Only if the discounted cash flows are less than net book value.

4. An indefinite life intangible asset should be amortized:
   a. Over a period not to exceed 40 years.
   b. Over a period not to exceed 100 years.
   c. Over a period of the creator's life plus 40 years.
   d. Never.

5. Costs incurred internally to create intangibles are
   a. capitalized.
   b. capitalized if they have an indefinite life.
   c. expensed as incurred.
   d. expensed only if they have a limited life.
6. The cost of purchasing patent rights for a product that might otherwise have seriously competed with one of the purchaser's patented products should be
   a. charged off in the current period.
   b. amortized over the legal life of the purchased patent.
   c. added to factory overhead and allocated to production of the purchaser's product.
   d. amortized over the remaining estimated life of the original patent covering the product whose market would have been impaired by competition from the newly patented product.

7. Easton Company and Lofton Company were combined in a purchase transaction. Easton was able to acquire Lofton at a bargain price. The sum of the market or appraised values of identifiable assets acquired less the fair value of liabilities assumed exceeded the cost to Easton. After revaluing noncurrent assets to zero, there was still some "negative goodwill." Proper accounting treatment by Easton is to report the amount as
   a. an extraordinary gain.
   b. part of current income in the year of combination.
   c. a deferred credit and amortize it.
   d. paid-in capital.

8. The intangible asset goodwill may be
   a. capitalized only when purchased.
   b. capitalized either when purchased or created internally.
   c. capitalized only when created internally.
   d. written off directly to retained earnings.

9. Which of the following research and development related costs should be capitalized and amortized 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

10. Operating losses incurred during the start-up years of a new business should be
    a. accounted for and reported like the operating losses of any other business.
    b. written off directly against retained earnings.
    c. capitalized as a deferred charge and amortized over five years.
    d. capitalized as an intangible asset and amortized over a period not to exceed 20 years.
11. XYZ, Inc. has a note payable due in 6 months. They plan to refinance this note over a 10 year period and are currently negotiating with various banks to accomplish the refinancing. In the event that a suitable refinancing can not be executed, management will sell stock and use those proceeds to fully repay the debt.

a. The note should be classified as current on the balance sheet.
b. The note should be classified as long term on the balance sheet.
c. The note should be classified as current on the balance sheet until management completes the refinancing.
d. The note should be classified as equity on the balance sheet.

12. Which of the following is NOT an example of a contingent liability:

a. Warranty
b. Accrued payroll
c. Outstanding litigation against a company
d. Negotiation of a severance package for a terminated employee

13. Company A has guaranteed the debt of their joint venture partner. Which of the following statements is true:

a. Company A should record the liability as their own.
b. Company A should accrue a liability equal to the estimated fair value of the guarantee.
c. Company A should only accrue a liability if there is a probable loss which can be reasonably estimated.
d. Under no circumstance should Company A accrue a liability.

14. A contingent gain should be accrued when:

a. It is probable.
b. It is probable and estimable.
c. It is estimable
d. Never.
15. Sue Y. Arse has asserted $10,000,000 in damages and is suing XYZ, Inc. for wrongful termination, age discrimination, sexual harassment, gender discrimination, and car color discrimination (she believes the fact that her car was red in color contributed to her termination). Management asserts that she was terminated because after 20 warnings, she continued to skip two days of work per week, and arrived two hours late and left 2 hours early on the days that she did show up, in her nightgown and slippers. While corporate counsel contends that management has a strong case, management intends to pay a settlement to Sue in the amount of $10,000 which their attorney believes is probable of acceptance in full settlement. Which statement below is most appropriate:

a. XYZ should accrue a liability in the amount of $10,000.
b. XYZ should accrue a liability in the amount of $10,000,000.
c. XYZ should not accrue any liability.
d. XYZ should spend $50,000 defending themselves against this ridiculous action as a matter of principle.

16. Liabilities are
a. any accounts having credit balances after closing entries are made.
b. deferred credits that are recognized and measured in conformity with generally accepted accounting principles.
c. obligations to transfer ownership shares to other entities in the future.
d. obligations arising from past transactions and payable in assets or services in the future.

17. Which of the following may be a current liability?
   a. Withheld Income Taxes
   b. Deposits Received from Customers
   c. Deferred Revenue
   d. All of these

18. A company pays for goods by issuing a 5 year note payable in the amount of $100,000 and bearing interest at 1%. A bank would lend them the money under the circumstances at a rate of 8%. Which of the following statements is most accurate?

a. The purchase price of the goods for accounting purposes is more than $100,000.
b. The purchase price of the goods for accounting purposes is $100,000.
c. The purchase price of the goods for accounting purposes is less than $100,000.
d. Accounting should reflect the transaction based on the legal form over the substance of the transaction.
19. When computing the interest expense for a bond which sold at a
discount, the interest rate and principal outstanding to be used
should be:

a. The stated rate of interest and the face value of the bonds,
   adjusted by the original discount recorded.
b. The stated rate of interest and the face value of the bonds.
c. The market rate of interest and the face value of the bonds.
d. The market rate of interest and the net balance of the bonds
   face value adjusted for any unamortized discount.

20. When the market rate of interest exceeds the stated rate on bonds,
those bonds:

a. Will not be able to be sold because the market would demand a
   higher rate than the bonds pay.
b. Would sell at a premium.
c. Would sell at a discount.
d. Would sell at face value.

21. Gain or loss from the early extinguishment of long-term debt should
always be recorded as an "extraordinary item" in the income
statement.

a. True
b. False

22. When a Company incurs debt, the costs they pay to an outside party
in connection with the raising of the debt should:

a. Be treated as an expense in the period incurred.
b. Be treated as a direct charge to equity.
c. Be capitalized on the balance sheet and amortized over the life
   of the associated debt.
d. Be capitalized on the balance sheet and expensed when paid to
   the party to whom it is payable.

23. The term used for bonds that are unsecured as to principal is
a. junk bonds.
b. debenture bonds.
c. indebenture bonds.
d. callable bonds.

24. The rate of interest actually earned by bondholders is called the
a. stated rate.
b. yield rate.
c. effective rate.
d. effective, yield, or market rate.
25. Stone, Inc. issued bonds with a maturity amount of $200,000 and a maturity ten years from date of issue. If the bonds were issued at a premium, this indicates that
   a. the effective yield or market rate of interest exceeded the (stated) nominal rate.
   b. the nominal rate of interest exceeded the market rate.
   c. the market and nominal rates coincided.
   d. no necessary relationship exists between the two rates.

26. Under what circumstances can a note which is due in less than 12 months from a balance sheet date be classified as current on the balance sheet? One of your responses should include the word "ability" please elaborate briefly to describe what constitutes such ability.

27. Acquiror, Inc. purchased Bought, Inc. for: $5,000,000

As a result of the acquisition, Acquiror obtained all of the assets and assumed all of the liabilities of Bought, Inc. The following represents the balance sheet of Bought, Inc., at cost and fair value, on the date of the acquisition:

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivable</td>
<td>50,000</td>
<td>50,000</td>
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<tr>
<td>Inventory</td>
<td>400,000</td>
<td>450,000</td>
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<tr>
<td>Fixed assets, net</td>
<td>600,000</td>
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<tr>
<td>Intangible- customer lists</td>
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<td>Accounts payable</td>
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</tr>
<tr>
<td>Equity</td>
<td>125,000</td>
<td>2,775,000</td>
</tr>
</tbody>
</table>

I. Compute any goodwill resulting from the transaction.

II. Present the journal entry to record the purchase by Acquiror, Inc.

III. Indicate the proper means of amortizing the goodwill under GAAP.

IV. Assume that the business is a "reporting unit". Management has estimated the fair value of the reporting unit to be $5,300,000 and is testing for impairment. The balance sheet is as follows on the date of the impairment test:

<table>
<thead>
<tr>
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<tr>
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<td>Equity</td>
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</tr>
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</table>

Is the goodwill impaired? If yes, compute the amount of the impairment and show the associated journal entry. If not, state so and show any computations necessary to support your answer.
28. FinanceSales, Inc. sold equipment to Buyer, Inc. and agreed to a price of $120,000 due in three years with interest payable annually at 6% until maturity. The proper market rate for this arrangement is 12%. Compute the proper entry to record on the date of the transaction, as well as at the end of each of the three years outstanding. (ROUND TO NEAREST DOLLAR, AND USE ALL DECIMALS PROVIDED IN PV FACTORS BELOW)

PV of annuity at 12% for 3 periods 2.40183
PV of annuity at 1% for 36 periods 30.10751
PV of annuity at 6% for 3 periods 2.67301
PV of annuity at .5% for 36 periods 32.87102

PV of lump sum at 12% for 3 periods 0.71178
PV of lump sum at 1% for 36 periods 0.69892
PV of lump sum at 6% for 3 periods 0.83962
PV of lump sum at .5% for 36 periods 0.83564
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</tbody>
</table>
26. 1) If management has the **intent** and **ability** to refinance the obligation to long term.

ABILITY is evidenced by either (a) an actual refinancing has been completed or (b) a lender has committed to the refinancing.

2) If the note will be repaid with the proceeds from a long term asset or equity transaction.
As a result of the acquisition, Acquiror obtained all of the assets and assumed all of the liabilities of Bought, Inc. The following represents the balance sheet of Bought, Inc., at cost and fair value, on the date of the acquisition:

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</tr>
<tr>
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<td>125,000</td>
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</tr>
</tbody>
</table>

II. Present the journal entry to record the transaction by Acquiror, Inc.

 Accounts receivable 50,000
 Inventory 450,000
 Fixed assets, net 700,000
 Intangible- customer lists 2,500,000
 Accounts payable 375,000
 Debt 550,000
 Cash $5,000,000
 Goodwill $2,225,000

III. Indicate the proper means of amortizing the goodwill under GAAP.

WE DO NOT AMORTIZE GOODWILL. $0.00

IV. Assume that the business is a "reporting unit". Management has estimated the fair value of the reporting unit to be $5,300,000 and is testing for impairment. The balance sheet is as follows on the date of the impairment test:

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<td>2,450,000</td>
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<tr>
<td>Goodwill</td>
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<tr>
<td>Accounts payable</td>
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<td>Debt</td>
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<td>500,000</td>
</tr>
<tr>
<td>Equity</td>
<td>5,165,000</td>
<td>???</td>
</tr>
</tbody>
</table>

Unnecessary as there is no impairment

Is there an impairment? If yes, compute the amount of the impairment and show the associated journal entry.

THERE IS NO IMPAIRMENT AS THE FAIR VALUE OF THE REPORTING UNIT EXCEEDS ITS NBV:

FAIR VALUE 5,300,000
NBV 5,165,000
Excess of NBV over FV 135,000
FinanceSales, Inc. sold equipment to Buyer, Inc. and agreed to a price of $120,000 due in three years with interest payable annually at 6% until maturity. The proper market rate for this arrangement is 12%. Compute the proper entry to record on the date of the transaction, as well as at the end of each of the three years outstanding. (ROUND TO NEAREST DOLLAR, AND USE ALL DECIMALS PROVIDED IN PV FACTORS BELOW)

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PV of lump sum at 6% for 3 periods 0.83962
PV of lump sum at .5% for 36 periods 0.83564

ANNUAL INTEREST PAYMENT =6% * 120,000 7,200

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<th>FACTOR</th>
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<tr>
<td>PV of maturity 120,000</td>
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<tr>
<td>PV OF TRANSACTION</td>
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</tbody>
</table>

JE DATE OF TRANSACTION:

Equipment 102,707
Notge payable 120,000
Discount/ Def financing 17,293

JE END 1ST YEAR:
Interest expense 12,325
Cash 7,200
Discount/ Def Financing 5,125

JE END 2ND YEAR:
Interest expense 12,940
Cash 7,200
Discount/ Def Financing 5,740

JE END 3RD YEAR:
Interest expense 13,629
Cash 7,200
Discount/ Def Financing 6,429
Note payable 120,000
Cash 120,000