(3A) Equipment 200,000
R/E 200,000

Bill Woss ACCTG 215
FALL 2007 Quiz #4

ACCT 215 Fall 2007 Quiz #4a

15/20

________ Quiz Section Number: CC-25

Instructions: There are 20 points possible. Choose or write the best possible answer for each question. Please write your answers in the space provided at the top of the page. **Answers written anywhere else will <u>NOT</u> be graded.**

ANSWERS: 1. B
2. B
DR 3a. Equipment 200,000 ✓
CR ~~Equipment Expense~~ R/E 200,000 ✓
CR Accum Depreciation 40,000
DR ~~Depreciation Expense~~ ~~40,000~~ 40,000

*It should go debits then credits (-1)

3b. ~~$101,625~~ d
4. ~~$214,825~~ ~~101,625~~
5a. $118,450 ✓
5b. ~~$317,533~~
Extra Credit: A

1) In 1995 Starbucks was being sued by one of its coffee bean suppliers for significant contract violations. Starbucks' general counsel is almost certain the supplier is going to win the lawsuit. If Starbucks can't reasonably estimate the amount of money the coffee bean supplier will be awarded, **Starbucks should *(2 pts)*:**

a) Issue a press release about the possible loss
b) Just disclose the information it does know in the footnotes of its annual report
c) Not worry about telling its shareholders about the case until the lawsuit is settled
d) Record a loss for the maximum amount the supplier is suing for

2) Same facts as above (Starbucks is being sued and Starbucks' general counsel is almost certain Starbucks is going to lose the case) but Starbucks' attorneys now estimate that the judge will award the coffee bean supplier $300,000. Given this new information, **Starbucks should *(2 pts)*:**

a) Not worry about telling its shareholders about the case until the lawsuit is settled
b) Record a $300,000 loss as soon as the amount of loss is reasonably estimable
c) Just disclose the information it does know in the footnotes of its annual report
d) Make an announcement about the lawsuit at its next shareholders' meeting

3) In 2007 Starbucks purchased 100 espresso machines and accidentally expensed the machines instead of correctly capitalizing them. The machines cost $2,000 each ($200,000 in total) and have an estimated useful life of five years with zero salvage value. Starbucks' controller realizes that the company made this mistake at the beginning of 2008.

3a) What is the correcting journal entry/entries that should be made on January 1, 2008? *(6 pts)*

Equipment 200,000
Expense 200,000
Accum Dep ~~80,000~~ 40,000

Continued on Back

Did
~~Equipment 200,000~~
~~Cash 200,000~~
Expense 200,000
Cash 200,000

Should of
Equipment 200,000
Cash 200,000

3b) What was the net effect of this error on 2007 net income? ***(2 pts)***

a) 2007 net income was too low by $200,000
b) 2007 net income was too high by $200,000
c) No effect on 2007 net income
d) 2007 net income was too low by $160,000
e) 2007 net income was too high by $160,000

4) A company's 2006 income statement included the following:

Income before Taxes	$299,000
(Tax Expense)	(89,625)
Net Income	209,375

Tax Expense (Inc St)
Cash (Tax Return)
Plug #
Deferred Tax Liab 12,000

During the same period, the company's Deferred Tax Liability account increased by $12,000. **What amount of tax does the company owe the IRS in 2006 (i.e. what amount of tax is on the company's 2006 tax return)?** ***(2 pts)***

5) It is January 1, 2008 and Starbucks is analyzing two potential investment opportunities: Investment A and Investment B. Starbucks' annual discount rate is 8%.

Investment A requires a $130,000 investment (outflow (-)) today plus an additional contribution of $10,000 ((-) outflow) on 12/31/2008. This investment is anticipated to yield an annual cash inflow of $100,000 for three consecutive years beginning on 12/31/2008 and ending on 12/31/2010.

PV OUTFLOWS (-)
PV INFLOW (+)

Investment B requires three equal investments of $60,000 (outflow) on January 1 of 2008, 2009 and 2010. This investment is anticipated to yield a one-time cash inflow of $400,000 (inflow) on 12/31/2011.

OUTFLOW (PMT=60,000)
INFLOW (FV=400,000)

5a) What is the net present value of Investment A? ***(3 pts)***

Outflows (-)	139,259
Inflows (+)	257,709
Net Present	118450

5b) What is the net present value of Investment B? ***(3 pts)***

- 166996
+294011.94

Extra Credit: Who is your favorite accountant in Hollywood? ***(1 pt)***

A) Gene Wilder in *The Producers* (1968)
B) Renée Zellweger in *Jerry McGuire* (1996)
C) Itzhak Stern in *Schindler's List* (1993)
D) Rick Moranis in *Ghost Busters* (1984)
E) Joe Pesci in *Lethal Weapon II* (1989)