

Accounting 2037 Exam 2 with answers Fall 2012

Completion [2 pts each] Complete each sentence or statement with one of the phrases below.

Possible Answers:

Amortization	average rate of return	capital budgeting	capital lease	capital rationing
Compound interest	conservatism	contract rate	depletion	depreciation
Double declining balance	FIFO	FOB destination	FOB shipping point	functional
Goodwill	lessee	lessor	leverage	LIFO
Market rate	moving average	mutually exclusive	net present value	operating lease
Payback	periodic system	perpetual system	physical	retail price
Specific ID method	sum of the years digits	sunk costs	underestimation	yield

1. The _____ is a method that may be used to estimate the amount of inventory held by a merchandising company.
2. The _____ period is the length of time required for a return of the initial investment.
3. _____ is the term similar to “depreciation” used for intangible assets.
4. The _____ is the market rate at which bonds are issued.
5. Under the _____ cost flow assumption, the company includes the latest costs in the cost of goods sold as it sells the products, leaving the earliest costs in ending inventory.

True/False [2 pts each]

6. Straight line, double-declining balance, and sum of the years digits are all examples of accelerated depreciation methods.
7. A large company can usually issue bonds at the risk-free rate of interest, whereas a smaller company will have to include a risk premium.
8. In a period of rising prices, cost of goods sold is lower under LIFO than FIFO, resulting in higher net income.
9. Sunk costs are costs incurred prior to the capital expenditure proposal under consideration, and as such are relevant to the capital expenditure proposal.
10. Compound interest is interest that accrues on both the principal and earned interest.

Multiple choice [2 pts each]

Identify the letter of the choice that best completes the statement or answers the question.

11. The book value of an asset is its
 - a. Cost - depreciation expense
 - b. Fair market value - cost
 - c. Cost - accumulated depreciation
 - d. Fair market value – depreciation expense

12. The method of depreciation that is most appropriate when the asset is likely to produce equal benefits over its life is:
 - a. Accelerated depreciation methods
 - b. Straight-line method
 - c. Units of production method
 - d. None of the above

13. If a company uses FOB destination, ownership is transferred when:
 - a. The purchasing company places the order
 - b. The goods are shipped from the seller
 - c. The purchasing company pays for the goods
 - d. The goods arrive at the place of delivery

14. A series of equal, periodic cash flows is termed a(n):
 - a. Lump sum
 - b. Factor
 - c. Annuity
 - d. Present value

15. To determine the current cash equivalent of \$1 in the future, which table should be used?
 - a. Present value of an annuity
 - b. Present value of \$1 (lump sum)
 - c. Future value of \$1 (lump sum)
 - d. None of the above

