1. Dane, Inc., owns 35% of Marin Corporation. During the calendar year 2007, Marin had net earnings of $300,000 and paid dividends of $30,000. Dane mistakenly recorded these transactions using the fair value method rather than the equity method of accounting. What effect would this have on the investment account, net income, and retained earnings, respectively?
   1. Understate, overstate, overstate
   2. Overstate, understate, understate
   3. Overstate, overstate, overstate
   4. Understate, understate, understate
2. Compensation expense resulting from a compensatory stock option plan is generally
   1. recognized in the period of exercise.
   2. recognized in the period of the grant.
   3. allocated to the periods benefited by the employee's required service.
   4. allocated over the periods of the employee's service life to retirement.
3. An example of a correction of an error in previously issued financial statements is a change
   1. from the FIFO method of inventory valuation to the LIFO method.
   2. in the service life of plant assets, based on changes in the economic environment.
   3. from the cash basis of accounting to the accrual basis of accounting.
   4. in the tax assessment related to a prior period.

**Use the following information for questions 18 and 19.**

Waeglein Corporation purchased machinery on January 1, 2006 for $630,000. The company used the straight-line method and no salvage value to depreciate the asset for the first two years of its estimated six-year life. In 2008, Waeglein changed to the sum-of-the-years’-digits depreciation method for this asset. The following facts pertain:

**2006 2007**

Straight-line $105,000 $105,000

Sum-of-the-years’-digits $180,000 $150,000

1. Waeglein is subject to a 40% tax rate. The cumulative effect of this accounting change on beginning retained earnings is
   1. $135,000.
   2. $120,000.
   3. $72,000.
   4. $0.
2. The amount that Waeglein should report for depreciation expense on its 2008 income statement is
   1. $168,000.
   2. $105,000.
   3. $75,000.
   4. none of the above.
3. Rensing Company's December 31 year-end financial statements contained the following errors:

Dec. 31, 2007 Dec. 31, 2008

Ending inventory $7,500 understated $11,000 overstated

Depreciation expense $2,000 understated

An insurance premium of $18,000 was prepaid in 2007 covering the years 2007, 2008, and 2009. The prepayment was recorded with a debit to insurance expense. In addition, on December 31, 2008, fully depreciated machinery was sold for $9,500 cash, but the sale was not recorded until 2009. There were no other errors during 2008 or 2009 and no corrections have been made for any of the errors. Ignore income tax considerations.

What is the total net effect of the errors on Rensing's 2008 net income?

* 1. Net income understated by $14,500.
  2. Net income overstated by $7,500.
  3. Net income overstated by $13,000.
  4. Net income overstated by $15,000.

1. The deferred tax expense is the
   1. increase in balance of deferred tax asset minus the increase in balance of deferred tax liability.
   2. increase in balance of deferred tax liability minus the increase in balance of deferred tax asset.
   3. increase in balance of deferred tax asset plus the increase in balance of deferred tax liability.
   4. decrease in balance of deferred tax asset minus the increase in balance of deferred tax liability.

**Use the following information for questions 27 and 28**

McGee Company deducts insurance expense of $84,000 for tax purposes in 2008, but the expense is not yet recognized for accounting purposes. In 2009, 2010, and 2011, no insurance expense will be deducted for tax purposes, but $28,000 of insurance expense will be reported for accounting purposes in each of these years. McGee Company has a tax rate of 40% and income taxes payable of $72,000 at the end of 2008. There were no deferred taxes at the beginning of 2008.

1. What is the amount of the deferred tax liability at the end of 2008?
   1. $33,600
   2. $28,800
   3. $12,000
   4. $0
2. Assuming that income tax payable for 2009 is $96,000; the income tax expense for 2009 would be what amount?
   1. $129,600
   2. $107,200
   3. $96,000
   4. $84,800
3. Koble, Inc. sponsors a defined-benefit pension plan. The following data relates to the operation of the plan for the year 2008.

Service cost $ 200,000

Contributions to the plan $ 220,000

Actual return on plan assets $ 180,000

Projected benefit obligation (beginning of year) $2,400,000

Market-related and fair value of plan assets (beginning of year) $1,600,000

The expected return on plan assets and the settlement rate were both 10%. The amount of pension expense reported for 2008 is

1. $200,000.
2. $260,000.
3. $280,000.
4. $440,000.
5. On July 1, 2007, an interest payment date, $60,000 of Risen Co. bonds were converted into 1,200 shares of Risen Co. common stock each having a par value of $45 and a market value of $54. There is $2,400 unamortized discount on the bonds. Using the book value method, Risen would record
6. no change in paid-in capital in excess of par.
7. a $3,600 increase in paid-in capital in excess of par.
8. a $7,200 increase in paid-in capital in excess of par.
9. a $4,800 increase in paid-in capital in excess of par.
10. When investments in debt securities are purchased between interest payment dates, preferably the
11. securities account should include accrued interest.
12. accrued interest is debited to Interest Expense.
13. accrued interest is debited to Interest Revenue.
14. accrued interest is debited to Interest Receivable.
15. If, at the end of a period, a 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
16. the ending inventory and retained earnings to be understated.
17. the ending inventory, cost of goods sold, and retained earnings to be understated.
18. no effect on net income, working capital, and retained earnings.
19. cost of goods sold and net income to be understated.
20. Yunger Corp. on January 1, 2004, granted stock options for 40,000 shares of its $10 par value common stock to its key employees. The market price of the common stock on that date was $23 per share and the option price was $20. The Black-Scholes option pricing model determines total compensation expense to be $240,000. The options are exercisable beginning January 1, 2007, provided those key employees are still in Yunger’s employ at the time the options are exercised. The options expire on January 1, 2008. On January 1, 2007, when the market price of the stock was $29 per share, all 40,000 options were exercised. The amount of compensation expense Yunger should record for 2006 under the fair value method is
21. $0.
22. $40,000.
23. $80,000.
24. $120,000.
25. All of the following are procedures for the computation of deferred income taxes *except* to
26. identify the types and amounts of existing temporary differences.
27. measure the total deferred tax liability for taxable temporary differences.
28. measure the total deferred tax asset for deductible temporary differences and operating loss carrybacks.
29. All of these are procedures in computing deferred income taxes.
30. In 2006, Berger, Inc., issued for $103 per share, 60,000 shares of $100 par value convertible preferred stock. One share of preferred stock can be converted into three shares of Berger's $25 par value common stock at the option of the preferred stockholder. In August 2007, all of the preferred stock was converted into common stock. The market value of the common stock at the date of the conversion was $30 per share. What total amount should be credited to additional paid-in capital from common stock as a result of the conversion of the preferred stock into common stock?
31. $1,020,000.
32. $780,000.
33. $1,500,000.
34. $1,680,000.
35. Investments in debt securities should be recorded on the date of acquisition at
36. lower of cost or market.
37. market value.
38. market value plus brokerage fees and other costs incident to the purchase.
39. face value plus brokerage fees and other costs incident to the purchase.
40. A company changes from straight-line to an accelerated method of calculating depreciation, which will be similar to the method used for tax purposes. The entry to record this change should include a
41. credit to Accumulated Depreciation.
42. debit to Retained Earnings in the amount of the difference on prior years.
43. debit to Deferred Tax Asset.
44. credit to Deferred Tax Liability.
45. On May 1, 2007, Kent Corp. declared and issued a 10% common stock dividend. Prior to this dividend, Kent had 100,000 shares of $1 par value common stock issued and outstanding. The fair value of Kent 's common stock was $20 per share on May 1, 2007. As a result of this stock dividend, Kent's total stockholders' equity
46. increased by $200,000.
47. decreased by $200,000.
48. decreased by $10,000.
49. did *not* change.