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FINAL EXAM

Course # 171041
Balance Sheet: Reporting Liabilities

based on the electronic .pdf file(s):

Balance Sheet: Reporting Liabilities
by: Delta CPE, 2014, 112 pages

5 CPE Credit Hours
Accounting & Auditing

This exam sheet is made available for your convenience in answering questions while offline. Please note that you will still need to enter your answers on the online exam sheet for grading.

Instructions are provided at the end of this document.

Chapter 0 - Course Material

1. Which of the following is usually associated with payables classified as accounts payable?

   - ______ Not Periodic Payment of Interest, and not Secured by Collateral
   - ______ Secured by Collateral, but not Periodic Payment of Interest
   - ______ Periodic Payment of Interest, but not Secured by Collateral
   - ______ Both Periodic Payment of Interest and Secured by Collateral

2. What is the relationship between current liabilities and a company's operating cycle?

   - ______ Liquidation of current liabilities is reasonably expected within the company's operating cycle (or one year if less).
   - ______ Current liabilities are the result of operating transactions.
   - ______ Current liabilities cannot exceed the amount incurred in one operating cycle.
   - ______ There is no relationship between the two.

3. On January 1, 2X13, Beyer Co. leased a building to Heins Corp. for a ten-year term at an annual rental of $80,000. At inception of the lease, Beyer received $320,000 covering the first two 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 two years of the lease. What portion of the $320,000 should be shown as a current and long-term liability, respectively, in Beyer's December 31, 2X13 balance sheet?

   - ______ Current Liability = $0; Long-term Liability = $320,000
   - ______ Current Liability = $80,000; Long-term Liability = $160,000
   - ______ Current Liability = $160,000; Long-term Liability = $160,000
   - ______ Current Liability = $160,000; Long-term Liability = $80,000

4. ___________________________ is a mathematical method used primarily to value debt securities without solely relying on quoted prices for the particular securities.

   - ______ The expected cash flow model.
   - ______ The present value model.
   - ______ Matrix pricing.
   - ______ Market multiples.

5. With items reported at fair value on a nonrecurring basis, it is unlikely that _________ inputs will be available.

   - ______ Level 0
   - ______ Level 3
   - ______ Level 2
   - ______ Level 1

6. When is a contingent liability recorded?

   - ______ When the amount can be reasonably estimated.
   - ______ When the future events are probable to occur and the amount can be reasonably estimated.

- ______ When the future events are probable to occur.
- ______ When the future events will possibly occur and the amount can be reasonably estimated.

7. Which of the following is the proper way to report a gain contingency?

- ______ As an accrued amount.
- ______ As deferred revenue.
- ______ As an account receivable with additional disclosure explaining the nature of the contingency.
- ______ As a footnote disclosure only.

8. Neer Co. has a probable loss that can only be reasonably estimated within a range of outcomes. No single amount within the range is a better estimate than any other amount. The loss accrual should be

- ______ Zero.
- ______ The minimum of the range.
- ______ The maximum of the range.
- ______ The mean of the range.

9. Which of the following is an example of a contingent liability?

- ______ Obligations related to product warranties.
- ______ Possible receipt from a litigation settlement.
- ______ Pending court case with a probable favorable outcome.
- ______ Tax loss carryforwards.

10. Which of the following is a condition for accruing a liability for the cost of compensation for future absences?

- ______ The obligation relates to the rights that vest or accumulate.
- ______ Payment of the compensation is probable.
- ______ The obligation is attributable to employee services already performed.
- ______ All of these are conditions for the accrual.

11. In a troubled debt restructuring in which the debt is continued with modified terms and the carrying amount of the debt is less than the total future cash flows,

- ______ A loss should be recognized by the debtor.
- ______ A gain should be recognized by the debtor.
- ______ A new effective-interest rate must be computed.
- ______ No interest expense or revenue should be recognized in the future.

12. For a troubled debt restructuring involving only a modification of terms, which of the following items specified by the new terms would be compared with the carrying amount of the debt to determine whether the debtor should report a gain on restructuring?

- ______ The total future cash payments.
- ______ The present value of the debt at the original interest rate.
- ______ The present value of the debt at the modified interest rate.
- ______ The amount of future cash payments designated as principal repayments.

13. Where is debt callable by the creditor reported on the debtor's financial statements?

- ______ Long-term liability.
- ______ Current liability if the creditor intends to call the debt within the year, otherwise a long-term liability.
- ______ Current liability if it is probable that creditor will call the debt within the year, otherwise a long-term liability.
- ______ Current liability.

14. If bonds are issued initially at a premium and the effective-interest method of amortization is used, interest expense in the earlier years will be
    - ______ Greater than if the straight-line method were used.
    - ______ Greater than the amount of the interest payments.
    - ______ The same as if the straight-line method were used.
    - ______ Less than if the straight-line method were used.

15. Under the effective-interest method of bond discount or premium amortization, the periodic interest expense is equal to
    - ______ The stated (nominal) rate of interest multiplied by the face value of the bonds.
    - ______ The market rate multiplied by the beginning-of-period carrying amount of the bonds.
    - ______ The market rate of interest multiplied by the face value of the bonds.
    - ______ The stated rate multiplied by the beginning-of-period carrying amount of the bonds.

16. When the effective-interest method is used to amortize bond premium or discount, the periodic amortization will
    - ______ Increase if the bonds were issued at a discount.
    - ______ Decrease if the bonds were issued at a premium.
    - ______ Increase if the bonds were issued at a premium.
    - ______ Increase if the bonds were issued at either a discount or a premium.

17. Fox Co. issued $100,000 of ten-year, 10% bonds that pay interest semiannually. The bonds are sold to yield 8%. One step in calculating the issue price of the bonds is to multiply the principal by the table value for
    - ______ 10 periods and 10% from the present value of $1 table.
    - ______ 20 periods and 5% from the present value of $1 table.
    - ______ 10 periods and 8% from the present value of $1 table.
    - ______ 20 periods and 4% from the present value of $1 table.

18. Reich, Inc. issued bonds with a maturity amount of $200,000 and a maturity ten years from date of issue. If the bonds were issued at a premium, this indicates that
    - ______ The effective yield or market rate of interest exceeded the stated (nominal) rate.
    - ______ The nominal rate of interest exceeded the market rate.
    - ______ The market and nominal rates coincided.
    - ______ No necessary relationship exists between the two rates.

19. Bonds payable issued with scheduled maturities at various dates are called
    - ______ Term Bonds, but not Serial Bonds
    - ______ Neither Term Bonds nor Serial Bonds
    - ______ Serial Bonds, but not Term Bonds

______ Serial Bonds or Term Bonds

20. The market price of a bond issued at a discount is the present value of its principal amount at the market (effective) rate of interest
    - ______ Minus the present value of all future interest payments at the market (effective) rate of interest.
    - ______ Minus the present value of all future interest payments at the rate of interest stated on the bond.
    - ______ Plus the present value of all future interest payments at the market (effective) rate of interest.
    - ______ Plus the present value of all future interest payments at the rate of interest stated on the bond.

21. The issue price of a bond is equal to the present value of the future cash flows for interest and principal when
    - ______ The bond is issued at par or at a premium, but not at a discount
    - ______ The bond is issued at par, but not at a premium and not at a discount
    - ______ The bond is issued at a discount or at a premium, but not at par
    - ______ The bond is issued at par, or at a discount, or at a premium

22. A debt instrument with no ready market is exchanged for property whose fair market value is currently indeterminable. When such a transaction takes place
    - ______ The present value of the debt instrument must be approximated using an imputed interest rate.
    - ______ It should not be recorded on the books of either party until the fair market value of the property becomes evident.
    - ______ The board of directors of the entity receiving the property should estimate a value for the property that will serve as a basis for the transaction.
    - ______ The directors of both entities involved in the transaction should negotiate a value to be assigned to the property.

23. When a note payable is issued for property, goods, or services, the present value of the note is measured by
    - ______ The fair value of the property, goods, or services.
    - ______ The market value of the note.
    - ______ Using an imputed interest rate to discount all future payments on the note.
    - ______ Any of these.

24. Discount on Notes Payable is charged to interest expense
    - ______ Equally over the life of the note.
    - ______ Only in the year the note is issued.
    - ______ Using the effective-interest method.
    - ______ Only in the year the note matures.

25. A company issued a current note payable with a stated 12% rate of interest to a bank. The bank charged a .5% loan origination fee and remitted the balance to the company. The effective interest rate paid by the company in this transaction is
    - ______ Equal to 12.5%.
    - ______ More than 12.5%.
    - ______ Less than 12.5%.
    - ______ Independent of 12.5%.

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