FARE

1. According to the FASB conceptual framework, certain assets are reported in financial statements at the amount of cash or its equivalent that would have to be paid if the same or equivalent assets were acquired currently. What is the name of the reporting concept?

a. Replacement cost.
b. Current market value.
c. Historical cost.
d. Net realizable value.

(a).

2. To be relevant, information should have which of the following?

a. Verifiability.
b. Feedback value.
c. Understandability.
d. Costs and benefits.

(b).

3. Which of the following items is not classified as "other comprehensive income?"

a. Extraordinary gains from extinguishment of debt.
b. Foreign currency translation adjustments.
c. Minimum pension liability equity adjustment for a defined-benefit pension plan.
d. Unrealized gains for the year on available-for-sale marketable securities.

(a).

4. A company's year-end balance sheet is shown below:

Assets		*Liabilities and shareholder equity*	
Cash	$ 300,000	Current liabilities	$ 700,000
Accounts receivable	350,000	Long-term liabilities	600,000

Inventory	600,000	Common stock	800,000
Property, plant and equipment (net)	2,000,000	Retained earnings	1,150,000
	$3,250,000		$3,250,000

What is the current ratio as of December 31?

a. 1.79
b. 0.93
c. 0.67
d. 0.43

(a).

5. TGR Enterprises provided the following information from its statement of financial position for the year ended December 31, year 1:

	January 1	*December 31*
Cash	$10,000	$50,000
Accounts receivable	120,000	100,000
Inventories	200,000	160,000
Prepaid expenses	20,000	10,000
Accounts payable	175,000	120,000
Accrued liabilities	25,000	30,000

TGR's sales and cost of sales for year 1 were $1,400,000 and $840,000, respectively. What is the accounts receivable turnover, in days?

a. 26.1
b. 28.7
c. 31.3
d. 41.7

(b).

6. Which inventory costing method would a company that wishes to maximize profits in a period of rising prices use?

a. FIFO.

b. Dollar-value LIFO.

c. Weighted average.

d. Moving average.

(a).

7. At the end of the year, Ian Co. determined its inventory to be $258,000 on a FIFO (first in, first out) basis. The current replacement cost of this inventory was $230,000. Ian estimates that it could sell the inventory for $275,000 at a disposal cost of $14,000. If Ian's normal profit margin for its inventory was $10,000, what would be its net carrying value?

a. $244,000

b. $251,000

c. $258,000

d. $261,000

(b).

8. The following costs pertain to Den Co.'s purchase of inventory:

700 units of product A	$3,750
Freight-in	175
Cost of materials and labor incurred to bring product A to saleable condition	900
Insurance cost during transit of purchased goods	100
Total	$4,925

What amount should Den record as the cost of inventory as a result of this purchase?

a. $3,925

b. $4,650

c. $4,825

d. $4,925

(d).

9. A manufacturing firm purchased used equipment for $135,000. The original owners estimated that the residual value of the equipment was $10,000. The carrying amount of the equipment was $120,000 when ownership transferred. The new owners estimate that the expected remaining useful life of the equipment was 10 years, with

a salvage value of $15,000. What amount represents the depreciable base used by the new owners?

a. $105,000
b. $110,000
c. $120,000
d. $125,000

(c).

10. Anchor Co. owns 40% of Main Co.'s common stock outstanding and 75% of Main's noncumulative preferred stock outstanding. Anchor exercises significant influence over Main's operations. During the current period, Main declared dividends of $200,000 on its common stock and $100,000 on its noncumulative preferred stock. What amount of dividend income should Anchor report on its income statement for the current period related to its investment in Main?

a. $75,000
b. $80,000
c. $120,000
d. $225,000
(a).

11. At the beginning of the current year, Hayworth Co. sold equipment with a two-year service contract for a single payment of $20,000. The fair value of the equipment was $18,000. Hayworth recorded this transaction with a debit of $20,000 to cash and a credit of $20,000 to sales revenue. Which of the following statements is correct regarding Hayworth's current-year financial statements?

a. The financial statements are correct.
b. Net income will be overstated.
c. Total assets will be overstated.
d. Total liabilities will be overstated.

(b).

12. On January 1, a company issued a $50,000 face value, 8% five-year bond for $46,139 that will yield 10%. Interest is payable on June 30 and December 31. What is the bond carrying amount on December 31 of the current year?

a. $46,139

b. $46,446

c. $46,768

d. $47,106

(c).

13. What type of bonds in a particular bond issuance will not all mature on the same date?

a. Debenture bonds.

b. Serial bonds.

c. Term bonds.

d. Sinking fund bonds.

(b).

14. In 2002, Spirit, Inc. determined that the 12-year estimated useful life of a machine purchased for $48,000 in January 1997 should be extended by three years. The machine is being depreciated using the straight-line method and has no salvage value. What amount of depreciation expense should Spirit report in its financial statements for the year ending December 31, 2002?

a. $2,800

b. $3,200

c. $4,200

d. $4,800

(a).

15. On January 2, 2003, Raft Corp. discovered that it had incorrectly expensed a $210,000 machine purchased on January 2, 2000. Raft estimated the machine's original useful life to be 10 years and its salvage value at $10,000. Raft uses the straight-line method of depreciation and is subject to a 30% tax rate. In its December 31, 2003, financial statements, what amount should Raft report as a prior period adjustment?

a. $102,900

b. $105,000

c. $165,900

d. $168,000

(b).

16. Which of the following describes the appropriate reporting treatment for a change in accounting estimate?

a. In the period of change with no future consideration.
b. By reporting *pro forma* amounts for prior periods.
c. By restating amounts reported in financial statements of prior periods.
d. In the period of change and future periods if the change affects both.

(d).

17. On January 2, of the current year, Peace Co. paid $310,000 to purchase 75% of the voting shares of Surge Co. Peace reported retained earnings of $80,000, and Surge reported contributed capital of $300,000 and retained earnings of $100,000. The purchase differential was attributed to depreciable assets with a remaining useful life of 10 years. Peace used the equity method in accounting for its investment in Surge. Surge reported net income of $20,000 and paid dividends of $8,000 during the current year. Peace reported income, exclusive of its income from Surge, of $30,000 and paid dividends of $15,000 during the current year. What amount will Peace report as dividends declared and paid in its current year's consolidated statement of retained earnings?

a. $8,000
b. $15,000
c. $21,000
d. $23,000

(b).

18. A corporation issues quarterly interim financial statements and uses the lower cost or market method to value its inventory in its annual financial statements. Which of the following statements is correct regarding how the corporation should value its inventory in its interim financial statements?

a. Inventory losses generally should be recognized in the interim statements.
b. Temporary market declines should be recognized in the interim statements.
c. Only the cost method of valuation should be used.
d. Gains from valuations in previous interim periods should be fully recognized.

(a).

19. Steam Co. acquired equipment under a capital lease for six years. Minimum lease payments were $60,000 payable annually at year-end. The interest rate was 5% with an annuity factor for six years of 5.0757. The present

value of the payments was equal to the fair market value of the equipment. What amount should Steam report as interest expense at the end of the first year of the lease?

a. $0
b. $3,000
c. $15,227
d. $18,000

(c).

20. Which of the following expenditures qualifies for asset capitalization?

a. Cost of materials used in prototype testing.
b. Costs of testing a prototype and modifying its design.
c. Salaries of engineering staff developing a new product.
d. Legal costs associated with obtaining a patent on a new product.

(d).

21. What is the measurement focus and the basis of accounting for the government-wide financial statements?

Measurement focus	*Basis of accounting*
a. Current financial resources	Modified accrual
b. Economic resources	Modified accrual
c. Current financial resources	Accrual
d. Economic resources	Accrual

(d).

22. Powell City purchased a piece of equipment to be used by a department financed by the general fund. How should Powell report the acquisition in the general fund?

a. As an expenditure.
b. Capitalize, depreciation is optional.
c. Capitalize, depreciation is required.
d. Capitalize, depreciation is not permitted.

(a).

23. Hann School, a nongovernmental not-for-profit organization, spent $1 million of temporarily restricted cash to acquire land and building. How should this be reported in the statement of activities?

a. Increase in unrestricted net assets.
b. Increase in temporarily restricted net assets.
c. Increase in permanently restricted net assets.
d. Decrease in permanently restricted net assets.

(a).

24. Which of the following comprise functional expense categories for a nongovernmental not-for-profit organization?

a. Program services, management and general, and fund-raising.
b. Membership dues, fund-raising, and management and general.
c. Grant expenses, program services, and membership development.
d. Membership development, professional fees, and program services.

(a).

25. Settam, a nongovernmental not-for-profit organization, received a donation of stock with donor-stipulated requirements as follows:

Shares valued at $8,000,000 are to be sold with the proceeds used for renovation.
Shares valued at $2,000,000 are to be retained with the dividends used to support current operations.

What amount should Settam include as unrestricted net assets as a result of this donation?

a. $0
b. $2,000,000
c. $8,000,000
d. $10,000,000

(a).

26. Which of the following statements is correct regarding reporting comprehensive income?

a. Accumulated other comprehensive income is reported in the stockholders' equity section of the balance sheet.
b. A separate statement of comprehensive income is required.
c. Comprehensive income must include all changes in stockholders' equity for the period.
d. Comprehensive income is reported in the year-end statements but not in the interim statements.

(a).

27. How should the amortization of bond discount on long-term debt be reported in a statement of cash flows prepared using the indirect method?

a. As a financing activities inflow.
b. As a financing activities outflow.
c. In operating activities as a deduction from income.
d. In operating activities as an addition to income.

(d).

28. Sanni Co. had $150,000 in cash-basis pretax income for the year. At the current year end, accounts receivable decreased by $20,000 and accounts payable increased by $16,000 from their previous yearend balances. Compared to the accrual-basis method of accounting, Sanni's cash-basis pretax income is:

a. Higher by $4,000.
b. Lower by $4,000.
c. Higher by $36,000.
d. Lower by $36,000.

(c).

29. Redwood Co.'s financial statements had the following information at year end:

Cash	$60,000
Accounts receivable	180,000
Allowance for uncollectible accounts	8,000
Inventory	240,000
Short-term marketable securities	90,000
Prepaid rent	18,000
Current liabilities	400,000
Long-term debt	220,000

What was Redwood's quick ratio?

a. 0.81 to 1

b. 0.83 to 1

c. 0.94 to 1

d. 1.46 to 1

(a).

30. The following information was taken from Baxter Department Store's financial statements:

Inventory at January 1	$100,000
Inventory at December 31	300,000
Net sales	2,000,000
Net purchases	700,000

What was Baxter's inventory turnover for the year ending December 31?

a. 2.5

b. 3.5

c. 5

d. 10

(a).

31. Smith Co. has a checking account at Small Bank and an interest-bearing savings account at Big Bank. On December 31, year 1, the bank reconciliations for Smith are as follows:

Big Bank	
Bank balance	$150,000
Deposit in transit	5,000
Book balance	155,000

Small Bank	
Bank balance	$1,500
Outstanding checks	(8,500)
Book balance	(7,000)

What amount should be classified as cash on Smith's balance sheet at December 31, year 1?

a. $148,000
b. $151,000
c. $155,000
d. $156,000

(c).

32. Seafood Trading Co. commenced operations during the year as a large importer and exporter of seafood. The imports were all from one country overseas. The export sales were conducted as drop shipments and were merely transshipped at Seattle. Seafood Trading reported the following data:

Purchases during the year	$12.0 million
Shipping costs from overseas	1.5 million
Shipping costs to export customers	1.0 million
Inventory at year end	3.0 million

What amount of shipping costs should be included in Seafood Trading's year-end inventory valuation?

a. $0
b. $250,000
c. $375,000
d. $625,000

(c).

33. Fireworks, Inc. had an explosion in its plant that destroyed most of its inventory. Its records show that beginning inventory was $40,000. Fireworks made purchases of $480,000 and sales of $620,000 during the year. Its normal gross profit percentage is 25%. It can sell some of its damaged inventory for $5,000. The insurance company will reimburse Fireworks for 70% of its loss. What amount should Fireworks report as loss from the explosion?

a. $50,000
b. $35,000
c. $18,000
d. $15,000

(d).

34. A depreciable asset has an estimated 15% salvage value. Under which of the following methods, properly applied, would the accumulated depreciation equal the original cost at the end of the asset's estimated useful life?

	Straight-line	*Double-declining balance*
a.	Yes	Yes
b.	Yes	No
c.	No	Yes
d.	No	No

(d).

35. On December 31, 2003, Moon, Inc. authorized Luna Co. to operate as a franchisee for an initial franchise fee of $100,000. Luna paid $40,000 on signing the agreement and signed an interest-free note to pay the balance in three annual installments of $20,000 each, beginning December 31, 2004. On December 31, 2003, the present value of the note, appropriately discounted, is $48,000. Services for the initial fee will be performed in 2004. In its December 31, 2003, balance sheet, what amount should Moon report as unearned franchise fees?

a. $0
b. $48,000
c. $88,000
d. $100,000

(c).

36. On July 28, Vent Corp. sold $500,000 of 4%, eight-year subordinated debentures for $450,000. The purchasers were issued 2,000 detachable warrants, each of which was for one share of $5 par common stock at $12 per share. Shortly after issuance, the warrants sold at a market price of $10 each. What amount of discount on the debentures should Vent record at issuance?

a. $50,000
b. $60,000
c. $70,000
d. $74,000

(c).

37. Which of the following statements characterizes convertible debt?

a. The holder of the debt must be repaid with shares of the issuer's stock.
b. No value is assigned to the conversion feature when convertible debt is issued.
c. The transaction should be recorded as the issuance of stock.
d. The issuer's stock price is less than market value when the debt is converted.

(b).

38. The following is the stockholders' equity section of Harbor Co.'s balance sheet at December 31:

Common stock $10 par, 100,000 shares authorized, 50,000 shares issued	
of which 5,000 have been reacquired, and are held in treasury	$ 450,000
Additional paid-in capital common stock	1,100,000
Retained earnings	800,000
Subtotal	$2,350,000
Less treasury stock	(150,000)
Total stockholders' equity	$2,200,000

Harbor has insignificant amounts of convertible securities, stock warrants, and stock options. What is the book value per share of Harbor's common stock?

a. $31
b. $44
c. $46
d. $49

(d).

39. Sayon Co. issues 200,000 shares of $5 par value common stock to acquire Trask Co. in a purchasebusiness combination. The market value of Sayon's common stock is $12. Legal and consulting fees incurred in relationship to the purchase are $110,000. Registration and issuance costs for the common stock are $35,000. What should be recorded in Sayon's additional paid-in capital account for this business combination?

a. $1,545,000
b. $1,400,000

c. $1,365,000
d. $1,255,000

(c).

40. A corporation entered into a purchase commitment to buy inventory. At the end of the accounting period, the current market value of the inventory was less than the fixed purchase price, by a material amount. Which of the following accounting treatments is most appropriate?

a. Describe the nature of the contract in a note to the financial statements, recognize a loss in the income statement, and recognize a liability for the accrued loss.
b. Describe the nature of the contract and the estimated amount of the loss in a note to the financial statements, but do not recognize a loss in the income statement.
c. Describe the nature of the contract in a note to the financial statements, recognize a loss in the income statement, and recognize a reduction in inventory equal to the amount of the loss by use of a valuation account.
d. Neither describe the purchase obligation, nor recognize a loss on the income statement or balance sheet.

(a).

41. The following information is relevant to the computation of Chan Co.'s earnings per share to be disclosed on Chan's income statement for the year ending December 31:

Net income for 2002 is $600,000.
$5,000,000 face value 10-year convertible bonds outstanding on January 1. The bonds were issued four years ago at a discount which is being amortized in the amount of $20,000 per year. The stated rate of interest on the bonds is 9%, and the bonds were issued to yield10%. Each $1,000 bond is convertible into 20 shares of Chan's common stock.
Chan's corporate income tax rate is 25%.

Chan has no preferred stock outstanding, and no other convertible securities. What amount should be used as the numerator in the fraction used to compute Chan's diluted earnings per share assuming that the bonds are dilutive securities?

a. $130,000
b. $247,500
c. $952,500
d. $1,070,000

(c).

42. Which of the following is the characteristic of a perfect hedge?

a. No possibility of future gain or loss.
b. No possibility of future gain only.
c. No possibility of future loss only.
d. The possibility of future gain and no future loss.

(a).

43. Gordon Ltd., a 100% owned British subsidiary of a U.S. parent company, reports its financial statements in local currency, the British pound. A local newspaper published the following U.S. exchange rates to the British pound at year end:

Current rate	$1.50
Historical rate (acquisition)	1.70
Average rate	1.55
Inventory (FIFO)	1.60

Which currency rate should Gordon use to convert its income statement to U.S. dollars at year end?

a. 1.50
b. 1.55
c. 1.60
d. 1.70

(b).

44. On January 16, Tree Co. paid $60,000 in property taxes on its factory for the current calendar year. On April 2, Tree paid $240,000 for unanticipated major repairs to its factory equipment. The repairs will benefit operations for the remainder of the calendar year. What amount of these expenses should Tree include in its third quarter interim financial statements for the three months ended September 30?

a. $0
b. $15,000
c. $75,000
d. $95,000

(d).

45. Stam Co. incurred the following research and development project costs during the current year:

Equipment purchased for current and future projects	$100,000
Equipment purchased for current projects only	200,000
Research and development salaries for current projects	400,000
Legal fees to obtain patent	50,000
Material and labor costs for prototype product	600,000

The equipment has a five-year useful life and is depreciated using the straight-line method. What amount should Stam recognize as research and development expense at year end?

a. $450,000
b. $1,000,000
c. $1,220,000
d. $1,350,000

(c).

46. A state had general obligation bonds outstanding that required payment of interest on July 1 and January 1 of each year. State law allowed for the general fund to make debt payments without the use of a fiscal agent. The fiscal year ended June 30. Which of the following accounts would have decreased when the state paid the interest due on July 1?

a. Interest expenditures.
b. Interest payable.
c. Interest expense.
d. Fund balance.

(d).

47. On March 1, Wag City issued $1,000,000, ten-year, 6% general obligation bonds at par with no bond issue costs. The bonds pay interest September 1 and March 1. What amount of interest expense and bond interest payable should Wag report in its government-wide financial statements at the close of the fiscal year on December 31?

a. Interest expense, $50,000; interest payable, $20,000.
b. Interest expense, $50,000; interest payable, $0.
c. Interest expense, $60,000; interest payable, $10,000.
d. Interest expense, $30,000; interest payable, $0.

(a).

48. All of the following statements regarding notes to the basic financial statements of governmental entities are true, except:

a. The notes contain disclosures related to required supplementary information.
b. Some notes presented by governments are identical to notes presented in business financial statements.
c. Notes that are considered essential to the basic financial statements need to be presented.
d. It is acceptable to present notes in a very extensive format.

(a).

49. How should unconditional pledges received by a nongovernmental not-for-profit organization that will be collected over more than one year be reported?

a. Long-term pledges receivable, valued at the expected collection amount.
b. Pledges receivable, valued at their present values.
c. Deferred revenue, valued at present value.
d. Pledges receivable, valued at the amount pledged.

(b).

50. How should a nongovernmental, not-for-profit organization report donor-restricted cash contributions for long-term-purposes in its statement of cash flows?

a. Operating activity inflow.
b. Investing activity inflow.
c. Financing activity inflow.
d. As a noncash transaction.

(c).