Complete questions #1-25 (multiple choice) on green scantron and the remaining questions in your blue-book.

1. A note which matures in 6 months from the balance sheet date may be classified as current if management intends to refinance the note with long term terms:
   a. true if management has either obtained a noncancelable commitment from a lender OR has completed the refinancing before the financial statements are issued.
   b. only true if management has obtained a noncancelable commitment from a lender.
   c. only true if management has completed the refinancing before the financial statements are issued.
   d. true

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

3. The ability to consummate the refinancing of a short-term obligation may be demonstrated by
   a. all of these.
   b. entering into a financing agreement that permits the enterprise to refinance the debt on a long-term basis.
   c. actually refinancing the obligation by issuing equity securities after the date of the balance sheet but before it is issued.
   d. actually refinancing the obligation by issuing a long-term obligation after the date of the balance sheet but before it is issued.
4. Debt of $120,000 which matured 4 months after the December 31 balance sheet date was repaid in full 2 months after the balance sheet date, but before the financial statements were issued. Assuming the financial statements are issued March 31 of the subsequent year, how should this debt be presented on the balance sheet as of the balance sheet date?

a. No debt outstanding as of the balance sheet date.
b. Current debt $120,000
c. Current maturities of long term debt $120,000
d. Long term debt $120,000

5. XYZ, Inc. has purchased an intangible asset which expires in 2 years, but may be automatically renewed at that time for an additional 10 years. XYZ fully expects to renew the intangible upon the two year initial expiration. What period should this intangible be amortized over?

a. 12 years
b. 2 years
c. 10 years
d. Do not amortize

6. When a business is acquired for a purchase price which is less than the fair value of all identifiable assets of a business, this should result in:

a. Badwill
b. Extraordinary gain
c. Goodwill
d. A non amortizing intangible asset

7. The cost of an intangible asset includes all of the following except

a. All of these are included.
b. legal fees.
c. other incidental expenses.
d. purchase price.

8. Alatorre purchased a patent from Vania Co. for $1,500,000 on January 1, 2006. The patent is being amortized over its remaining legal life of 10 years, expiring on January 1, 2016. During 2007, Alatorre determined that the economic benefits of the patent would not last longer than 5 years from the date of acquisition. What amount should the patent be reported at, net of accumulated amortization as of December 31, 2007?

a. 1,200,000
b. 1,012,500
c. 1,500,000
d. 0
9. Alatorre purchased a patent from Vania Co. for $1,500,000 on January 1, 2006. The patent is being amortized over its remaining legal life of 10 years, expiring on January 1, 2016. During 2007, Alatorre determined that the economic benefits of the patent would not last longer than 5 years from the date of acquisition. What amount of amortization expense should be reported for the year ended December 31, 2007?

a. 337,500  
b. 300,000  
c. 150,000  
d. 0

10. If an account payable with terms 2/10n30 was recorded using the net method, the cash payment of $10,000 for this payable within 5 days of the invoice date would:

a. Debit accounts payable $9,800  
b. Result in recording of a discount lost  
c. Debit accounts payable $10,000  
d. Result in recording a discount taken

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

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

12. 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 $10,000,000.  
b. XYZ should not accrue any liability.  
c. XYZ should accrue a liability in the amount of $10,000.  
d. XYZ should spend $50,000 defending themselves against this ridiculous action as a matter of principle.
13. Factors considered in determining an intangible asset's useful life include all of the following except
   a. the amortization method used.
   b. any legal or contractual provisions that may limit the useful life.
   c. any provisions for renewal or extension of the asset's legal life.
   d. the expected use of the asset.

14. Wriglee, Inc. went to court this year and successfully defended its patent from infringement by a competitor. The cost of this defense should be charged to
   a. patents and amortized over the remaining useful life of the patent.
   b. legal fees and amortized over 5 years or less.
   c. patents and amortized over the legal life of the patent.
   d. expenses of the period.

15. Which of the following methods of amortization is normally used for intangible assets?
   a. Double-declining-balance
   b. Units of production
   c. Straight-line
   d. Sum-of-the-years'-digits

16. Costs incurred internally to create intangibles are
   a. expensed only if they have a limited life.
   b. capitalized if they have an indefinite life.
   c. capitalized.
   d. expensed as incurred.

17. Discounts and premiums on notes payable and receivable may be amortized using a straight line method. Choose the best description of this statement from the following:
   a. False, unless the result is materially different from an effective interest method.
   b. False
   c. True
   d. True, if the result is materially consistent with an effective interest method.

18. Which of the following is the proper way to report a gain contingency?
   a. As a disclosure only
   b. As deferred revenue
   c. As an accrued amount
   d. As an account receivable with additional disclosure explaining the nature of the contingency
19. SOP 98-5 requires the immediate expensing of:

a. Fines and penalties  
b. Indefinite life intangible assets  
c. Customer mailing lists  
d. Organizational costs

20. Accrued liabilities are disclosed in financial statements by

a. appropriately classifying them as regular liabilities in the balance sheet.  
b. showing the amount among the liabilities but not extending it to the liability total.  
c. a footnote to the statements.  
d. an appropriation of retained earnings.

21. If a definite-life intangible asset has been subject to an event or circumstance indicating possible impairment:

a. Both (a) and (c).  
b. A discounted cash flow analysis should be performed in connection with the first step of impairment testing.  
c. An undiscounted cash flow analysis should be performed in connection with the first step of impairment testing.  
d. If an undiscounted cash flow analysis indicates that the undiscounted cash flows are less than the net book value of the subject asset, then an impairment has been deemed to have occurred.

22. Liabilities are

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

23. If an intangible asset is being amortized over a definite life, the following is true:

a. Impairment testing is required only if the auditor deems it to be necessary.  
b. Impairment testing is required to be performed on an annual basis.  
c. Impairment testing is required whenever there is an event or change in circumstances indicating a possible impairment.  
d. Impairment testing is never required.
24. A contingent gain should be accrued when:
   a. Never.
   b. It is probable and estimable.
   c. It is probable.
   d. It is estimable

25. You just purchased a business and as part of the acquisition now own an intangible asset with an indefinite useful life. This intangible asset should be:
   a. capitalized, amortized, and tested for impairment annually;
   b. expensed in connection with the acquisition;
   c. capitalized, not amortized and tested for impairment at least annually.
   d. capitalized, not amortized and tested for impairment only if there is an event or circumstance indicating a possibility of impairment.
26. Acquiror, Inc. purchased Bought, Inc. for: $ 4,000,000

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:

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<td>-</td>
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<tr>
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</tr>
<tr>
<td>Equity</td>
<td>275,000</td>
<td>2,225,000</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.

27. Acquiror, Inc. purchased Bought, Inc. in a prior year and they track Bought as a separate reporting unit. In connection with their impairment testing, they have estimated the following:

Estimated value of the reporting unit is $ 5,000,000
The net book value of the reporting unit is:

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I. Based upon the information above, there is an impairment and further computation is required. Briefly support this assertion.

II. Compute any goodwill impairment.

III. Record the goodwill impairment in a journal entry.

IV. Record all journal entries which would be required if the fair value of the customer mailing lists were $1,500,000?
28. We sold goods to a customer for $200,000 payable in two years and with interest at 0%. Using a reasonable rate of 8% for discounting, the present value of the transaction is determined to be $171,468. Assuming that the difference between straight line and effective interest amortization is immaterial, please record the sale (ignore COS) and entries required at the end of the 1st and 2nd years (include the payment at the end of the 2nd year).

USE "DEFERRED FINANCING FEE" ACCOUNT TO REFLECT DIFFERENCE BETWEEN $200K FACE VALUE AND PRESENT VALUE.

29. Payroll was last paid one week before the end of the year. In connection with “closing the books” we need to accrue one week payroll. Relevant data for this accrual is as follows:

- One week salary to accrue is $100,000
- Federal withholding from employees is 15%
- State withholding from employees is 5%
- Social Security and Medicare withholding from employees is 7.5%
- EMPLOYER Social Security and Medicare tax is 7.5%
- EMPLOYER pays $8,000/month for employee medical insurance.
- NONE of the withholdings, taxes or insurance premiums are paid until sometime after year-end.

What journal entry is necessary to accrue all costs and liabilities related to payroll. NOTE: In your journal entry, please combine the “payroll” with any employer taxes or other employer payments into one account titled: “Payroll & related expenses”. Also, combine any payable for social security and medicare into one line.

30. JOURNAL ENTRIES: For each item below, record the appropriate journal entry:

A. Sell goods on credit for $100,000 excluding sales taxes, and also cash sales where you collected $53,500 including sales taxes. The sales tax rate is 7%.

B. Pay $200,000 to an outside consultant for expert scientific analysis in connection with the research and development of a vaccine.

C. A lawsuit has been filed against the company which seeks to recover $500,000 in damages. The attorneys indicate that any loss from the lawsuit is remote.

D. Same as C above, except the attorneys indicate that a loss is probable but can not estimate how much.

E. Same as C above, except the attorneys indicate that a loss is probable for an estimated $25,000.

F. We are suing a competitor for infringement upon our patented technology. Our attorneys indicate that it is probable that we will recover $1,000,000 from the lawsuit.
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<th>Ref</th>
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* Multiple Choice Foils are Jumbled
* Test Questions are Scrambled
26. Acquiror, Inc. purchased Bought, Inc. for: $ 4,000,000

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:

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</table>

I. Compute any goodwill resulting from the transaction.

- Purchase price $ 4,000,000
- Fair value of identifiable assets 2,225,000

GOODWILL $ 1,775,000

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

- Accounts receivable 25,000
- Inventory 300,000
- Fixed assets, net 1,200,000
- Intangible- customer lists 1,700,000
- Goodwill $ 1,775,000

- Accounts payable 400,000
- Debt 600,000
- Cash $ 4,000,000

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

We do NOT amortize goodwill.
27.
Acquiror, Inc. purchased Bought, Inc. in a prior year and they track Bought as a separate reporting unit. In connection with their impairment testing, they have estimated the following:

Estimated value of the reporting unit is $ 5,000,000
The net book value of the reporting unit is:

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Fair value of identifiable assets less liabilities 2,250,000
Value of reporting unit $ 5,000,000

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<td>Implied goodwill value</td>
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<td>Goodwill impairment</td>
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</table>

I. Based upon the information above, there is an impairment and further computation is required. Briefly support this assertion.

The NBV of the reporting unit is $5,225,000 which exceeds the estimated fair value of the reporting unit, hence the goodwill is impaired.

II. Compute any goodwill impairment.

Fair value of identifiable assets less liabilities 2,250,000
Value of reporting unit $ 5,000,000

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III. Record the goodwill impairment in a journal entry.

Impairment expense 250,000

<table>
<thead>
<tr>
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IV. Record all journal entries which would be required if the fair value of the customer mailing lists were $1,500,000?

Impairment expense 200,000

<table>
<thead>
<tr>
<th>Accumulated amortization</th>
<th>200,000</th>
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To record the impairment of the customer mailing list.
(HENCE, 200K OF THE 250K IMPAIRMENT IS NOT RELATED TO GOODWILL)

Impairment expense 50,000

<table>
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To record the impairment to goodwill.
28. We sold goods to a customer for $200,000 payable in two years and with interest at 0%. Using a reasonable rate of 8% for discounting, the present value of the transaction is determined to be $171,468. Assuming that the difference between straight line and effective interest amortization is immaterial, please record the sale (ignore COS) and entries required at the end of the 1st and second years (include the payment at the end of the 2nd year).

USE "DEFERRED FINANCING FEE" ACCOUNT TO REFLECT DIFFERENCE BETWEEN $200K FACE VALUE AND PRESENT VALUE.

**SALE DATE:**

- Note receivable 200,000
- Sales 171,468
- Deferred financing fee 28,532

**END YEAR ONE:**

- Deferred financing fee 14,266
- Interest income 14,266

**END YEAR TWO:**

- Deferred financing fee 14,266
- Cash 200,000
- Interest income 14,266
- Note receivable 200,000
29. Solution:

Payroll and related expenses  109,500
  Federal withholding payable  15,000
  State withholding payable     5,000
  Social security & Medicare payable  15,000
  Healthcare payable  2,000
  Wages payable    72,500
30. Solution:

A  Accounts receivable  107,000
Sales    100,000
Sales tax payable    7,000
Cash    53,500
Sales    50,000
Sales tax payable    3,500

B  R&D expense    200,000
Cash    200,000

C  No entry

D  No entry

E  Lawsuit expense    25,000
Accrued lawsuit liability 25,000

F  No entry
Complete questions #1-25 (multiple choice) on green scantron and the remaining questions in your blue-book.

1. You just purchased a business and as part of the acquisition now own an intangible asset with an indefinite useful life. This intangible asset should be:

   a. capitalized, amortized, and tested for impairment annually;
   b. expensed in connection with the acquisition;
   c. capitalized, not amortized and tested for impairment at least annually.
   d. capitalized, not amortized and tested for impairment only if there is an even or circumstance indicating a possibility of impairment.

2. A note which matures in 6 months from the balance sheet date may be classified as current if management intends to refinance the note with long term terms:

   a. true if management has either obtained a noncancelable commitment from a lender OR has completed the refinancing before the financial statements are issued.
   b. only true if management has obtained a noncancelable commitment from a lender.
   c. true
   d. only true if management has completed the refinancing before the financial statements are issued.

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

4. If an account payable with terms 2/10n30 was recorded using the net method, the cash payment of $10,000 for this payable within 5 days of the invoice date would:

   a. Result in recording a discount taken
   b. Debit accounts payable $9,800
   c. Debit accounts payable $10,000
   d. Result in recording of a discount lost
5. If an intangible asset is being amortized over a definite life, the following is true:

a. Impairment testing is required whenever there is an event or change in circumstances indicating a possible impairment.
b. Impairment testing is required to be performed on an annual basis.
c. Impairment testing is required only if the auditor deems it to be necessary.
d. Impairment testing is never required.

6. Accrued liabilities are disclosed in financial statements by
a. showing the amount among the liabilities but not extending it to the liability total.
b. an appropriation of retained earnings.
c. appropriately classifying them as regular liabilities in the balance sheet.
d. a footnote to the statements.

7. Debt of $120,000 which matured 4 months after the December 31 balance sheet date was repaid in full 2 months after the balance sheet date, but before the financial statements were issued. Assuming the financial statements are issued March 31 of the subsequent year, how should this debt be presented on the balance sheet as of the balance sheet date?

a. Current maturities of long term debt $120,000
b. Current debt $120,000
c. Long term debt $120,000
d. No debt outstanding as of the balance sheet date.

8. The ability to consummate the refinancing of a short-term obligation may be demonstrated by
a. entering into a financing agreement that permits the enterprise to refinance the debt on a long-term basis.
b. actually refinancing the obligation by issuing equity securities after the date of the balance sheet but before it is issued.
c. all of these.
d. actually refinancing the obligation by issuing a long-term obligation after the date of the balance sheet but before it is issued.

9. Which of the following methods of amortization is normally used for intangible assets?
   a. Straight-line
   b. Units of production
   c. Double-declining-balance
   d. Sum-of-the-years'-digits
10. Company A has guaranteed the debt of their joint venture partner. Which of the following statements is true:
   a. Company A should accrue a liability equal to the estimated fair value of the guarantee.
   b. Company A should only accrue a liability if there is a probable loss which can be reasonably estimated.
   c. Under no circumstance should Company A accrue a liability.
   d. Company A should record the liability as their own.

11. XYZ, Inc. has purchased an intangible asset which expires in 2 years, but may be automatically renewed at that time for an additional 10 years. XYZ fully expects to renew the intangible upon the two year initial expiration. What period should this intangible be amortized over?
   a. 2 years
   b. 10 years
   c. 12 years
   d. Do not amortize

12. A contingent gain should be accrued when:
   a. It is probable and estimable.
   b. It is estimable
   c. Never.
   d. It is probable.

13. If a definite-life intangible asset has been subject to an event or circumstance indicating possible impairment:
   a. A discounted cash flow analysis should be performed in connection with the first step of impairment testing.
   b. If an undiscounted cash flow analysis indicates that the undiscounted cash flows are less than the net book value of the subject asset, then an impairment has been deemed to have occurred.
   c. Both (a) and (c).
   d. An undiscounted cash flow analysis should be performed in connection with the first step of impairment testing.

14. Alatorre purchased a patent from Vania Co. for $1,500,000 on January 1, 2006. The patent is being amortized over its remaining legal life of 10 years, expiring on January 1, 2016. During 2007, Alatorre determined that the economic benefits of the patent would not last longer than 5 years from the date of acquisition. What amount should the patent be reported at, net of accumulated amortization as of December 31, 2007?
   a. 1,012,500
   b. 1,200,000
   c. 1,500,000
   d. 0
15. 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 long term on the balance sheet.
   b. The note should be classified as current on the balance sheet until management completes the refinancing.
   c. The note should be classified as equity on the balance sheet.
   d. The note should be classified as current on the balance sheet.

16. When a business is acquired for a purchase price which is less than the fair value of all identifiable assets of a business, this should result in:

   a. Extraordinary gain
   b. Badwill
   c. Goodwill
   d. A non amortizing intangible asset

17. Alatorre purchased a patent from Vania Co. for $1,500,000 on January 1, 2006. The patent is being amortized over its remaining legal life of 10 years, expiring on January 1, 2016. During 2007, Alatorre determined that the economic benefits of the patent would not last longer than 5 years from the date of acquisition. What amount of amortization expense should be reported for the year ended December 31, 2007?

   a. 337,500
   b. 300,000
   c. 0
   d. 150,000

18. Wriglee, Inc. went to court this year and successfully defended its patent from infringement by a competitor. The cost of this defense should be charged to

   a. legal fees and amortized over 5 years or less.
   b. expenses of the period.
   c. patents and amortized over the remaining useful life of the patent.
   d. patents and amortized over the legal life of the patent.

19. Discounts and premiums on notes payable and receivable may be amortized using a straight line method. Choose the best description of this statement from the following:

   a. True, if the result is materially consistent with an effective interest method.
   b. False
   c. True
   d. False, unless the result is materially different from an effective interest method.
20. Which of the following is the proper way to report a gain contingency?
   a. As deferred revenue
   b. As an account receivable with additional disclosure explaining the nature of the contingency
   c. As a disclosure only
   d. As an accrued amount

21. Costs incurred internally to create intangibles are
   a. expensed as incurred.
   b. expensed only if they have a limited life.
   c. capitalized.
   d. capitalized if they have an indefinite life.

22. SOP 98-5 requires the immediate expensing of:
   a. Organizational costs
   b. Fines and penalties
   c. Customer mailing lists
   d. Indefinite life intangible assets

23. The cost of an intangible asset includes all of the following except
   a. other incidental expenses.
   b. All of these are included.
   c. purchase price.
   d. legal fees.

24. Factors considered in determining an intangible asset's useful life include all of the following except
   a. any provisions for renewal or extension of the asset's legal life.
   b. the amortization method used.
   c. the expected use of the asset.
   d. any legal or contractual provisions that may limit the useful life.

25. 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 not accrue any liability.
   b. XYZ should spend $50,000 defending themselves against this ridiculous action as a matter of principle.
   c. XYZ should accrue a liability in the amount of $10,000.
   d. XYZ should accrue a liability in the amount of $10,000,000.
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* Multiple Choice Foils are Jumbled
* Test Questions are Scrambled