Name: Answer Key Ver A

ACCT 2101 – Dr. J. M. Turner, CPA
Exam #4 Spring 2013

INSTRUCTIONS – Please read before you take the exam. Failure to follow instructions will result in the loss of points.

1. This is a closed book and closed notes exam. You must do your own work without assistance from anyone. Giving or receiving assistance from anyone during the exam will result in a grade of zero and reporting to the Office of Student Integrity. To attest to your compliance with this instruction and the Georgia Tech honor system, please sign the honor pledge below before turning in your exam.
2. DO NOT TAKE THE EXAM APART FOR ANY REASON.
3. To treat all students equally, I do not answer questions during an exam. Answer each question based on the information given. If you think there is a typing error, please let me know.
4. You may use only a calculator supplied by me. You may not use your cell phone or personal computer during the exam. All cell phones must be turned off and placed on the top of your desk in plain view at all times during the exam. Use of your cell phone during the exam is considered cheating and a violation of the Honor System.
5. Each multiple-choice question has only one best answer. If you choose more than one answer, it will be considered an incorrect answer. Enter your answer to the multiple choice questions on the Scantron sheet provided. What you enter on the Scantron sheet is your answer for grading purposes. Please totally erase changes on the Scantron or get a clean Scantron form and re-enter your answers. Insert your Scantron form inside of this exam when you turn it in.
6. There are 8 pages (front and back) in this exam. Points available are as follows:

Multiple choice – 15 @ 2 points each	30
Terminology matching – 12 @ 2 points each	24
Problem (1)	45
Total available points	99

Grades will be expressed as a percentage of total available points.

Honor Pledge:
On my honor, I pledge that I have neither given nor received any unauthorized help on this exam.

____
(Signed)

If you do not want your graded exam returned to the grading bins for this class, please sign below. If you sign below, your exam will not be placed in the bins for this class. Otherwise, graded exams will be returned to the bins for this class.

Do not return my graded exam to the bin:______________________________

B 1. Gilbert Company made an ordinary repair to a delivery truck during 2010 at a cost of $500 and capitalized the repair cost. What will be the effect on the 2010 financial statements as a result of the capitalization?

A. The financial statements aren't affected.
B. Assets and net income are both overstated.
C. Assets are overstated and net income was understated.
D. Assets and stockholders' equity are both understated.

entry was
DR. Asset
CR. Cash

entry s/h/b
DR Exp.
CR. Cash

C 2. GT Company sold a used piece of equipment for cash of $17,000. The equipment was purchased several years ago and the total capitalized cost was $68,000. At the date of sale, accumulated depreciation on the asset was $42,000. The sale resulted in a gain or (loss) of how much?

A. $17,000 gain
B. ($51,000) loss
C. ($9,000) loss
D. $9,000 gain

Cost	68.000
Accum depr.	42.000
NBV	26.000
Selling Price	17.000
− NBV	−26.000
loss	(9.000)

C 3. NATS Company owns an asset that while still in good operating condition has become nearly obsolete due to new technology available on newer models. At the end of the company's fiscal year, the asset's carrying value or net book value was $16,000, but based on its limited usefulness, the company expects that future cash flows that can be generated by machine total only $8,500. Company management has identified a buyer who is willing to pay $4,800 for the machine. Based on her study of the rules of asset impairment, the company's accountant thinks the asset is impaired and should be written down. How much, if any, impairment loss should be booked by NATS Company at year-end?

A. $0 – No loss is recognized until the company actually disposes of the machine at a loss.
B. $7,500 loss on impairment
C. $11,200 loss on impairment
D. $3,700 loss on impairment

step1 Impairment exists if NBV > Exp CF's.
16.000 > 8,500

step2 - If impaired - loss = CV − Fair Value
16,000 − 4800 = 11.200

C 4. Which of the following types of expenditures would not be considered a capital expenditure?

A. Costs incurred to enlarge the physical layout of a company's manufacturing facility by adding a new wing to the building.
B. Costs to upgrade the air conditioning system in a building that required major replacement of electrical wiring throughout the building
C. Cost to change the oil in aircraft engines, replacing lights in the control panels, and fixing torn fabric in passenger seats on a corporate jet owned by a business.
D. Costs incurred to modify manufacturing equipment that increased operating efficiency by more than 75%.

C 5. THWG Mining, Inc. purchased a new supersized truck to haul large quantities of ore at one of its sites. The cost of the truck was $950,000 and was paid in cash. In addition to the purchase price, THWG paid shipping and delivery expenses of $15,000. After accepting delivery, THWG paid $3,500 for testing of the truck to ensure that it would operate as expected. THWG purchased liability insurance to cover any unforeseen accidents that might happen involving the truck. THWG paid $6,000 for 12 months of liability insurance coverage. What is the capitalized cost of the truck?

A. $950,000
B. $965,000
C. $968,500
D. $974,500

Acq. cost includes all costs to acquire and prepare an asset for use. It d/n include insurance since that is paid to provide hedge against risk — not to acquire or prepare asset for use.

Acq. cost = $950.000 + 15.000 + 3500 = $968.500

C 6. Intangible assets can be classified as those with an indefinite life and those with a definite life. Which of the following is correct about these two categories of intangible assets?

	Intangible assets with a definite life	Intangible assets with an indefinite life
A.	Book value is only adjusted for impairments	Book value is only adjusted for impairments
B.	Record at historical cost if developed internally	Record at historical cost if developed internally
C.	✓ Amortize over useful life	✓ Book value is only adjusted for impairments
D.	✓ Amortize over useful life	✗ Amortize over useful life

A 7. Selected information from the GTR Institute's most recent financial statements appears below. Based on this information, what is the company's quick ratio?

		Quick assets	Current liabilities
Sales	559,500		
Cash	169,000	169.000	
Accounts Payable	57,200		57.200
Wages Payable	200,400		200.400
Accounts Receivable	280,600	280,600	
Inventory	78,800		
Marketable Securities	27,900	27,900	
Prepaid expense	6,000		
Income Taxes Payable	56,700		56.700
Current portion of long term debt	20,000		20,000
Long term debt	380,000		
		477,500	334,300

A. 1.428
B. 1.682
C. 0.787
D. 0.677

$$QR = \frac{477.500}{334.300} = 1.428$$

B 8. The following information pertaining to the month of September was taken from the payroll records of the Harris Company.

Salaries	$24,000	24.000
FICA taxes (employees share)	1,836	- 1,836
FICA taxes (employers share)	1,836	
Federal and state income taxes withheld	5,280	- 5280
FUTA taxes	92	
		16.884

net to employee

What was the amount of cash paid to employees?
A. $15,048
B. $16,884
C. $14,956
D. $22,164

B 9. A contract calls for a lump sum payment of $15,000. Determine the present value of the contract, assuming that the payment is due in 5 years, and the current interest rate is 9 percent.
A. $58,346
B. $9,749
C. $9,669
D. $11,754

PV of $1, i = 9%, n = 5 = .6499
Future payment × $15.000
Present value $ 9748.50

C 10. Jerry owns a restaurant and has the opportunity to buy a high-quality espresso coffee machine for $5,000. After carefully studying projected cost and revenues, Jerry estimates that the machine will produce a net cash flow of $1,600 annually and will last for five years with no residual value. He determines that an interest rate of 10% is an adequate return on investment for his business. Calculate the net present value of the machine to Jerry.

A. $13,954
B. $6,065
C. $1,065
D. ($33)

PV of annuity $1, i = 10%, n = 5	3.7908
Annual CF	1600
PV of Future Cash flow	6065
Cost - initial investment	(5,000)
net present value	1,065

A 11. On the last day of October, Wicker Company borrows $120,000 on a bank note due in 90 days (3 months) at 11 percent interest. Interest is not included in the face amount. Assume that Wicker properly recorded the borrowed amount at October 31. If no payments have been made with respect to this loan, should a liability be recorded at Wicker's fiscal year end of December 31, and if so, what is the amount of the liability that should be recorded? Assume that each month has 30 days.

A. Yes, a liability should be recorded in the amount of $2,200
B. Yes, a liability should be recorded in the amount of $3,300
C. Yes, a liability should be recorded in the amount of $13,200
D. No. No additional amounts should be recorded until the loan plus interest is paid.

Accrued int s/b recorded @ 12/31
$120.000 X 11% X 2/12 = $2200

C 12. Blondie Corporation purchased a precision tool machine with computer controls that had a purchase price of $600,000. Blondie paid 40% of the purchase price in cash at the purchase date and agreed to pay 30% of the price 1 year later, and the remaining 30% of the price 2 years later, with no interest. Assuming that the prevailing interest rate for such a transaction is 12 percent, compounded annually, what is the capitalized cost of the machine?

A. 621,397
B. 600,000
C. 544,218
D. 720,344

Payments due		PV factor		PV
today	$240,000	x 1	=	240.000
in 1 yr.	180.000	x .8929	=	160.722
in 2 yr.	180.000	x .7972	=	143.496
				544.218

B 13 Which of the following correctly describes the accounting for leases?

A. A capital lease is not reported on the balance sheet as a liability.
B. A capital lease reports an asset on the balance sheet.
C. An operating lease reports an operating asset on the balance sheet.
D. An operating lease reports a liability on the balance sheet.

B 14. Young Company is involved in a lawsuit. When would the lawsuit be recorded as a liability on the balance sheet?

A. When the loss probability is remote and the amount can be reasonably estimated.
B. When the loss is probable and the amount can be reasonably estimated.
C. When the loss probability is reasonably possible and the amount can be reasonably estimated.
D. When the loss is probable regardless of whether the loss can be reasonably estimated.

Both conditions must be met.

D 15. Which of the following properly describes the accounting for goodwill?

A. Goodwill is created when it is internally generated.
B. Goodwill is amortized over its useful life.
C. Goodwill is the difference between the amounts paid for a company relative to the book value of the company's net assets.
D. Goodwill is written-down when it has been determined to be impaired.

Bonus Question (2 points): You may have concluded that Dr. Turner is a fan of NASCAR. Are you? For 1 point, name any current driver in NASCAR's premier Nextel Cup series, and for an additional point, give the number of that driver's car.

depends

Matching (2 points each) – Match the term with the phrase that best defines or describes it. Terms may be used only once. There are more terms than phrases so not all terms will be used.

A	Asset impairment
B	Annuity
C	Amortization
D	Acquisition cost
E	Accrued liabilities
F	Future value
G	Depreciation
H	Current liabilities
I	Contingent liability
J	Compound interest
K	Capital lease
L	Operating lease

M	Net book value
N	Long term liabilities
O	Liquidity
P	Interest
Q	Intangible assets
R	Unearned revenue
S	Time value of money
T	Tangible assets
U	Solvency
V	Residual value
W	Present value

L 1 A lease that results in rent expense as payments are made; total required payments are not recorded as a liability

B 2 A series of equal, periodic payments or cash receipts

Q 3 Assets that have special rights, but not physical substance.

M 4 The acquisition cost of an asset less accumulated depreciation.

V 5 The amount to be recovered by the company at the end of the asset's estimated useful life

P 6 The cost of using money for a specified time period

H 7 Debts and obligations that a company expects to satisfy within one year or within the current operating cycle, whichever is longer

E 8 Expenses that have been incurred but have not been paid at the end of the accounting period

R 9 Payments received in advance for goods or services that will not be delivered during the current accounting period

J 10 The interest cost for two or more periods when after each period, the interest of that period is added to the amount on which interest is computed in future periods

G 11 The process of allocating the cost of buildings and equipment over their productive lives.

C 12 The systematic and rational allocation of the acquisition cost of an intangible asset over its useful life

Problem (45 points) - You must show your work to receive full credit. Correct answers will not receive full credit unless your work is shown.

Peter Construction Company purchased a cement mixer on January 2, 2010, for $29,000. The mixer was expected to have a useful life of six years and a residual value of $2,000. The company's engineers estimated that the mixer would have a useful life of 15,750 hours. It was used for 3,000 hours in 2010, 5,250 hours in 2011, 4,500 hours in 2012, 1,500 hours in 2013, 750 hours in 2014, and 750 hours in 2015. The company's fiscal year ends on December 31.

Required

1. Compute the depreciation expense and accumulated depreciation for 2010 and 2011 and the net book value at December 31, 2011, using the following methods: (A) straight-line, (B) double-declining-balance, and (C) units of production. Enter your solutions in the table below and show your work below the table.

	Depreciation method		
	Straight-line	DDB	Units of Production
2010 depreciation expense	4500	9,667	5130
12/31/2010 accumulated depreciation	4500	9,667	5130
2011 depreciation expense	4500	6444	8978
12/31/2011 accumulated depreciation	9,000	16,111	14,108
Net book value 12/31/2011 Cost − Acc depr.	20,000	12,889	14,892

	Straight-line	DDB	Units of Production
Acquisition cost	29,000	29,000	29,000
− Residual value	−2,000	NA	−2,000
Depreciable cost	27,000	29,000	27,000
S/L rate 1/6 = .1667	x .1667	DDB rate 1/6 x 2 = .333	÷ 15,750 hrs
Annual S/L depr.	4,500	29,000 x .333	$ 1.71 / hr.

DDB:
dep yr. 1. 9,667
NBV BOY2 19,333
x .333
depr. yr. 2 6,438
or 6,444

Units of production:
2010 hrs.
3000 hrs
x $1.71
$5130

2011 hours
5250
x $1.71
$8977.50