FIN304 Midterm Practice problems

Use the following scenario to answer the next two questions:

Barrel Corporation had service and interest costs of $50,000 related to its defined benefit pension plan for the year ending December 31, 2007. The company’s unrecognized prior service cost was $200,000 at December 31, 2006 and the average remaining service life of the company’s employees was 20 years. Plan assets earned an expected and actual return of 10% during 2007. The company made contributions to the plan of $25,000 and paid benefits of $30,000 during the year. The pension plan had plan assets with a fair value of $300,000 at December 31, 2006. The PBO was $400,000 at December 31, 2006 and $420,000 at December 31, 2007. Barrel’s effective tax rate is 30%.

1. What is funded status of Barrel Corporation’s pension plan at December 31, 2007?
2. $20,000 underfunded.
3. $75,000 overfunded.
4. $95,000 underfunded.
5. $120,000 overfunded.
6. What should Barrel Corporation report in accumulated other comprehensive income for this pension plan at December 31, 2007 under U.S. GAAP?
7. $133,000
8. $140,000
9. $190,000
10. .$200,000
11. Carter Components is computing the components of its pension expense for the current year ended December 31. Carter has calculated that its service cost is $60,000 and has computed interest cost as $42,000. The average remaining service life of its employees is eight years. The return on %500,000 in plan assets was anticipated to be 8% but was actually 8.5%. The pension benefit obligation at the beginning of the year was $560,000 and, at the end of the year, $602,000. The company has an unrecognized gain of $60,000. To what extent will the unrecognized gain reduce current-year pension expense?
12. $25
13. $500
14. $750
15. $1,250
16. For $50 a month, Rawl Co. visits its customers’ premise and performs insect control services. If customers experience problems between regularly scheduled visits, Rawl makes service calls at no additional charge. Instead of paying monthly, customers may pay an annual fee of $540 in advance. For a customer who pays the annual fee in advance, Rawl should recognize the related revenue:
17. When the cash is collected.
18. At the end of the fiscal year.
19. At the end of the contract year after all of the services have been performed.
20. Evenly over the contract year as the services are performed.
21. Senlo Co., which uses a one-year operating cycle, recognized profits for both financial statement and tax purposes during its two years of operation. Depreciation for tax purposes exceeded depreciation for financial statement purposes in each year. These temporary differences are expected to reverse in 2003, 2004, and 2005. At the end of 2002 the deferred tax liability shown as a noncurrent liability is based on the:
22. Enacted tax rates for 2003, 2004, and 2005.
23. Enacted tax rate for 2003.
24. Tax rates for 2001 and 2002.
25. Tax rate for 2002.
26. In May 2001, Caso Co. filed suit against Wayne, Inc. seeking $1,900,000 damages for patent infringement. A court verdict in November 2004 awarded Caso $1,500,000 in damages, but Wayne’s appeal is not expected to be decided before 2006. Caso’s counsel believes it is probable that Caso will be successful against Wayne for an estimated amount in the range between $800,000 and $1,100,000, with $1,000,000 considered the most likely amount/ What MOUNT SHOULD Xaso record as income from the lawsuit in the year ended December 31, 2004?
27. $0
28. $800,000
29. $1,000,000
30. $1,500,000
31. Dodd Corp. is preparing its December 31 financial statements and must determine the proper accounting treatment for the following situations:

--For the year ended December 31, Dodd has a loss carry forward of $180,000 available to offset future taxable income. However, there are no temporary differences.

--On December 30, Dodd received a $200,000 offer for its patent. Dodd’s management is considering whether to sell the patent. The offer expires on February 28 of the next year. The patent has a carrying amount of $100,000 at December 31.

Assume a current and future income tax rate of 30%. In its income statement, Dodd should recognize an increase in net income of:

1. $0
2. $54,000
3. $70,000
4. $124,000
5. During 2002, Leader Corp. sued Cape Co. for patent infringement. On December 31, 2002, Leader was awarded a $500,000 favorable judgment in the suit. On that date, Cape offered to settle out of court for $300,000 and not appeal the judgment. In February 2003 after the issuance of its 2002 financial statements, Leader agreed to the out-of-court settlement and received a certified check for $300,000. In its 2002 financial statements, how should Leader have reported these events?
6. As a gain of $300,000
7. As a receivable and deferred credit of $300,000
8. As a disclosure in the notes to the financial statements only
9. It should not be reported in the financial statements.
10. Under state law, Acme may pay 3% of eligible gross wages or it may reimburse the state directly for actual unemployment claims. Acme believes that actual unemployment claims will be 2% of eligible gross wages and has chosen to reimburse the state. Eligible gross wages are defined as the first $10,000 of gross wages paid to each employee. Acme had five employees each of whom earned $20,000 during the current year. In its December 31, balance sheet, what amount should Acme report as accrued liability for unemployment claims?
11. $1,000
12. $1,500
13. $2,000
14. $3,000
15. Ajax Corp. has an effective tax rate of 30%. On January 1, Ajax purchased equipment for $100,000. The equipment has a useful life 10 years. What amount of current tax benefit will Ajax realize during the first year by using the 150% declining balance method of depreciation for tax purposes instead of the straight-line method?
16. $1,500
17. $3,000
18. $4,500
19. $5,000
20. Tam Co. reported the following items in its year-end financial statements:

Capital expenditures $1,000,000

Capital lease payments 125,000

Income taxes paid 325,000

Dividends paid 200,000

Net interest payments 220,000

What amount should Tam report as supplemental disclosures in its statement of cash flows prepared using the indirect method?

1. $545,000
2. $745,000
3. $1,125,000
4. $1,870,000
5. Whether recognized or unrecognized in an entity’s financial statements, disclosure of the fair values of the entity’s financial instruments is required when:

It is practicable to estimate those values aggregated fair values are material to

the entity

1. No No
2. No Yes
3. Yes No
4. Yes Yes
5. The determination of the value or settlement amount of a derivative involves a calculation which uses:
6. An underlying.
7. A notional amount.
   1. I only
   2. II only
   3. Both I and II
   4. Neither I nor II.
8. On September 1, Canary Co. sold used equipment for a cash amount equaling its carrying amount for both book and tax purposes. On September 15, Canary replaced the equipment by paying cash and signing a note payable for new equipment. The cash paid for the new equipment exceeded the cash received for the old equipment. How should these equipment transactions be reported in Canary’s statement of cash flows?
9. Cash outflow equal to the cash paid less the cash received.
10. Cash outflow equal to the cash paid and note payable less the cash received.
11. Cash inflow equal to the cash received and a cash outflow equal to the cash paid and noted payable.
12. Cash inflow equal to the cash received and a cash outflow equal to the cash paid.
13. Lino Co.’s worksheet for the preparation of its 2002 statement of cash flows included the following:

December 31 January 1

Accounts receivable $29,000 $23,000

Allowance for uncollectible accounts 1,000 800

Prepaid rent expense 8,200 12,400

Accounts payable 22,400 19,400

Lino’s 2002 net income is $150,000. What amount should Lino include as net cash provided by operating activities in the statement of cash flows?

1. $151,400
2. $151,000
3. $148,600
4. $145,400
5. Mend Co. purchased a three-month U.S. Treasury bill. Mend’s policy is to treat as cash equivalents all highly liquid investments with an original maturity of three months or less when purchased. How should this purchase be reported in Mend’s statement of cash flows?
6. As an outflow from operating activities.
7. As an outflow from investing activities.
8. As an outflow from financing activities.
9. Not reported.
10. Porter Co. began its business last year and issued 10,000 shares of common stock at $3 per share. The par value of the stock is $1 per share. During January of the current year, Porter bought back 500 shares at $6 per share, which were reported by Porter as treasury stock. The treasury stock shares were reissued later in the current year at $10 per share. Porter used the cost method to account for its equity transactions. What amount should Porter report as paid-in capital related to its treasury stock transactions on its balance sheet for the current year?
11. $1,500
12. $2,000
13. $4,500
14. $20,000
15. A change in the fair value of a derivative qualified as a cash flow hedge is determined to be either effective in offsetting a change in the hedged item or ineffective in offsetting such a change. How should the effective and ineffective portions of the change in value of a derivative which qualifies as a cash flow hedge be reported in financial statements?

Effective portion in Ineffective portion in

1. Current income Current income
2. Current income Other comprehensive income
3. Other comprehensive income Current income
4. Other comprehensive income Other comprehensive income
5. A company issued rights to its exists shareholders without consideration. The rights allowed the recipients to purchase unissued common stock for an amount in excess of par value. When the rights are issued, which of the following accounts will be increased?

Common stock Additional paid-in capital

1. Yes Yes
2. Yes No
3. No No
4. No Yes
5. Rudd Corp. had 700,000 shares of common stock authorized and 300,000 shares outstanding at December 31, 2001. The following events occurred during 2002:

January 31 Declared 10% stock dividend

June 30 Purchased 100,000 shares

August 1 Reissued 50,000 shares

November 30 Declared 2-for-1 stock split

At December 31, 2002, how many shares of common stock did Rudd have outstanding?

* 1. 560,000
  2. 600,000
  3. 630,000
  4. 660,000