# Exit Model Exam 2017 - Answers and Explanations

## 1. Which of the following is not a characteristic of a good tax system?

Answer: **A. Direct benefit to taxpayers**

Explanation: A good tax system should be fair, efficient, and provide revenue for the government. However, taxes do not always provide direct benefits to taxpayers; rather, they fund public goods and services.

## 2. The inventory of Chang Company was destroyed by fire on March 1, 2022. From an examination of the accounting records, the following data for the first 2 months of the year are obtained: net sales of $330,000 and beginning inventory $50,000, net purchased $180,000 and the gross profit rate 35%. What would be the estimated cost of the ending inventory destroyed by fire?

Answer: **B. $35,000**

Explanation: Using the gross profit method:  
- Gross profit = 35% of sales = $330,000 × 0.35 = $115,500  
- Cost of goods sold = Sales - Gross profit = $330,000 - $115,500 = $214,500  
- Goods available for sale = Beginning inventory + Net purchases = $50,000 + $180,000 = $230,000  
- Estimated ending inventory = Goods available for sale - Cost of goods sold = $230,000 - $214,500 = $35,000

## 3. Which of these accounts would not be present in the closing entries?

Answer: **A. Dividends Payable**

Explanation: Closing entries involve temporary accounts such as revenues and expenses. Dividends Payable is a liability and is not closed.

## 4. Future cost of a dream car:

Answer: **C. $99,517.41**

Explanation: Future value formula:   
FV = PV (1 + r)^t  
= 82,500 (1.048)^4 = 99,517.41

## 5. Business enterprises in a business combination are termed the:

Answer: **C. Constituent companies**

Explanation: Companies involved in mergers or acquisitions are referred to as constituent companies.