

Acct 2037 Exam 2

Summer 2012 (100 points; 75 minutes)

HONOR PLEDGE

"I strive to uphold the University values of respect, responsibility, discovery, and excellence. On my honor, I pledge that I have neither given nor received unauthorized assistance on this work"

Name _____

Complete each sentence or statement.

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	Software
production costs	Specific ID method	Sum of the years digits	Sunk costs	
Underestimation				

1. Under the FIFO cost flow assumption, the company includes the earliest costs in the cost of goods sold as it sells the products, leaving the latest costs in ending inventory.
2. The concept of conservatism holds that a company should apply GAAP in such a way that there is little chance that it will overstate its income or its assets.
3. Mutually exclusive are proposals that accomplish the same thing, so that when one proposal is selected, the others are not.
4. Depletion is the portion of the cost of a natural resource that the company allocates as an expense to each accounting period over the asset's service life.
5. A(n) operating lease does not transfer the risks and benefits of ownership from the lessor to the lessee.

True/False

Indicate whether the sentence or statement is true or false.

- T 6. In the lower of cost or market method, when the selling price of the company's inventory falls below the cost of inventory, they "write down" the inventory on the balance sheet to the market value.
- F 7. The payback period is a good measure for evaluating one capital expenditure proposal against another.

- T 8. The average rate of return on investment is the average return on investment per year per dollar invested.
- F 9. All research and development costs must first be capitalized, then amortized over 7 years.
- T 10. A defined benefit pension plan specifies how much the company must pay employees when they retire under the pension plan.

Multiple Choice

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

- ____ 11. Which of the following is not true of the retail method of estimating inventory?
- There is never a need for a physical inventory count.**
 - The inventory is estimated based on the retail value of the merchandise.
 - A cost to retail ratio must be computed.
 - There must be records of both cost and retail prices of beginning inventory and net purchases.
- ____ 12. When a company evaluates investment proposals with a method that properly recognizes the time value of money, the percentage rate used as a cutoff to distinguish between acceptable and unacceptable proposals is:
- The interest rate on risk-free government securities.
 - The weighted-average rate the company must pay to all sources of investment capital.**
 - The company's incremental borrowing rate.
 - The weighted-average rate of return provided by the company's similar investments.
- ____ 13. Which of the following statements regarding patents is true?
- Patents may not be renewed.**
 - Legal costs of obtaining a patent are expensed as legal and professional fees.
 - The primary portion of amounts capitalized as patents for internally developed processes is the research and development costs.
 - None of the above are true.
- ____ 14. The excess of the purchase price a company paid to buy another company and the market value of the identifiable net assets it acquired is:
- A franchise.
 - Goodwill.**
 - Due to a failure to negotiate an appropriate price.
 - None of the above.
- ____ 15. A retirement plan in which the corporation pays a set amount to the plan each year that the employee works is a:
- 401-k plan.
 - Defined benefit plan.
 - Defined contribution plan.**

d. None of the above.