1. The cost of an intangible asset includes all of the following *except*

a. purchase price.

b. legal fees.

c. other incidental expenses.

d. all of these are included.

2. When a patent is amortized, the credit is usually made to

a. the Patent account.

b. an Accumulated Amortization account.

c. a Deferred Credit account.

d. an expense account.

3. Easton Company and Lofton Company were combined in a purchase transaction. Easton was able to acquire Lofton at a bargain price. The sum of the market or appraised values of identifiable assets acquired less the fair value of liabilities assumed exceeded the cost to Easton. After revaluing noncurrent assets to zero, there was still some "negative goodwill." Proper treatment by Easton is to report the amount as

a. an extraordinary gain.

b. part of current income in the year of combination.

c. a deferred credit and amortize it.

d. paid-in capital.

4. A loss on impairment of an intangible asset is the difference between the asset’s

a. carrying amount and the expected future net cash flows.

b. carrying amount and its fair value.

c. fair value and the expected future net cash flows.

d. book value and its fair value.

5. How should research and development costs be accounted for, according to a Financial Accounting Standards Board Statement?

a. Must be capitalized when incurred and then amortized over their estimated useful lives.

b. Must be expensed in the period incurred.

c. May be either capitalized or expensed when incurred, depending upon the materiality of the amounts involved.

d. Must be expensed in the period incurred unless it can be clearly demonstrated that the expenditure will have alternative future uses or unless contractually reimbursable.

6. Among the short-term obligations of Lance Company as of December 31, the balance sheet date, are notes payable totaling $250,000 with the Madison National Bank. These are 90-day notes, renewable for another 90-day period. These notes should be classified on the balance sheet of Lance Company as

a. current liabilities.

b. deferred charges.

c. long-term liabilities.

d. intermediate debt.

7. Which of the following statements is correct?

a. A company may exclude a short-term obligation from current liabilities if the firm intends to refinance the obligation on a long-term basis.

b. A company may exclude a short-term obligation from current liabilities if the firm can demonstrate an ability to consummate a refinancing.

c. A company may exclude a short-term obligation from current liabilities if it is paid off after the balance sheet date and subsequently replaced by long-term debt before the balance sheet is issued.

d. None of these.

8. Which of the following statements is *false?*

a. A company may exclude a short-term obligation from current liabilities if the firm intends to refinance the obligation on a long-term basis and demonstrates an ability to complete the refinancing.

b. Cash dividends should be recorded as a liability when they are declared by the board of directors.

c. Under the cash basis method, warranty costs are charged to expense as they are paid.

d. FICA taxes withheld from employees' payroll checks should never be recorded as a liability since the employer will eventually remit the amounts withheld to the appropriate taxing authority.

9. Which of these is *not* included in an employer's payroll tax expense?

a. F.I.C.A. (social security) taxes

b. Federal unemployment taxes

c. State unemployment taxes

d. Federal income taxes

10. Information available prior to the issuance of the financial statements indicates that it is probable that, at the date of the financial statements, a liability has been incurred for obligations related to product warranties. The amount of the loss involved can be reasonably estimated. Based on the above facts, an estimated loss contingency should be

a. accrued.

b. disclosed but *not* accrued.

c. *neither* accrued *nor* disclosed.

d. classified as an appropriation of retained earnings.

11. In March, 2011, an explosion occurred at Kirk Co.'s plant, causing damage to area properties. By May, 2011, no claims had yet been asserted against Kirk. However, Kirk's management and legal counsel concluded that it was reasonably possible that Kirk would be held responsible for negligence, and that $4,000,000 would be a reasonable estimate of the damages. Kirk's $5,000,000 comprehensive public liability policy contains a $400,000 deductible clause. In Kirk's December 31, 2010 financial statements, for which the auditor's fieldwork was completed in April, 2011, how should this casualty be reported?

a. As a note disclosing a possible liability of $4,000,000

b. As an accrued liability of $400,000

c. As a note disclosing a possible liability of $400,000

d. No note disclosure of accrual is required for 2010 because the event occurred in 2011

12. On September 1, 2010, Herman Co. issued a note payable to National Bank in the amount of $1,200,000, bearing interest at 12%, and payable in three equal annual principal payments of $400,000. On this date, the bank's prime rate was 11%. The first payment for interest and principal was made on September 1, 2011. On December 31, 2011, Herman should record accrued interest payable of

a. $ 48,000

b. $ 44,000

c. $ 32,000

d. $ 29,334

13. On January 1, 2010, Meyer Co. leased a building to Heins Corp. for a 10-year term at an annual rental of $80,000. At inception of the lease, Meyer received $320,000 covering the first 2 years' rent of $160,000 and a security deposit of $160,000. This deposit will not be returned to Heins upon expiration of the lease but will be applied to payment of rent for the last 2 years of the lease. What portion of the $320,000 should be shown as a current and long-term liability, respectively, in Meyer's December 31, 2010 balance sheet?Current Liability ; Long-term Liability

a. $0 ; $320,000

b. $80,000 ; $160,000

c. $160,000 ; $160,000

d. $160,000 ; $80,000

14. A company gives each of its 50 employees (assume they were all employed continuously through 2010 and 2011) 12 days of vacation a year if they are employed at the end of the year. The vacation accumulates and may be taken starting January 1 of the next year. The employees work 8 hours per day. In 2010, they made $17.50 per hour and in 2011 they made $20 per hour. During 2011, they took an average of 9 days of vacation each. The company’s policy is to record the liability existing at the end of each year at the wage rate for that year. What amount of vacation liability would be reflected on the 2010 and 2011 balance sheets, respectively?

a. $84,000; $117,000

b. $96,000; $120,000

c. $84,000; $120,000

d. $96,000; $117,000

15. Which of the following is a characteristic of the expense warranty approach, but not the sales warranty approach?

a. Estimated liability under warranties

b. Warranty Expense

c. Unearned warranty revenue

d. Warranty Revenue

16. On July 1, 2010, Smith Co. issued 1,000 of its 10%, $1,000 bonds at 99 plus accrued interest. The bonds are dated April 1, 2010 and mature on April 1, 2020. Interest is payable semiannually on April 1 and October 1. What amount did Smith receive from the bond issuance?

a. 1,015,000

b. 1,000,000

c. 990,000

d. 965,000

17. On June 30, 2011, Montana Co. had outstanding 8%, $3,000,000 face amount, 15-year bonds maturing on June 30, 2021. Interest is payable on June 30 and December 31. The unamortized balances in the bond discount and deferred bond issue costs accounts on June 30, 2011 were $105,000 and $30,000, respectively. On June 30, 2011, Montana acquired all of these bonds at 94 and retired them. What net carrying amount should be used in computing gain or loss on this early extinguishment of debt?

a. 2,970,000

b. 2,895,000

c. 2,865,000

d. 2,820,000

18. On January 2, 2010, a calendar-year corporation sold 8% bonds with a face value of $600,000. These bonds mature in 5 years, and interest is paid semiannually on June 30 and December 31. The bonds were sold for $553,600 to yield 10%. Using the effective-interest method of computing interest, how much should be charged to interest expense in 2010?

a. $48,000

b. $55,360

c. $55,544

d. $60,000

19. Cooke Co. took advantage of market conditions to refund debt. This was the fourth refunding operation carried out by Cooke within the last 3 years. The excess of the carrying amount of the old debt over the amount paid to extinguish it should be reported as a

a. Gain, net of income taxes

b. Loss, net of income taxes

c. Part of continuing operations

d. Deferred credit to be amortized over the life of the debt

20. On January 1, 2010, Solis Co. issued its 10% bonds in the face amount of $3,000,000, which mature on January 1, 2020. The bonds were issued for $3,405,000 to yield 8%, resulting in bond premium of $405,000. Solis uses the effective-interest method of amortizing bond premium. Interest is payable annually on December 31. At December 31, 2010, Solis's adjusted unamortized bond premium should be

a. $405,000

b. $377,400

c. $364,500

d. $304,500