

York University AP/Adms 2500.03
Introduction to Financial Accounting
Midterm Examination #2 – Test Form A

Time: 3.0 hours

Summer 2011

Questions: 50

Instructions:

1. **Submit:** Only the pink mark sense sheet will be collected: you may keep this midterm examination paper. Mark your answers on it for later reference.
2. **Mark Sense Sheet:**
 - Record your name and student number and answer all questions on the computer mark sense sheet provided with an HB (soft lead) pencil. Bring several pencils in case one breaks. The computer will not recognize ink or hard lead pencils
 - Test Form is 'A' and Code is your Section (in the left column)
 - Fill in the bubbles for your name and student number in pencil (your phone number is not required). Leave the last column of the student number BLANK
 - If you change an answer, use a high quality eraser to completely remove the previous mark. If the computer senses two answers to a question, only the first scanned will be recognized.
3. **Exam Aids:**
 - Only calculators without alphanumeric programmable memories are allowed. It is strongly suggested you bring a couple of cheap 4 function computers to the exam in case one fails. Be prepared to be challenged by invigilators if you bring a “fancy” calculator.
 - Compact foreign language/English dictionaries may be used. However, these will be examined by invigilators. If there are any loose pages or handwriting in the dictionary, it will be seized and you will be charged with academic dishonesty.
 - In 2500, invigilators answer no questions of interpretation. They will pass along questions regarding possible errors/ typos/missing data to the head invigilator. If you believe a question contains an error and do not receive a response, make a detailed note on the front of your exam and submit it with your answer sheet.
4. **Exam Strategy**
 - Careful budgeting of time on an accounting exam is essential. Bring a watch and check your progress regularly. Poor time management is the most common reason for poor exam performance in accounting.
 - It is always a good idea to attempt the questions you deem easiest first. In an interrupted exam that is not restarted, your exam will be scored based on questions attempted.

- It is essential to transfer your answers to the grading sheet after each question in case the exam is interrupted by fire alarm.
- The last ten minutes of an exam should be devoted to double checking your transfers. What you submit is what is graded. If you have not transferred your answers to the mark sense sheet at the end of the exam, the invigilator will not wait. Your answer sheet will be seized and it will be graded based on whatever questions have choices filled in.
- Remember there is no penalty for guessing on a multiple choice computer graded exam. Submit a choice for every question. Also note that in 2500, choice (E) *None of the above* does indeed represent a frequent correct choice to questions.

5. **Exam room regulations:**

- All personal belongings either on the floor or at the front of the exam room. All items on your desk will be examined by invigilators
 - Bring appropriate ID as proof of registration. You will be required to sign in and show appropriate documentation. Students without ID will be allowed to write the exam, but will be photographed and asked to submit registration and photo ID to the School of Administrative Studies the next day.
 - No student may leave the exam in the first hour. No student may start the exam after an hour. Students requiring restroom visits must be accompanied by an invigilator.
 - The proctors will announce when there are 15 minutes remaining and any answers not transferred should be recorded at this time. No one is to leave their seat in the last 15 minutes.
 - When time is called, the proctors will go down the rows collecting your answer sheets and this exam paper. They will not wait and they will not accept your sheet once they have passed. Any violation of this protocol will result in a grade of zero recorded for the exam.

6. **Fire Alarms**

- A frequent occurrence in York exams. In the event of a fire alarm, you are to leave your exam and answer sheet face down on your desk and immediately proceed outside with coats and all personal belongings. Print your surname on the back of the exam so you know which seat to return to. An invigilator will lead the group outside to a place of safety. There is to be no talking during the evacuation or outside. Most rooms are cleared so that exams can recommence, within 30 minutes of the alarm. You will be told after this time whether to reenter the room and recommence the exam or to go home.

7. **Academic Dishonesty**

- You are reminded that cheating is a serious offense which can result in expulsion from university
- Exams at York are held in regular classrooms, which may involve tiered seating. Consequently, neck exercises are not allowed during exams. First instance of wandering eyes has the student relocated to the front of the room. Second instance results in seizure of paper.

Questions 1 to 5 are based on the following information about Guinevere Company

Guinevere Company has the following data extracted from its Accounts Receivable records at June 30, 2011

Customer	Balance	Current	31 -75 days	Over 75 days
A	\$8,000	\$5,000	\$2,000	\$1,000
B	\$2,000	-	\$2,000	-
C	\$4,000	\$4,000	-	-
D	\$9,000	\$2,000	\$1,000	\$6,000
E	\$3,000	\$2,000	-	\$1,000
F	\$6,000	\$6,000	-	-
G	\$7,000	\$3,000	\$3,000	\$1,000
Totals	\$39,000	\$22,000	\$8,000	\$9,000

- Guinevere’s sales terms are 1/15 n/30 and it records sales at the gross amount of the invoice.
- Guinevere’s year end is June 30
- The unadjusted balance in the Allowance for Doubtful Accounts at June 30 is \$8,000 dr.
- Guinevere makes average sales of \$2,000,000 per year and averages write offs of uncollectible balances of \$100,000 per year.
- Sales for the year ended June 30, 2010 are \$1,400,000 credit sales and \$400,000 cash sales
- Guinevere has a very conservative receivables management strategy.
- No adjusting entries have been recorded at June 30

Use the remaining space on this page and the back of the page for your calculations

QUESTION 1

If Guinevere uses the Allowance Method (percentage of sales) to estimate bad debts, the adjusting entry at June 30 to record the provision for uncollectible accounts would involve a credit to the “Allowance for Uncollectible Accounts” of:

- A) \$40,000
- B) \$70,000 ***
- C) \$78,000
- D) \$90,000
- E) Some other amount

QUESTION 2

If Guinevere used the Allowance Method (aging) to estimate bad debts and by a detailed review of the above aged trial balance decided that an allowance of \$30,000 was appropriate, then the adjusting entry on June 30 would involve a credit to the “Allowance for Uncollectible Accounts” of:

- A) \$30,000
- B) \$90,000
- C) \$38,000 ***
- D) \$8,000
- E) Some other amount

QUESTION 3

Assume that Guinevere does an aging analysis and adjusts its Allowance to a \$20,000 credit balance on June 30 and on July 4 it reads in the Toronto Star that customer F has gone bankrupt. Guinevere should:

- A) Say some unprintable words but make no accounting entry
- B) Make an entry debiting bad debt expense for \$6,000
- C) Make an entry debiting bad debt expense for \$10,000
- D) Make an entry crediting bad debt expense for \$6,000
- E) None of the above are correct statements ***

QUESTION 4

Assume the same information as in Question 3 (Customer F going bankrupt July 4). Assume also that on August 25 Guinevere receives a cheque in the mail from F Company for \$6,000 with the following note attached. “*The company has reorganized and is trying to restore its credit rating with all its former suppliers. Please accept this cheque with our apologies*”. Guinevere should:

- A) Make a debit to Cash and credit Miscellaneous Income
- B) Make a debit to Cash and credit Uncollectible Accounts Expense
- C) Make a debit to Cash and a credit to Accounts Receivable (after first reversing the write-off entry) ***
- D) Make a debit to Cash and a credit to “Advances from Customers”
- E) Some other entry

QUESTION 5

Assume that Guinevere had always been allowed under Canadian GAAP to use the Direct Write-Off Method because it had never experienced any bad debt losses in its history as a company. There isn’t even an “Allowance” account in its General Ledger Chart of Accounts. Under this assumption, the adjusting entry June 30 to record the provision for uncollectible accounts would involve:

- A) A debit to “Uncollectible Accounts Expense”
- B) A debit to “ Allowance for Uncollectible Accounts”
- C) No entry to be made ***
- D) A credit to “Uncollectible Accounts Expense”
- E) A credit to Accounts Receivable

End of Guinevere questions

QUESTION 6

Deuce Company counts its inventory of tires prior to preparing monthly financial statements on June 30. It uses the periodic inventory system. The warehouse actually contained 6884 tires, but the count team reported back to the accountant that there were 6284 tires and this number was used to adjust the accounting records. As a result of this, net income reported for the month ended June 30 would be:

- A) Overstated
- B) Understated ***

- C) Correctly stated
- D) There is insufficient information provided to make an assessment

QUESTION 7

Sweet Company has the following information in its accounting records:

Sales year to date \$5,000,000

Average mark-up on cost 20%

Cost of Goods Sold year to date would then be:

- A) \$3,750,000
- B) \$4,000,000
- C) \$4,25,0000
- D) \$4,166,667 ***
- E) Some other amount

QUESTION 8

Hot Pepper Company had the following information in its accounting records at year end:

Inventory Cost \$4,000,000

It estimates the net realizable value of this inventory is \$3,500,000. As a result of this information Culpepper would:

- A) Make no journal entry
- B) Make a journal entry debiting a gain on market appreciation for \$500,000
- C) Make a journal entry debiting the allowance for inventory valuation for \$500,000
- D) Make a journal entry debiting a loss on inventory decline for \$500,000 ***
- E) Make a journal entry crediting the allowance for inventory valuation for \$500,000

QUESTION 9

Gringo Company has just been formed and is deciding on its accounting policies for the first time. It wants an inventory costing flow assumption that results in the lowest reported profits. Prices have been falling for the past two years and there is no end in sight to this trend. Dingo would select the:

- A) LIFO method
- B) FIFO method ***
- C) Average Cost Method
- D) Gross Profit method
- E) Retail method

QUESTION 10

Juan Valdez buys a Mexican Government Savings Bond for \$30,000 Canadian Funds. The market rate of interest in Mexico is 10% and interest is compounded semi-annually. At the end of four years, Juan's investment will be worth (rounded to the nearest dollar):

- A) \$36,278
- B) \$39,110
- C) \$41,890
- D) \$54,224
- E) None of the above ***

QUESTION 11

Li Na wants to have \$40,000 saved up when she starts college in 6 years. Money is worth 8% and all investment opportunities she is looking at are compounded quarterly. How much should she deposit now?

- A) \$20,222
- B) \$23,454
- C) \$27,990
- D) \$30,004
- E) Some other amount ***

QUESTION 12

Donald Frump invests an inheritance of \$50,000 into an investment account that pays simple interest at 6% per annum and leaves it there for 48 months. The investment company sends him a cheque after 48 months. He immediately takes this cheque and buys an annuity from an insurance company that sends him an annual cheque for 10 years. The annuity is based on an effective interest rate of 6%, money compounded annually. How much will the annual cheque be (rounded to the nearest dollar)?

- A) \$6,676

- B) \$8,424 ***
- C) \$9,562
- D) \$10,888
- E) \$11,339
- F) Cannot be determined from the data provided

QUESTION 13

Needy Company wants to raise money from the issue of bonds and the Board of Directors authorizes the issue of \$9,000,000 of bonds in \$1,000 denominations with interest paid semi-annually to run for a term of 12 years until maturity. At the time of issue the stated rate of interest on the bonds is 6% and the market rate of interest is 4%. The proceeds from the bond issue will be:

- A) \$9,000,000
- B) \$9,885,340
- C) \$10,702,241 ***
- D) \$11,110,230
- E) Some other amount

QUESTION 14

Quinine Company has a 12/31 year end and buys a bottling machine to use in its manufacturing plant on September 12, 2009. The cost of the machine is \$300,000. Taxes, duty and freight on the machine totaled \$30,000. Expected salvage value is for the scrap value of the metal and is thought to be \$10,000. The company uses the units of production method and the machine is expected to last 5,000 machine hours. Actual usage in 2009 was 600 hours and in 2010 1,400 hours Depreciation expense recorded in 2010 would be:

- (A) \$89,600 ***
- (B) \$92,400
- (C) \$140,800
- (D) \$145,200
- (E) Some other amount

QUESTION 15

Attack Company buys a factory for \$9,000,000 on Jan 1 2004 with an estimated life of 30 years and no salvage value and depreciates the building using the straight line method. On January 1, 2006 it adds a \$1,000,000 addition to the building. On January 1, 2007 it revises the estimated life remaining to be 15 years. Attack always rounds its annual depreciation provision to the nearest dollar. The fiscal year end is December 31. Based on the information given, Attack's depreciation recorded in 2007 would be:

- A) \$355,666
- B) \$444,368
- C) \$562,820
- D) \$604,286 ***
- E) None of the above

QUESTION 16

Wabanaki Company has a machine with a cost of \$200,000 and accumulated depreciation of \$140,000. It trades with another company for a dissimilar machine that has an estimated fair market value of \$80,000 and also has to give the other company \$10,000. The new machine would be set up on Wabanaki's books at:

- A) \$60,000
- B) \$80,000 ***
- C) \$70,000
- D) \$90,000
- E) None of the above

QUESTION 17

Wolf Company has a patent that is 50% amortized sitting on the balance sheet with a carrying value of \$100,000. Another company infringes on the patent and Wolf sues. It incurs legal costs of \$300,000 but wins the lawsuit. Wolf should:

- a) Write off the patent
- b) Stop amortizing the \$100,000 as it has shown it has permanent value
- c) Capitalize the legal costs and continue amortization ***
- d) Restore the patent to its original value of \$200,000 and restart the amortization process
- e) None of the above

Use the following information on Zenith Company to answer questions 18 to 22

The Zenith Company sells tablet computers for outdoor use that are waterproof, shock resistant and run on solar power. The following information has been extracted from the records of Zenith:

January 1	Beginning Inventory	7,000 units @ \$4.00 each
January 10	Bought	12,000 units @ \$3.00 each
January 15	Sold	14,000 units @ \$8.00 each
January 30	Bought	8,000 units @ \$5.00 each

QUESTION 18

If Zenith uses the FIFO cost flow assumption and the perpetual method for inventory, the cost of goods sold for January, is

- A) \$40,000
- B) \$45,000
- C) \$49,000 ***
- D) \$55,000
- E) None of the above

QUESTION 19

If Zenith uses the LIFO cost flow assumption and the periodic method for inventory, the cost of goods sold for January, is

- A) \$44,000
- B) \$48,000
- C) \$55,000
- D) \$58,000 ***
- E) None of the above

QUESTION 20

If Zenith uses a perpetual bookkeeping system, the inventory was counted on January 31, the physical stock count revealed there were actually 12,000 units on hand. Zenith should:

- A) Do nothing
- B) Write down inventory and show lower income for January ***
- C) Write up inventory and show higher income
- D) Write down inventory but income remains the same
- E) None of the above

QUESTION 21

If Zenith bought on account a purchase of 4,000 units on January 28, terms FOB Destination, which was not received by the time of the January 31 physical inventory count, then Zenith should

- A) Ignore this purchase in the January financial statements ***
- B) Record the purchase in the January financial statements
- C) Add the 4,000 units to inventory but wait until the invoice is received to record the payable
- D) Record the payable but wait until the 4,000 units arrive to add them to inventory
- E) None of the above

QUESTION 22

If Star Company uses the weighted average method of costing inventory and the periodic inventory method and prices are rising during the period:

- A) Ending inventory will be valued at more than if FIFO were used
- B) Ending Inventory will be valued at less than if LIFO were used
- C) Since it uses the periodic method it must take into account the chronological order of purchases and sales
- D) The weighted average method can be used for units but not for costing
- E) None of the above are correct ***

QUESTION 23

Units of activity depreciation method

- A) Will always result in a smaller depreciation expense in the first year of depreciation than the straight line method
- B) Is not allowed under Canadian GAAP
- C) Always results in a larger depreciation expense in the first year of depreciation than the straight line method
- D) Multiplies a constant rate times the gross cost of the asset (ignores salvage)
- E) None of the above ***

QUESTION 24

The existence of a Bond Premium account in a firm's G/L implies that:

- A) It sold bonds publicly that offered an interest rate lower than the prevailing market rate of interest.
- B) It sold bonds publicly that offered an interest rate equal to the prevailing market rate of interest.
- C) It sold bonds publicly that offered an interest rate higher than the prevailing market rate of interest. ***
- D) We cannot ascertain such relationship simply from the existence of such an account
- E) None of the above

QUESTION 25

An NSF cheque:

- A) Is a cheque where customers have prepaid and it needs to be set up as a liability
- B) Is a cheque written by a firm to replenish Petty Cash
- C) Is a reconciling item on the bank reconciliation. ***
- D) Triggers a write off entry of the underlying receivable
- E) None of the above

QUESTION 26

Ho Ltd. is federally incorporated under the Canada Business Corporations Act and issues one share for \$10 and a second share for \$100 and a third share for \$1,000.

- A) Ho would assign the par value to the Share Capital account and the remainder to Contributed Surplus.
- B) The credit to the common shares account will be for \$1,110 ***
- C) The weighted average number of shares outstanding during the year cannot be computed without knowing the dates of issue
- D) Federally incorporated companies cannot issue shares at different prices
- E) None of the above are correct statements

QUESTION 27

If a Canadian corporation shows Net Income of \$100,000 then:

- A) It will pay tax on this income
- B) The \$100,000 is an after tax amount (tax already deducted) ***
- C) No income tax consequences are shown in the income statement as tax is paid only by the shareholders receiving dividends
- D) The income statement will show a tax expense but no liability is shown on the balance sheet because the liability is not computed until corporate income tax returns are filed.
- E) None of the above statements is correct

QUESTION 28

If a company issues a 20% stock dividend when you are holding 2,000 shares of the company's stock:

- A) You can expect to receive an additional 200 shares in the mail
- B) You can expect to receive an additional 2,000 shares in the mail
- C) The aggregate market value of your holdings will change on receipt of the additional shares
- D) The additional shares gives you a larger voting interest (more control) of the company
- E) None of the above statements are correct ***

QUESTION 29

A company declares a 3 for 1 stock split at a time when you are holding 300 shares of the company. Which of the following statements is correct?

- A) The company needs not make a journal entry for this event ***
- B) The market value of the company's stock will stay the same
- C) Your voting interest (control) of the company changes
- D) The company felt the stock price was trading at too low a level as probable justification for the split
- E) There are no correct statements above

QUESTION 30

Cashpoor Company is an electronics manufacturer and declares a property dividend to its shareholders intending to give each shareholder an item of inventory which is not selling well (3G network cellphones with unlockable SIM cards). The carrying value of each phone in the accounting records is \$100 and the current selling price is \$75. Because the aggregate value of its inventory of electronics exceeds the aggregate market value, no LCM writedown is appropriate.

Which statement is correct?

- A) Cashpoor will use \$100 as the basis of the charge to Retained Earnings
- B) Cashpoor will use \$75 as the basis of the charge to Retained Earnings ***
- C) Declaration of a property dividend does not require a charge to Retained Earnings
- D) Property dividends are not allowed in Canada
- E) Choices A, B, C and D are all false statements

QUESTION 31

Checker Co. buys \$500 of merchandise from a supplier subject to terms 2/10 n/30. Checker pays within the discount period and subsequently discovers the merchandise is all defective. It is all returned for full credit.

- A) The credit will be for \$500
- B) The credit will be for some other amount. ***
- C) The credit will be to the Purchases account in Checker's general ledger

- D) The credit will not necessitate a journal entry as it will just be offset against the next purchase
- E) None of the above statements are correct

QUESTION 32

Assume Cain lends \$1,000 to Abel and takes back a Note which matures in 1 year and the borrowing rate is 4% per annum.

- A) If the note is dishonoured on maturity then Abel will set up a receivable for more than \$1,000
- B) If the note is paid on maturity then Abel will record \$40 in interest income
- C) If the note is paid on maturity then Abel will record \$40 in interest expense ***
- D) If Cain prepares financial statements prior to the maturity date of the note, he will have to make an adjusting entry to set up the interest expense incurred
- E) None of the above statements is correct

QUESTION 33

Given the following data for Disang Company

Disang sells satellite phones for \$1,000 each with a one-year warranty against defects. Past experience indicates that 5 percent of the units will prove defective and that the average repair cost for each is \$100. This past year, 50,000 phones were sold, and 500 of these have already been returned for service.

- A) The estimated liability for warranties at year end is \$200,000 ***
- B) The estimated liability for warranties at year end is \$250,000
- C) The estimated liability for warranties at year end is \$ 50,000
- D) The estimated liability for warranties at year end is \$ 500,000
- E) None of the above

QUESTION 34

XYZ Corporation announces an offer to issue bonds with a \$100,000 par value, an 6% annual contract rate with interest payable semi-annually, and with a six year life at a time when the market rate of interest is 6%

- A) The bonds will sell for par ***

- B) The bonds will sell for less than par
- C) The bonds will sell for more than par
- D) The bonds will be unsellable at these terms
- E) None of the above

QUESTION 35

Assume that a firm issues bonds at a discount.

- A) Amortization of the discount using the straight line method will decrease the reported interest expense on the income statement
- B) Amortization of the discount using the effective interest method will result in a smaller reduction of the Bond Discount in each successive period
- C) Amortization of bond discount using the effective line method results in an equal interest expense each period
- D) Amortization using the straight line method produces a constant yield on the bonds which will be by definition equal to the market rate
- E) None of the above statements are correct. ***

QUESTION 36

Land with a building on it is bought for \$2,000,000 at a time when the market value of the land is \$1,000,000 and the market value of the building is \$400,000

- A) Each asset would be set up at \$1,000,000
- B) The assets would be shown together on the balance sheet as a single asset “ Land & Building” at \$2,000,000
- C) The two assets would be recorded at \$1,000,000 and \$400,000 respectively
- D) No depreciation will be taken on the building until such time as the market value drops below book value
- E) None of the above statements are correct ***

QUESTION 37

Given the following data

- Pay \$595,000 plus \$5,000 legal fees for land, building and equipment
 - Land is appraised for \$375,000, the building for \$300,000, and the equipment for \$75,000
 - cost \$3,000 to demolish an unneeded shed on the property
 - architectural fees of \$50,000 and additional construction costs of \$100,000 were incurred to adapt the building for its intended use
 - An additional \$20,000 was incurred for relocating and testing the equipment
- A) The building will show a higher cost on the balance sheet than the land ***
- B) The equipment will show on the balance sheet at \$60,000
- C) The \$3,000 demolition charge will be expensed immediately
- D) The legal fees should be expensed immediately
- E) None of the above statements is correct

QUESTION 38

Carrier Company buys a truck costing \$15,000. It is expected to last for 8 years but to be traded-in after 4 years for a newer model (the trade-in allowance is estimated at \$3,000).

- A) The truck will be depreciated over 8 years
- B) The truck will be depreciated over 4 years ***
- C) The truck will be depreciated at one rate the first 4 years and at a different rate the remaining 4 years
- D) The trade in allowance is not part of the depreciation calculation in calculating the annual provision
- E) None of the above statements is correct

QUESTION 39

Given the data in the previous question for the truck purchase by Carrier and the additional information that the truck is expected to be driven

20,000Km Yr 1
25,000 Km Yr 2
35,000 Km Yr 3

What is the depreciation expense in year 3 under the units of activity depreciation method.

- A) \$3,500
- B) \$3,900
- C) \$5,250 ***
- D) \$5,100
- E) None of the above

QUESTION 40

If a dividend is declared and paid by a corporation. Which statement below is false?

- A) A reduction in Net Assets will occur
- B) A reduction in Retained Earnings will occur
- C) A reduction in Owner's Equity will occur ***
- D) The Retained Earnings account will by definition still have a credit balance
- E) Liabilities will stay the same

QUESTION 41

Song Sue is a shareholder of Gene Company and receives a 2% stock dividend. Song:

- A) Will debit Cash and credit Dividend Income in her accounting records
- B) Will own a larger percentage of Generous than before
- C) Will own the same percentage of Generous as before ***

- D) Will only be legally entitled to such dividend if Generous has positive net income that year
- E) None of the above are correct statements

QUESTION 42

The Petty Cash Fund is set up at \$100 and currently has \$90 in receipts and \$10 in currency in the box.

- A) If an income statement is prepared before booking a replenishment entry than net income will be understated.
- B) The replenishment entry will be for \$10
- C) The replenishment entry will be for \$110
- D) The receipts are set up as miscellaneous receivables
- E) None of the above statements are correct ***

QUESTION 43

The recognition of a loss contingency as a liability before it actually occurs requires satisfying:

- A) One condition
- B) Two conditions ***
- C) Three conditions
- D) Four conditions
- E) A loss contingency is never recognized before it actually occurs

QUESTION 44

Which of the following statements is incorrect with respect to Bonds Payable?

- A) Convertible bonds can be converted into cash at the discretion of the bondholder ***
- B) Mortgage bonds are normally secured by real estate property
- C) Coupon bonds actually have perforated coupons attached which should be presented to receive interest payment
- D) A group of banks which undertakes to underwrite a bond issue is called an Investment Syndicate or Underwriting Syndicate
- E) Debenture bonds are unsecured

QUESTION 45

If a corporation is trying to decide whether to issue bonds or shares:

- A) The big advantage of shares is that dividends are tax deductible
- B) The bonds represent the riskier choice since interest has to be paid even if the company falls on hard times ***
- C) It will use a Trust company to issue either and an Underwriter to keep track of individual investors
- D) It will be influenced by the fact that issuing bonds results in a dilution of management control.
- E) None of the above

QUESTION 46

Which of the following statements with respect to Intangible Assets is correct?

- A) Advertising can be capitalized only when it can be shown to be directly related in increases in sales.
- B) Leasehold improvements are cash incentives provided by the Landlord to improve the property
- C) Copyrights have a 20 year life
- D) Patents should only be capitalized only when they are purchased from another company
- E) None of the above are correct statements ***

QUESTION 47

If Ace Company and Deuce Company trade machines, Ace should set up the new machine:

- A) At fair market value unless the machines are deemed similar and there is no culmination of the earnings process ***
- B) At the net book value of the machine given up
- C) At fair market value unless the machines are deemed dissimilar and there is culmination of the earnings process
- D) At zero since there was no cash paid
- E) None of the above are correct statements

QUESTION 48

The basket purchase method is:

- (A) The same method as the relative sales value method
- (B) Used to combine assets into single categories on the balance sheet
- (C) A method which allocates costs based on the fraction of book value that each component is to the total

- (D) Based on estimated values
- (E) Two of the statements in choices A, B, C and D are correct ***

QUESTION 49

A change in accounting estimate is handled:

- A) Simultaneously
- B) Prospectively ***
- C) Retroactively
- D) At fair market value
- E) Some other way

QUESTION 50

The father of accounting is:

- (A) Gaber
- (B) Ravioli
- (C) Pacioli ***
- (D) Debere
- (E) Legere