**FINALS – FINANCIAL ACCOUNTING PART 2**

**MARCH 22, 2010**

1. Earnings per share disclosures are required only for

|  |  |
| --- | --- |
| a. | companies with complex capital structures. |
| b. | companies that change their capital structures during the reporting period. |
| **c.** | **public companies.** |
| d. | private companies. |

2. In computing the earnings per share of common stock, noncumulative preferred dividends **not** declared should be

|  |  |
| --- | --- |
| a. | deducted from the net income for the year. |
| b. | added to the net income for the year. |
| **c.** | **ignored.** |
| d. | deducted from the net income for the year, net of tax. |

3. Which earnings per share computation should be reported on the face of the income statement?

**Basic EPS Diluted EPS**

|  |  |
| --- | --- |
| **a.** | **Yes Yes** |
| b. | Yes No |
| c. | No Yes |
| d. | No No |

4. When computing earnings per share on common stock, dividends on cumulative, nonconvertible preferred stock should be

|  |  |
| --- | --- |
| a. | deducted from net income only if the dividends were declared or paid in the current period. |
| **b.** | **deducted from net income regardless of whether the dividends were not paid or declared in the period.** |
| c. | deducted from net income only if net income is greater than the dividends. |
| d. | ignored. |

5. In calculating diluted earnings per share, which of the following should **not** be considered?

|  |  |
| --- | --- |
| a. | The weighted average number of common shares outstanding |
| b. | The amount of dividends declared on cumulative preferred shares |
| **c.** | **The amount of cash dividends declared on common shares** |
| d. | The number of common shares resulting from the assumed conversion of debentures outstanding |

6. What is the correct treatment of a stock dividend issued in mid year when computing the weighted-average number of common shares outstanding for earnings per share purposes?

|  |  |
| --- | --- |
| a. | The stock dividend should be weighted by the length of time that the additional number of shares are outstanding during the period. |
| b. | The stock dividend should be included in the weighted-average number of common shares outstanding only if the additional shares result in a decrease of 3 percent or more in earnings per share. |
| **c.** | **The stock dividend should be weighted as if the additional shares were issued at the beginning of the year.** |
| d. | The stock dividend should be ignored since no additional capital was received. |

7. The EPS computation that is forward-looking and based on assumptions about future transactions is

|  |  |
| --- | --- |
| **a.** | **diluted EPS.** |
| b. | basic EPS. |
| c. | continuing operations EPS. |
| d. | extraordinary EPS. |

8. When computing diluted earnings per share, stock options are

|  |  |
| --- | --- |
| **a.** | **recognized only if they are dilutive.** |
| b. | recognized only if they are antidilutive. |
| c. | recognized only if they were exercised. |
| d. | ignored. |

9. Of the following, select the **incorrect** statement concerning earnings per share.

|  |  |
| --- | --- |
| a. | During periods when all income is paid out as dividends, earnings per share and dividends per share under a simple capital structure would be identical. |
| **b.** | **Under a simple capital structure, no adjustment to shares outstanding is necessary for a stock split on the last day of the fiscal period.** |
| c. | During a period, changes in stock issued or reacquired by a company may affect earnings per share. |
| d. | During a loss period, the amount of loss attributed to each share of common stock should be computed. |

10. In applying the treasury stock method of computing diluted earnings per share, when is it appropriate to use the average market price of common stock during the year as the assumed repurchase price?

|  |  |
| --- | --- |
| a. | Always |
| b. | Never |
| **c.** | **When the average market price is higher than the exercise price** |
| d. | When the average market price is lower than the exercise price |

11. Earnings per share information should be reported for all of the following **except**

|  |  |
| --- | --- |
| a. | continuing operations. |
| b. | extraordinary gain. |
| c. | net income. |
| **d.** | **cash flows from operating activities.** |

12. When using the if-converted method to compute diluted earnings per share, convertible securities should be

|  |  |
| --- | --- |
| a. | included only if antidilutive. |
| **b.** | **included only if dilutive.** |
| c. | included whether dilutive or not. |
| d. | not included. |

13. The if-converted method of computing EPS data assumes conversion of convertible securities at the

|  |  |
| --- | --- |
| **a.** | **beginning of the earliest period reported (or at time of issuance, if later).** |
| b. | beginning of the earliest period reported (regardless of time of issuance). |
| c. | middle of the earliest period reported (regardless of time of issuance). |
| d. | ending of the earliest period reported (regardless of time of issuance). |

14. According to *Statement of Financial Accounting Standards No. 131*, "Disclosures about Segments of an Enterprise and Related Information," how do firms identify reportable segments?

|  |  |
| --- | --- |
| a. | By geographic regions |
| b. | By product lines |
| c. | By industry classification |
| **d.** | **By designations used inside the firm** |

15. On February 1, Shoemaker Corporation entered into a firm commitment to purchase specialized equipment from the Okazaki Trading Company for ¥80,000,000 on April 1. Shoemaker would like to reduce the exchange rate risk that could increase the cost of the equipment in U.S. dollars by April 1, but Shoemaker is not sure which direction the exchange rate may move. What type of contract would protect Shoemaker from an unfavorable movement in the exchange rate while allowing them to benefit from a favorable movement in the exchange rate?

|  |  |
| --- | --- |
| a. | Interest rate swap |
| b. | Forward contract |
| **c.** | **Call option** |
| d. | Put option |

16. Which of the following tests may be used to determine if an industry segment of an enterprise is a reportable segment under FASB Statement No. 131?

|  |  |
| --- | --- |
| a. | Its revenue (both from external customers and internal segments) is equal to or greater than 10 percent of total revenue (external and internal). |
| b. | The absolute value of its operating profit is equal to or greater than 10 percent of the total of the operating profit for all segments that reported profits (or the total of the losses for all segments that reported losses). |
| c. | The segment contains 10 percent or more of the combined assets of all operating segments. |
| **d.** | **All of the above.** |

17. In considering interim financial reporting, how does APB Opinion No. 28 conclude that such reporting should be viewed?

|  |  |
| --- | --- |
| a. | As reporting for a basic accounting period |
| b. | As useful only if activity is evenly spread throughout the year so that estimates are unnecessary |
| c. | As a "special" type of reporting that need not follow generally accepted accounting principles |
| **d.** | **As reporting for an integral part of an annual period** |

18. A company enters into a futures contract with the intent of hedging an account payable of DM400,000 due on December 31. The contract requires that if the U.S. dollar value of DM400,000 is greater than $200,000 on December 31, the company will be required to pay the difference. Alternatively, if the U.S. dollar value is less than $200,000, the company will receive the difference. Which of the following statements is correct regarding this contract?

|  |  |
| --- | --- |
| a. | The Deutsche mark futures contract effectively hedges against the effect of exchange rate changes on the U.S. dollar value of the Deutsche mark payable. |
| b. | The futures contract is a contract to buy Deutsche marks at a fixed price. |
| **c.** | **The futures contract is a contract to sell Deutsche marks at a fixed price.** |
| d. | The contract obligates the company to pay if the value of the U.S. dollar increases. |

19. A company enters into a futures contract with the intent of hedging an expected purchase of some equipment from a German company for DM400,000 on December 31. The contract requires that if the U.S. dollar value of DM800,000 is greater than $400,000 on December 31, the company will receive the difference. Alternatively, if the U.S. dollar value is less than $400,000, the company will pay the difference. Which of the following statements is correct regarding this contract?

|  |  |
| --- | --- |
| a. | The Deutsche mark futures contract effectively hedges against the effect of exchange rate changes on the U.S. dollar value of the Deutsche mark commitment. |
| b. | The futures contract exceeds the amount of the commitment and thus hedges movements in the Deutsche mark exchange rate. |
| c. | The futures contract is a contract to sell Deutsche marks at a fixed price. |
| **d.** | **The extra DM400,000 would be accounted for as a speculative investment.** |

20. A company enters into an interest rate swap in order to hedge a $5,000,000 variable-rate loan. The loan is expected to be fully repaid this year on June 10. The contract requires that if the interest rate on April 30 of next year is greater than 11%, the company receives the difference on a principal amount of $5,000,000. Alternatively, if the interest rate is less than 11%, the company must pay the difference. Which of the following statements is correct regarding this contract?

|  |  |
| --- | --- |
| a. | The swap agreement effectively hedges the variable interest payments. |
| b. | The timing of the swap payment matches the timing of the interest payments and, therefore, the variable interest payments are hedged. |
| **c.** | **The timing of the swap payment does not match the timing of the interest payments and, therefore, the variable interest payments are *not* hedged.** |
| d. | This swap represents a fair value hedge. |

Hall, Inc., enters into a call option contract with Bennett Investment Co. on January 2, 2008. This contract gives Hall the option to purchase 1,000 shares of WSM stock at $100 per share. The option expires on April 30, 2008. WSM shares are trading at $100 per share on January 2, 2008, at which time Hall pays $100 for the call option.

21. The call option would be recorded in the accounts of Hall as

|  |  |
| --- | --- |
| **a.** | **an asset.** |
| b. | a liability. |
| c. | a gain. |
| d. | would not be recorded in the accounts (memorandum entry only). |

22. Assume that the price of the WSM shares has risen to $120 per share on March 31, 2008, and the Hall is preparing financial statements for the quarter ending March 31. As regards this option, Hall, Inc., would report which of the following?

|  |  |
| --- | --- |
| a. | A $20,000 realized gain. |
| b. | A $20,000 unrealized gain. |
| **c.** | **A deferred gain of $19,900.** |
| d. | Nothing would be reported in the financial statements or the notes thereto. |

23. The 1,000 shares of WSM stock in this contract is referred to as

|  |  |
| --- | --- |
| a. | the collateral. |
| **b.** | **the notional amount.** |
| c. | the option premium. |
| d. | the derivative. |

24. Hall, Inc., enters into a call option contract with Bennett Investment Co. on January 2, 2008. This contract gives Hall the option to purchase 1,000 shares of WSM stock at $100 per share. The option expires on April 30, 2008. WSM shares are trading at $100 per share on January 2, 2008, at which time Hall pays $400 for the call option. The $400 paid by Hall, Inc., to Bennett Investment is referred to as

|  |  |
| --- | --- |
| **a.** | **the option premium.** |
| b. | the notional amount. |
| c. | the strike price. |
| d. | the intrinsic value. |

25. Hall, Inc., enters into a call option contract with Bennett Investment Co. on January 2, 2008. This contract gives Hall the option to purchase 1,000 shares of WSM stock at $100 per share. The option expires on April 30, 2008. WSM shares are trading at $100 per share on January 2, 2008, at which time Hall pays $100 for the call option. Assume that the price per share of WSM stock is $120 on April 30, 2008, and that the time value of the option has not changed. In order to settle the option contract, Hall, Inc., would most likely

|  |  |
| --- | --- |
| a. | pay Bennett Investment $20,000. |
| b. | purchase the shares of WSM at $100 per share and sell the shares at $120 per share to Bennett. |
| **c.** | **receive $20,000 from Bennett Investment.** |
| d. | receive $400 from Bennett Investment. |

26. Wolverine Corporation purchased a machine for $132,000 on January 1, 2005, and depreciated it by the straight-line method using an estimated useful life of eight years with no salvage value. On January 1, 2008, Wolverine determined that the machine had a useful life of six years from the date of acquisition and will have a salvage value of $12,000. A change in estimate was made in 2008 to reflect these additional data. What amount should Wolverine record as the balance of the accumulated depreciation account for this machine at December 31, 2008?

|  |  |
| --- | --- |
| **a.** | **$73,000** |
| b. | $77,000 |
| c. | $320,000 |
| d. | $352,000 |

27. Barker, Inc. receives subscription payments for annual (one year) subscriptions to its magazine. Payments are recorded as revenue when received. Amounts received but unearned at the end of each of the last three years are shown below:

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2006 | 2007 | 2008 |
| Unearned revenues ............. | $120,000 | $150,000 | $176,000 |

Barker failed to record the unearned revenues in each of the three years. As a result of the omission, 2008 income was

|  |  |
| --- | --- |
| a. | overstated by $146,000. |
| b. | understated by $146,000. |
| c. | understated by $26,000. |
| **d.** | **overstated by $26,000.** |

28. Barker, Inc. receives subscription payments for annual (one year) subscriptions to its magazine. Payments are recorded as revenue when received. Amounts received but unearned at the end of each of the last three years are shown below.

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2006 | 2007 | 2008 |
| Unearned revenues ............. | $120,000 | $150,000 | $176,000 |

Barker failed to record the unearned revenues in each of the three years. The entry needed to correct the above errors is

|  |  |
| --- | --- |
| **a.** | **Retained Earnings .................. 150,000**  **Subscription Revenues .............. 26,000**  **Unearned Revenues ............... 176,000** |
| b. | Retained Earnings .................. 30,000  Subscription Revenues .............. 26,000    Unearned Revenues ............... 56,000 |
| c. | Subscription Revenues .............. 176,000    Unearned Revenues ............... 176,000 |
| d. | Subscription Revenues .............. 150,000  Retained Earnings .................. 26,000    Unearned Revenues ............... 176,000 |

29. Koppell Co. made the following errors in counting its year-end physical inventories:

|  |  |
| --- | --- |
| 2006 .................................. | $ 60,000 overstatement |
| 2007 .................................. | 108,000 understatement |
| 2008 .................................. | 90,000 overstatement |

As a result of the above undetected errors, 2008 income was

|  |  |
| --- | --- |
| a. | understated by $18,000. |
| **b.** | **overstated by $198,000.** |
| c. | overstated by $18,000. |
| d. | understated by $198,000. |

30. Badger Corporation purchased a machine for $150,000 on January 1, 2007. Badger will depreciate the machine using the straight-line method using a five-year period with no residual value. As a result of an error in its purchasing records, Badger did not recognize any depreciation for the machine in its 2007 financial statements. Badger discovered the problem during the preparation of its 2008 financial statements. What amount should Badger record for depreciation expense on this machine for 2008?

|  |  |
| --- | --- |
| a. | $0 |
| **b.** | **$30,000** |
| c. | $37,500 |
| d. | $60,000 |

31. Koppell Co. made the following errors in counting its year-end physical inventories:

|  |  |
| --- | --- |
| 2006 ................................... | $ 60,000 overstatement |
| 2007 ................................... | 108,000 understatement |
| 2008 ................................... | 90,000 overstatement |

The entry to correct the accounts at the end of 2008 is

|  |  |
| --- | --- |
| a. | Retained Earnings ................... 48,000  Cost of Goods Sold .................. 42,000    Inventory ........................ 90,000 |
| b. | Retained Earnings ................... 18,000  Cost of Goods Sold .................. 72,000    Inventory ........................ 90,000 |
| c. | Inventory .......................... 90,000  Cost of Goods Sold ............... 18,000    Retained Earnings ............... 72,000 |
| **d.** | **Cost of Goods Sold .................. 198,000**  **Retained Earnings ................ 108,000**  **Inventory ........................ 90,000** |

32. On December 31, 2008, Prince Company appropriately changed to the FIFO cost method from the weighted-average cost method for financial statement and income tax purposes. The change will result in a $700,000 increase in the beginning inventory at January 1, 2008. Assuming a 40 percent income tax rate and that no comparative financial statements for prior years are reported, the cumulative effect of this accounting change reported for the year ended December 31, 2008, is

|  |  |
| --- | --- |
| a. | $700,000. |
| b. | $350,000. |
| **c.** | **$420,000.** |
| d. | $280,000. |

33. On January 2, 2006, McKell Company acquired machinery at a cost of $640,000. This machinery was being depreciated by the double-declining-balance method over an estimated useful life of eight years, with no residual value. At the beginning of 2008, McKell decided to change to the straight-line method of depreciation. Ignoring income tax considerations, the cumulative effect of this accounting change is

|  |  |
| --- | --- |
| **a.** | **$0.** |
| b. | $120,000. |
| c. | $130,000. |
| d. | $280,000. |

34. On January 1, 2005, Grayson Company purchased for $240,000 a machine with a useful life of ten years and no salvage value. The machine was depreciated by the double-declining-balance method, and the carrying amount of the machine was $153,600 on December 31, 2006. Grayson changed to the straight-line method on January 1, 2007. Grayson can justify the change. What should be the depreciation expense on this machine for the year ended December 31, 2008?

|  |  |
| --- | --- |
| a. | $15,360 |
| **b.** | **$19,200** |
| c. | $24,000 |
| d. | $30,720 |

35. Tyson Company bought a machine on January 1, 2006, for $24,000, at which time it had an estimated useful life of eight years, with no residual value. Straight-line depreciation is used for all of Tyson's depreciable assets. On January 1, 2008, the machine's estimated useful life was determined to be only six years from the acquisition date. Accordingly, the appropriate accounting change was made in 2008. Tyson's income tax rate was 40 percent in all the affected years. In Tyson's 2005 financial statements, how much should be reported as the cumulative effect on prior years because of the change in the estimated useful life of the machine?

|  |  |
| --- | --- |
| **a.** | **$0** |
| b. | $1,200 |
| c. | $2,000 |
| d. | $2,800 |

36. On January 1, 2005, Carnival Shipping bought a machine for $1,500,000. At that time, this machine had an estimated useful life of six years, with no salvage value. As a result of additional information, Carnival determined on January 1, 2008, that the machine had an estimated useful life of eight years from the date it was acquired, with no salvage value. Accordingly, the appropriate accounting change was made in 2008. How much depreciation expense for this machine should Carnival record for the year ended December 31, 2008, assuming Carnival uses the straight-line method of depreciation?

|  |  |
| --- | --- |
| a. | $125,000 |
| **b.** | **$150,000** |
| c. | $187,500 |
| d. | $250,000 |

37. Coombs, Inc. is a calendar-year corporation whose financial statements for 2007 and 2008 included errors as follows:

|  |  |  |
| --- | --- | --- |
|  | Ending | Depreciation |
| Year | Inventory | Expense |
| 2007 | $30,000 overstated | $25,000 overstated |
| 2008 | $10,000 understated | $ 8,000 understated |

Assume that purchases were recorded correctly and that no correcting entries were made at December 31, 2007, or December 31, 2008. Ignoring income taxes, by how much should Coombs' retained earnings be retroactively adjusted at January 1, 2009?

|  |  |
| --- | --- |
| **a.** | **$27,000 increase** |
| b. | $27,000 decrease |
| c. | $7,000 decrease |
| d. | $3,000 decrease |

38. A change from an accelerated depreciation method to the straight-line depreciation method should be accounted for as a

|  |  |
| --- | --- |
| a. | change in accounting estimate. |
| **b.** | **change in accounting estimate effected by a change in accounting principle.** |
| c. | correction of an error. |
| d. | a prior period adjustment. |

39. A change in the unit depletion rate would be accounted for as a

|  |  |
| --- | --- |
| a. | correction of an accounting error. |
| b. | change in accounting principle. |
| **c.** | **change in accounting estimate.** |
| d. | change in accounting estimate effected through a change in accounting principle. |

40. Which of the following statements is **not** correct?

|  |  |
| --- | --- |
| a. | A change from an inappropriate accounting principle to a proper one should be accounted for as an accounting error. |
| **b.** | **A change from an inappropriate accounting principle to a proper one should be accounted for as a change in accounting principle.** |
| c. | A change from an inappropriate accounting principle to a proper one should be accounted for retrospectively. |
| d. | A change from an inappropriate accounting principle to a proper one may require an adjustment to beginning retained earnings for the earliest year reported. |

41. Which of the following would **not** be accounted for as a change in accounting principle?

|  |  |
| --- | --- |
| a. | Change from the first-in, first-out method to the last-in, first-out method of inventory pricing |
| b. | Change from the last-in, first-out method to the first-in, first-out method of inventory pricing |
| c. | Change from completed-contract accounting to percentage-of-completion |
| **d.** | **Change from straight-line method to accelerated method of depreciation** |

42. In 2008, a company changed from the FIFO method of accounting for inventory to LIFO. The company;s 2007 and 2008 comparative financial statements will reflect which method or methods?

2007 2008

|  |  |
| --- | --- |
| a. | LIFO LIFO |
| b. | LIFO FIFO |
| **c.** | **FIFO FIFO** |
| d. | LIFO either LIFO or FIFO |

43. In 2008, a company changed from the LIFO method of accounting for inventory to FIFO. The company’s 2007 and 2008 comparative financial statements will reflect which method or methods?

2007 2008

|  |  |
| --- | --- |
| a. | LIFO LIFO |
| **b.** | **FIFO FIFO** |
| c. | LIFO FIFO |
| d. | LIFO either LIFO or FIFO |

44. Which of the following is characteristic of a change in accounting estimate?

|  |  |
| --- | --- |
| a. | Requires the reporting of pro forma amounts for prior periods |
| **b.** | **Does not affect the financial statements of prior periods** |
| c. | Never needs to be disclosed |
| d. | Should be reported by retrospectively adjusting the financial statements for all years reported, and reporting the cumulative effect of the change in income for all preceding years as an adjustment to the beginning balance of retained earnings for the earliest year reported. |

45. Which of the following is characteristic of a change in accounting principle?

|  |  |
| --- | --- |
| a. | Requires the reporting of pro forma amounts for prior periods |
| b. | Does not affect the financial statements of prior periods |
| c. | Never needs to be disclosed |
| **d.** | **Should be reported by retrospectively adjusting the financial statements for all years reported, and reporting the cumulative effect of the change in income for all preceding years as an adjustment to the beginning balance of retained earnings for the earliest year reported** |

46. When a firm changed its method of accounting for inventory from LIFO to FIFO in 2008, it decided that the 2008 financial statements should be shown comparatively with the 2007 results.

Which of the following statements concerning reportingthe change in the retained earnings statement is **correct**?

|  |  |
| --- | --- |
| a. | No direct change to retained earnings is needed since earnings for both years have been adjusted to reflect the change. |
| b. | Only the January 1, 2007, retained earnings balance is reported at a different amount to reflect the effects of the change in earnings. |
| c. | Only the January 1, 2008, retained earnings balance is reported at a different amount to reflect the effects of the change in earnings. |
| **d.** | **Both the January 1, 2007, and January 1, 2008, retained earnings balances are reported at different amounts to reflect the effects of the change in earnings before those respective dates.** |

47. A change in the estimated useful life of a building

|  |  |
| --- | --- |
| a. | is not allowed by generally accepted accounting principles. |
| **b.** | **affects the depreciation on the building beginning with the year of the change.** |
| c. | must be handled as a retroactive adjustment to all accounts affected, back to the year of the acquisition of the building. |
| d. | creates a new account to be recognized on the income statement reflecting the difference in net income up to the beginning of the year of the change. |

48. Which of the following types of errors will **not** self-correct in the next year?

|  |  |
| --- | --- |
| a. | Accrued expenses not recognized at year-end |
| b. | Accrued revenues that have not been collected not recognized at year-end |
| **c.** | **Depreciation expense overstated for the year** |
| d. | Prepaid expenses not recognized at year-end |

49. On December 27, 2008, Johnson Company ordered merchandise for resale from Quantum, Inc., that cost $7,000 (terms cash within 10 days). Quantum shipped the merchandise f.o.b. shipping point on December 28, 2008, and the goods arrived on January 2, 2009. The invoice was received on December 30, 2008. Johnson Company did not record the purchase in 2008 and did not include the goods in ending inventory. The effects on Johnson Company’s 2008 financial statements were

|  |  |
| --- | --- |
| a. | income and owners’ equity were correct; liabilities were incorrect, assets were correct. |
| **b.** | **income and owners’ equity were correct; assets and liabilities were incorrect.** |
| c. | income, assets, liabilities, and owners’ equity were correct. |
| d. | income, assets, liabilities, and owners’ equity were incorrect. |

50. Which of the following should **not** be reported retroactively?

|  |  |
| --- | --- |
| a. | Use of an unacceptable accounting principle, then changing to an acceptable accounting principle. |
| b. | Correction of an overstatement of ending inventory made two years ago. |
| c. | Use of an unrealistic accounting estimate, then changing to a realistic estimate. |
| **d.** | **Change from a good faith but erroneous estimate to a new estimate.** |

51. Which of the following is a counterbalancing error?

|  |  |
| --- | --- |
| a. | Understated depletion expense |
| b. | Bond premium under-amortized |
| **c.** | **Prepaid expense adjusted incorrectly** |
| d. | Overstated depreciation expenses |

52. Which of the following, if discovered by James Company in the accounting period subsequent to the period of occurrence, requires the company to report the correction of an error?

|  |  |
| --- | --- |
| a. | The estimate of the useful life of a depreciable asset should have been revised. |
| b. | A change from declining-balance depreciation method to straight-line method |
| **c.** | **Capitalization of an expense** |
| d. | Change in percentage of sales used for determining bad debt expense |

53. BJ Company uses a periodic inventory system. If the company’s beginning inventory in the current year is overstated, and that is the only error in the current year, then the company’s income for the current year will be

|  |  |
| --- | --- |
| **a.** | **understated and assets correct.** |
| b. | understated and assets overstated. |
| c. | overstated and assets overstated. |
| d. | understated and assets understated. |

ANS: A DIF: Medium OBJ: LO 5

TOP: AICPA FN-Measurement MSC: AACSB Analytic

54. Which of the following is **not** an example of an accounting error, as distinguished from a change in accounting principle or change in accounting estimate?

|  |  |
| --- | --- |
| a. | Misstatement of assets, liabilities, or owners’ equity |
| b. | Incorrect classification of an expenditure as between expense and an asset |
| c. | Failure to recognize accruals and deferrals |
| **d.** | **Recognition of a gain on disposal of fully depreciated property** |

55. The September 30, 2008, physical inventory of Baxter Corporation appropriately included $3,800 of merchandise purchased on account that was not recorded in purchases until October 2008. What effect will this error have on September 30, 2008, assets, liabilities, retained earnings, and earnings for the year then ended, respectively?

|  |  |
| --- | --- |
| a. | Understate; no effect; overstate; overstate |
| b. | No effect; overstate; understate; understate |
| **c.** | **No effect; understate; overstate; overstate** |
| d. | No effect; understate; understate; overstate |

56. If, at the end of a period, Matthew Company erroneously excluded some goods from its ending inventory and also erroneously did **not** record the purchase of these goods in its accounting records, these errors would cause

|  |  |
| --- | --- |
| **a.** | **no effect on the company’s net income, working capital, and retained earnings.** |
| b. | the company’s cost of goods available for sale, cost of goods sold, and net income to be understated. |
| c. | the company’s ending inventory, cost of goods available for sale, and retained earnings to be understated. |
| d. | the company’s ending inventory, cost of goods sold, and retained earnings to be understated. |

57. Justin Corporation uses a periodic inventory system and neglected to record a purchase of merchandise on account at year-end. This merchandise was omitted from the year-end physical count. How will these errors affect Justin’s assets, liabilities, and stockholders’ equity at year-end and net earnings for the year?

Stockholders’

Assets Liabilities Equity Net Earnings

|  |  |
| --- | --- |
| **a.** | **Understate Understate No effect No effect** |
| b. | Understate No effect Understate Understate |
| c. | No effect Understate Overstate Overstate |
| d. | No effect Overstate Understate Understate |

58. Ending inventory for 2006 is overstated by $4,000 due to a faulty count and costing. The tax rate is 30%. Assume the same accounting methods for both financial reporting and taxes. The error is discovered late in 2008. The 2008 annual report shows the financial statements for 2006, 2007, 2008 on a comparative basis.

Which of the following is correct regarding the reporting of this error in the 2008 annual report?

|  |  |
| --- | --- |
| a. | A journal entry is made to report the prior period adjustment, and the 2006 2007 statements are shown corrected. |
| b. | No journal entry is needed, and the 2006 and 2007 statements are shown as they were in the 2007 annual report. |
| **c.** | **No journal entry is needed, and the 2006 and 2007 statements are shown corrected.** |
| d. | A journal entry is made to report the prior period adjustment, and the 2006 and 2007 statements are shown as they were in the 2007 annual report. |

59. The ending inventory for Wattis Company was overstated by $6,000 in 2008. The overstatement will cause Wattis Company’s

|  |  |
| --- | --- |
| a. | retained earnings to be understated on the 2008 balance sheet. |
| b. | cost of goods sold to be understated on the 2009 income statement. |
| c. | cost of goods sold to be overstated on the 2008 income statement. |
| **d.** | **2009 balance sheet not to be misstated.** |

60. Which of the following would cause income of the current period to be understated?

|  |  |
| --- | --- |
| a. | Capitalizing research and development costs |
| b. | Failure to recognize unearned rent revenue |
| c. | Changing from LIFO to FIFO for merchandise inventory |
| **d.** | **Understating estimates of asset residual values** |

61. For a company with a periodic inventory system, which of the following would cause income to be overstated in the period of occurrence?

|  |  |
| --- | --- |
| a. | Overestimating bad debt expense |
| **b.** | **Understating beginning inventory** |
| c. | Overstated purchases |
| d. | Understated ending inventory |

62. Young Corporation decided to change its depreciation policy by (1) changing from double-declining-balance depreciation, and (2) changing the estimated useful life on all automobiles used in the business from five years to four years.

Which of the following is correct concerning these two changes?

|  |  |
| --- | --- |
| a. | Both are changes in accounting principle |
| b. | Both are changes in accounting estimate |
| c. | One is an error correction, and one is change in accounting principle |
| **d.** | **One is a change in estimate effected through a change in accounting principle, and one is a change in estimate** |

A retailing firm changed from LIFO to FIFO in 2008. Inventory valuations for the two methods appear below:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | 1/1/2007 | 1/1/2008 | 1/31/2008 |  |
|  | FIFO | $ 10,000 | $ 20,000 | $ 25,000 |  |
|  | LIFO | 7,000 | 16,000 | 18,000 |  |

Purchases in 2007 and 2008 were $60,000 in each year.

63. Choose the following:

|  |  |
| --- | --- |
| 1. | The correct amount in the 2008 entry to record the accounting principle change |
| 2. | Whether the entry affects 2008 earnings or is recorded as an adjustment to retained earnings (RE) |
| 3. | The 2008 cost of goods sold |

|  |  |
| --- | --- |
| **a.** | **$4,000 RE $55,000** |
| b. | $7,000 RE $58,000 |
| c. | $4,000 Earnings $55,000 |
| d. | $7,000 Earnings $58,000 |

64. In the comparative 2007 and 2008 income statements, what amounts would be shown for cost of goods sold?

2007 2008

|  |  |
| --- | --- |
| a. | $50,000 $58,000 |
| b. | $51,000 $55,000 |
| **c.** | **$50,000 $55,000** |
| d. | $51,000 $58,000 |

65. In 2008, a company discovered that $10,000 of equipment purchased on January 1, 2005, was expensed in full. The equipment has a ten-year life, no residual value, and should have been depreciated on the straight-line basis. The error is corrected. As a result, the comparative 2007 and 2008 financial statements will show what amounts as adjustments to the beginning balances of retained earnings dated:

1/1/2007 1/1/2008

|  |  |
| --- | --- |
| a. | $7,000 $7,000 |
| b. | $8,000 $ -0- |
| c. | $ -0- $7,000 |
| d. | $8,000 $7,000 |

66. A company mistakenly expensed a $100,000 machine purchased January 1, 2005. The machine has no salvage value and is expected to provide benefits for five years. The error was discovered in 2008. The company shows two years of comparative statements in its December 31 annual reports. In the company’s 2007 and 2008 reports shown comparatively, what amounts would be shown as adjustments to the respective retained earnings balances?

2007 2008

|  |  |
| --- | --- |
| **a.** | **$60,000 $40,000** |
| b. | $ -0- $40,000 |
| c. | $60,000 $ -0- |
| d. | $60,000 $20,000 |

67. Adams Company decides a the beginning of 2008 to adopt the FIFO method of inventory valuation. The company had been using the LIFO method for financial and tax reporting since it inception on January 1, 2006. The profit-sharing agreement was in place for all years prior to the year of change, 2008. Payments under this agreement are not an inventoriable cost.

Which of the following statements regarding the accounting for the profit-sharing agreement in connection with the change from LIFO to FIFO is correct?

|  |  |
| --- | --- |
| a. | The effects of the change in accounting principle on the profit-sharing agreement must be treated retrospectively. |
| **b.** | **The effects of the change in accounting principle on the profit-sharing agreement should be reported only in the period in which the change in accounting principle was made.** |
| c. | It would be impracticable to determine the effect on the profit-sharing agreement as a result of the change in accounting principle. |
| d. | There would be no effect on the profit-sharing agreement as a result of the change in accounting principle. |

68. Which of the following is **not** a justification for a change in depreciation methods?

|  |  |
| --- | --- |
| a. | A change in the estimated useful life of an asset as a result of unexpected obsolescence. |
| b. | A change in the pattern of receiving the estimated future benefits from an asset. |
| c. | To conform to the depreciation method prevalent in a particular industry. |
| d. | A change in the estimated future benefits from the asset. |

69. Western Company purchased some equipment on January 2, 2005, for $24,000. The company used straight-line depreciation based on a ten-year estimated life with no residual value. During 2008, management decided that this equipment could be used only three more years and then would be replaced with a technologically superior model. What entry should the company make as of January 1, 2008, to reflect this change?

|  |  |
| --- | --- |
| **a.** | **No entry.** |
| b. | Debit a Prior Period Adjustment account for $4,800 and credit accumulated depreciation for $4,800. |
| c. | Debit Retained Earnings for $4,800 and credit accumulated depreciation for $4,800. |
| d. | Debit Depreciation Expense for $4,800 and credit Accumulated Depreciation for $4,800. |

70. Draper Corp. leased a new building and land from Baylor Leasing Inc. for 25 years. At the inception of the lease the building and land have fair market values of $200,000 and $25,000, respectively. The building has an expected economic life of 30 years. Which of the following statements is **correct** regarding Draper's treatment of the lease?

|  |  |
| --- | --- |
| **a.** | **Draper should treat the lease as a capital lease even though there is no bargain purchase option and no automatic transfer of ownership at the termination of the lease.** |
| b. | Draper should treat the lease as a capital lease only if there is either a bargain purchase option or an automatic transfer of ownership at the termination of the lease. |
| c. | Draper should treat the lease as a capital lease provided that the land and building are recorded in separate asset accounts and accounted for separately. |
| d. | Draper should treat the lease as a capital lease only if Baylor treats the transaction as a leveraged lease. |

71. Which of the following would be considered an executory cost?

|  |  |
| --- | --- |
| a. | Minimum lease payments. |
| b. | Interest expense incurred. |
| c. | Bargain purchase option. |
| d. | Maintenance costs. |

72. If the residual value of a leased asset is greater than the amount guaranteed by the lessee

|  |  |
| --- | --- |
| a. | the lessee pays the lessor for the difference. |
| b. | the lessee recognizes a gain at the end of the lease term. |
| **c.** | **the lessee has no obligation related to the residual value.** |
| d. | the lessee pays the lessor for the difference. |

73. Which of the following is **true** regarding the lease term?

|  |  |
| --- | --- |
| a. | The lease term does not include all periods covered by bargain renewal options. |
| **b.** | **The lease term includes all periods for which failure to renew imposes a penalty sufficiently high that the lessee probably will renew.** |
| c. | The lease term may extend beyond the date a bargain purchase option becomes exercisable. |
| d. | The lease term does not include all periods representing renewals or extensions of the lease at the lessor's option. |

74. From the standpoint of the lessee, the minimum lease payment includes all of the following **except**

|  |  |
| --- | --- |
| a. | the guaranteed residual value. |
| **b.** | **the lessee's obligation to pay executory costs.** |
| c. | the bargain purchase option. |
| d. | any payment that the lessee must make upon failure to extend or renew the lease. |

75. Which of the following is (are) **not** correct regarding disclosure requirements lessees?

|  |  |
| --- | --- |
| I. | For capital leases, future minimum lease payments in the aggregate and for each of the succeeding five years must be disclosed. |
| II. | For operating leases with initial or remaining lease terms in excess of one year, future minimum rental payments in the aggregate and for each of the five succeeding fiscal years must be disclosed. |
| III. | For capital leases, future minimum lease payments for each of the succeeding five years must be disclosed. |
| IV. | For operating leases with initial or remaining lease terms in excess of one year, future minimum lease payments for each of the five succeeding fiscal years must be disclosed. |

|  |  |
| --- | --- |
| a. | I only. |
| b. | II only. |
| c. | Both I and II. |
| d. | Both III and IV. |

76. Which of the following is **not** a required disclosure for lessors?

|  |  |
| --- | --- |
| a. | Total of minimum sublease rentals to be received in the future under noncancelable subleases. |
| b. | Unearned interest revenue |
| c. | Unguaranteed residual values accruing to the benefit of the lessor. |
| d. | A general description of the lessor's leasing arrangements. |

77. In order for a lease to be considered a finance (or capital) lease, international accounting standards require that a lease agreement

|  |  |
| --- | --- |
| **a.** | **transfers substantially all risks and rewards incident to ownership of an asset to the lessee.** |
| b. | contains a provision requiring transfer of title to the lessee by the end of the lease term. |
| c. | provides that the term of the lease contract be longer than one year. |
| d. | provides for a bargain purchase option. |

78. State Repairs acquires equipment under a noncancelable lease at an annual rental of $45,000, payable in advance for five years. After five years, there is a bargain purchase option of $75,000. The appropriate interest rate is 12 percent. What is the total present value of the lease and the first year's interest expense?

|  |  |
| --- | --- |
| **a.** | **$224,234 and $21,508** |
| b. | $224,234 and $26,908 |
| c. | $204,771 and $21,508 |
| d. | $204,771 and $19,173 |

79. Stockton, Inc. leased machinery with a fair value of $250,000 from Layton Machine Co. on December 31, 2008. The contract is a six-year noncancelable lease with an implicit interest rate of 10 percent. The lease requires annual payments of $50,000 beginning December 31, 2008. Stockton appropriately accounted for the lease as a capital lease. Stockton's incremental borrowing rate is 12 percent. Assuming the present value of an annuity due of 1 for 6 years at 10 percent is 4.7908 and the present value of an annuity due of 1 for 6 years at 12 percent is 4.6048, what is the lease liability that Stockton should report on the balance sheet at December 31, 2008?

|  |  |
| --- | --- |
| **a.** | **$189,540** |
| b. | $200,000 |
| c. | $230,240 |
| d. | $239,540 |

80. Baxter Company leased equipment to Fritz Inc. on January 1, 2008. The lease is for an eight-year period expiring December 31, 2015. The first of eight equal annual payments of $900,000 was made on January 1, 2005. Baxter had purchased the equipment on December 29, 2007, for $4,800,000. The lease is appropriately accounted for as a sales-type lease by Baxter. Assume that the present value at January 1, 2008, of all rent payments over the lease term discounted at a 10 percent interest rate was $5,280,000. What amount of interest revenue should Baxter record in 2009 (the second year of the lease period) as a result of the lease?

|  |  |
| --- | --- |
| a. | $490,000 |
| b. | $480,000 |
| c. | $438,000 |
| **d.** | **$391,800** |

81. Jordan Co. leased a machine on December 31, 2008. Annual payments under the lease are $110,000 (which includes $10,000 annual executory costs) and are due on December 31 each year, for a ten-year period. The first payment was made on December 31, 2008, and the second payment was made on December 31, 2009. According to the agreement, the lease payments are discounted at 10 percent over the lease term. Assume the present value of minimum lease payments at the inception of the lease and before the first annual payment was $615,000 and Jordan appropriately classified the lease as a capital lease. What is the lease liability Jordan should report in its December 31, 2009, balance sheet?

|  |  |
| --- | --- |
| **a.** | **$466,500** |
| b. | $515,000 |
| c. | $534,150 |
| d. | $576,500 |

82. Aerotech Inc., a dealer in machinery and equipment, leased equipment to Quality Products on July 1, 2008. The lease is appropriately accounted for as a sale by Aerotech and as a purchase by Quality. The lease is for a ten-year period (the useful life of the asset) expiring June 30, 2018. The first of ten equal annual payments of $250,000 was made on July 1, 2008. Aerotech had purchased the equipment for $1,337,500 on January 1, 2008, and established a list selling price of $1,687,500 on the equipment. Assume that the present value at July 1, 2008, of the rent payments over the lease term discounted at 12 percent (the appropriate interest rate) was $1,582,500. What is the amount of profit on the sale and the amount of interest income that Aerotech should record for the year ended December 31, 2008?

|  |  |
| --- | --- |
| a. | $245,000 and $94,950 |
| **b.** | **$245,000 and $79,950** |
| c. | $350,000 and $79,950 |
| d. | $350,000 and $94,950 |

83. On January 1, 2008, Shak, Inc. signed a noncancelable lease for a sneaker shining machine. The machine has an estimated useful life of nine years. The term of the lease is a six-year term with title passing to Shak at the end of the lease. The agreement called for annual payments of $40,000 starting at the end of the first year. Assume aggregate lease payments were determined to have a present value of $200,000, based on implicit interest of 12 percent. What amount of interest expense should Shak report in its 2008 income statement from this lease transaction?

|  |  |
| --- | --- |
| a. | $0 |
| b. | $16,000 |
| **c.** | **$24,000** |
| d. | $33,333 |

84. Epson Distributing leased a machine for a period of eight years, contracting to pay $200,000 at the beginning of the lease term on December 31, 2008, and $200,000 annually on December 31 for each of the next seven years. The present value of the eight rent payments over the lease term, appropriately discounted at 10 percent, is $1,174,000. On its December 31, 2009, balance sheet, Epson should report a liability under capital lease of

|  |  |
| --- | --- |
| **a.** | **$871,400.** |
| b. | $876,600. |
| c. | $974,000. |
| d. | $1,091,400. |

85. Slice Company manufactures equipment that they sell or lease. On December 31, 2008, Slice leased equipment to Hook Company for a five-year period after which ownership of the leased asset will be transferred to Hook. The lease calls for equal annual payments of $50,000, due on December 31 of each year. The first payment was made on December 31, 2008. The normal sales price of the equipment is $220,000, and cost is $176,000. For the year ended December 31, 2008, what amount of income should Slice report from the lease transaction?

|  |  |
| --- | --- |
| a. | $10,000 |
| b. | $30,000 |
| **c.** | **$44,000** |
| d. | $74,000 |

86. On March 1, 2008, Sturdy Corp. became the lessee of new equipment under a noncancelable six-year lease. The total estimated economic life of this equipment is ten years. The fair value of this equipment on March 1, 2008, was $100,000. The lease does not meet the criteria for classification as a capital lease with respect to transfer of ownership of the leased asset, or bargain purchase option, or lease term. Nevertheless, Sturdy must classify this lease as a capital lease if, at inception of the lease, the present value of the minimum lease payments (excluding executory costs) is equal to at least

|  |  |
| --- | --- |
| a. | $67,500. |
| b. | $75,000. |
| **c.** | **$90,000.** |
| d. | $100,000. |

87. On December 31, 2008, Gephardt Enterprises leased equipment from B & B Equipment Rental. Pertinent lease transaction data are as follows:

|  |  |
| --- | --- |
| • | The estimated seven-year useful equipment life coincides with the lease term. |
| • | The first of the seven equal annual $200,000 lease payments was paid on December 31, 2008. |
| • | B & B's implicit interest rate of 12 percent is known to Gephardt. |
| • | Gephardt's incremental borrowing rate is 14 percent. |
| • | Present values of an annuity of 1 in advance for seven periods are 5.11 at 12 percent and 4.89 at 14 percent. |

Gephardt should record the equipment on the books at

|  |  |
| --- | --- |
| a. | $1,400,000. |
| **b.** | **$1,022,000.** |
| c. | $978,000. |
| d. | $0. |

88. On January 1, 2008, Collins Company leased a warehouse to Cuthbert under an operating lease for ten years at $80,000 per year, payable the first day of each lease year. Collins paid $36,000 to a real estate broker as a finder's fee. The warehouse is depreciated at $20,000 per year. During 2008, Collins incurred insurance and property tax expense totaling $15,000. Collins' net rental income for 2008 should be

|  |  |
| --- | --- |
| a. | $9,000. |
| **b.** | **$41,400.** |
| c. | $44,000. |
| d. | $45,000. |

89. On January 1, Twix Company as lessee signed a ten-year noncancelable lease for a machine with annual payments of $60,000. The first payment was also made on January 1. Twix appropriately treated this transaction as a capital lease. The ten lease payments have a present value of $405,000 at January 1, based on implicit interest of 10 percent. For the first year, Twix should record interest expense of

|  |  |
| --- | --- |
| a. | $0. |
| b. | $6,000. |
| **c.** | **$34,500.** |
| d. | $40,500. |

90. Hazard Inc. manufactures equipment that is sold or leased. On December 31, 2008, Hazard leased equipment to Robards for a five-year period expiring December 31, 2013, at which date ownership of the leased asset will be transferred to Robards. Equal $40,000 payments under the lease are due on December 31 of each year. The first payment was made on December 31, 2008. Collectibility of the remaining lease payments is reasonably assured, and Hazard has no material cost uncertainties. The normal sales price of the equipment is $154,000 and cost is $120,000. For the year ended December 31, 2008, how much income should Hazard recognize from the lease transaction?

|  |  |
| --- | --- |
| a. | $46,000 |
| b. | $40,000 |
| **c.** | **$34,000** |
| d. | $28,000 |

91. On January 1, Gregory Company signed a ten-year noncancelable lease for a new machine, requiring $40,000 annual payments at the beginning of each year. The machine has a useful life of 15 years, with no salvage value. Title passes to Gregory at the lease expiration date. Gregory uses straight-line depreciation for all of its plant assets. Aggregate lease payments have a present value on January 1 of $252,000, based on an appropriate rate of interest. For the first year, Gregory should record depreciation (amortization) expense for the leased machine at

|  |  |
| --- | --- |
| a. | $40,000. |
| b. | $25,200. |
| **c.** | **$16,800.** |
| d. | $14,133. |

92. On December 1, 2008, Blake Inc. signed an operating lease for a warehouse for ten years at $24,000 per year. Upon execution of the lease, Blake paid $48,000 covering rent for the first two years. How much should be shown in Blake's income statement for the year ended December 31, 2008, as rent expense?

|  |  |
| --- | --- |
| a. | $0 |
| **b.** | **$2,000** |
| c. | $24,000 |
| d. | $48,000 |

93. On December 31, 2008, Cooke Company leased a machine under a capital lease for a period of ten years, contracting to pay $100,000 on signing the lease and $100,000 annually on December 31 of the next nine years. The present value at December 31, 2008, of the ten lease payments over the lease term discounted at 10 percent was $676,000. At December 31, 2009, Cooke's total capital lease liability is

|  |  |
| --- | --- |
| a. | $486,000. |
| b. | $518,000. |
| **c.** | **$533,600.** |
| d. | $607,960. |

94. In a lease that is recorded as an operating lease by the lessee, the equal monthly rental payments should be

|  |  |
| --- | --- |
| a. | allocated between interest expense and depreciation expense. |
| b. | allocated between a reduction of the liability for leased assets and interest expense. |
| c. | recorded as a reduction in the liability for leased assets. |
| **d.** | **recorded as a rental expense.** |

95. In a lease that is recorded as a direct financing lease by the lessor, unearned revenue

|  |  |
| --- | --- |
| **a.** | **should be amortized over the period of the lease using the interest method.** |
| b. | should be amortized over the period of the lease using the straight-line method. |
| c. | does not arise. |
| d. | should be recognized in full at the inception of the lease. |

96. Generally accepted accounting principles require that certain lease agreements be accounted for as purchases. The theoretical basis for this treatment is that a lease of this type

|  |  |
| --- | --- |
| **a.** | **effectively conveys substantially all of the rights and risks incident to the ownership of the property.** |
| b. | is an example of form over substance. |
| c. | provides the use of the lease asset to the lessee for a limited period of time. |
| d. | must be recorded in accordance with the concept of cause and effect. |

Marshall, Inc., leased equipment to Gadsby Company on January 1, 2008. The lease is for a five-year period ending January 1, 2013. The first equal annual payment of $1,200,000 was made on January 1, 2008. The cash selling price of the equipment is $5,174,552, which is equal to the present value of the lease payments at 8%. Marshall purchased the equipment for $4,300,000.

97. Marshall should account for this lease as

|  |  |
| --- | --- |
| a. | an operating lease. |
| b. | a direct-financing lease. |
| **c.** | **a sale-type lease.** |
| d. | leveraged lease. |

98. For 2008, Marshall should report interest revenue of

|  |  |
| --- | --- |
| **a.** | **$317,964.** |
| b. | $344,000. |
| c. | $413,964. |
| d. | $517,455. |

99. On January 1, 2008, Larsen Corporation sold a machine to Parson Corporation and simultaneously leased it back for ten years. The following information is available regarding the lease:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Estimated remaining useful life at December 31, 2007 | | | | | 10 years |  |
|  | Sales price |  |  |  |  | $ 90,000 |  |
|  | Carrying value at December 31, 2007 | | | |  | $ 52,500 |  |
|  | Annual rental under leaseback | | |  |  | $ 14,600 |  |
|  | Interest rate implicit in the lease | | |  |  | 10% |  |
|  | Present value of the lease rentals | | |  |  | $ 89,711 |  |
|  | ($14,600 for 10 years at 10%) | | |  |  |  |  |

How much profit should Larsen recognize on January 1, 2008, on the sale of the machine?

|  |  |
| --- | --- |
| **a.** | **$0.** |
| b. | $37,211 |
| c. | $90,000 |
| d. | $37,500 |

100. On January 2, 2008, Boston Corporation entered into a 10-year noncancelable lease requiring year-end payments of $60,000. The incremental borrowing rate for Boston is 10%. The lessor’s implicit rate (which is known by Boston) is 12%. The lease contains no transfer of title or bargain purchase option provisions. The leased property has an estimated economic life of 12 years. At what amount should the lease be capitalized by Boston?

|  |  |
| --- | --- |
| a. | $0 |
| b. | $339,012 |
| **c.** | **$368,676** |
| d. | $600,000 |