

## **DEVRY ACCT 553 Midterm Exam**

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1. (TCO C) Under current accounting practice, intangible assets are classified as  
(Points: 5)  
  
amortizable or unamortizable.  
limited-life or indefinite-life.  
specifically identifiable or goodwill-type.  
legally restricted or goodwill-type.
2. (TCO C) Which of the following intangible assets should not be amortized?  
(Points: 5)  
  
Copyrights  
Customer lists

**Perpetual franchises**  
**All of these intangible assets should be amortized.**

3. (TCO C) The intangible asset goodwill may be (Points: 5)

**capitalized only when purchased.**  
**capitalized either when purchased or created internally.**  
**capitalized only when created internally.**  
**written off directly to retained earnings.**

4. (TCO C) ELO Corporation purchased a patent for \$90,000 on September 1, 2008. It had a useful life of ten years. On January 1, 2010, ELO spent \$22,000 to successfully defend the patent in a lawsuit. ELO feels that as of that date, the remaining useful life is five years. What amount should be reported for patent amortization expense for 2010? (Points: 5)

**\$20,600.**  
**\$20,000.**  
**\$18,800.**  
**\$15,600.**

5. (TCO C) During 2011, Bond Company purchased the net assets of May Corporation for \$1,000,000. On the date of the transaction, May had \$300,000 of liabilities. The fair value of May's assets when acquired were as follows:

**How should the \$500,000 difference between the fair value of the net assets acquired (\$1,500,000) and the cost (\$1,000,000) be accounted for by Bond? (Points: 5)**

**The \$500,000 difference should be credited to retained earnings.**

**The \$500,000 difference should be recognized as a gain.**

**The current assets should be recorded at \$540,000 and the noncurrent assets should be recorded at \$760,000.**

**A deferred credit of \$500,000 should be set up and then amortized to income over a period not to exceed forty years.**

6. (TCO D) Which of the following is a condition for accruing a liability for the cost of compensation for future absences? (Points: 5)

**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.

7. (TCO D) Which of the following taxes does not represent a payroll deduction a company may incur? (Points: 5)

Federal income taxes.

FICA taxes.

State unemployment taxes.

State income taxes.

8. (TCO D) Assume that a manufacturing corporation has (1) good quality control, (2) a one-year operating cycle, (3) a relatively stable pattern of annual sales, and (4) a continuing policy of guaranteeing new products against defects for three years that has resulted in material but rather stable warranty repair and replacement costs. Any liability for the warranty (Points: 5)

should be reported as long-term.

should be reported as current.

should be reported as part current and part long-term.

need not be disclosed.

9. (TCO D) Jenkins Corporation has \$2,500,000 of short-term debt it expects to retire with proceeds from the sale of 75,000 shares of common stock. If the stock is sold for \$20 per share subsequent to the balance sheet date, but before the balance sheet is issued, what amount of short-term debt could be excluded from current liabilities? (Points: 5)

\$1,500,000

\$2,500,000

\$1,000,000

\$0

10. (TCO D) Tender Foot Inc. is involved in litigation regarding a faulty product sold in a prior year. The company has consulted with its attorney and determined that it is possible that they may lose the case. The attorneys estimated that there is a 40% chance of losing. If this is the case, their attorney estimated that the amount of any payment would be \$500,000. What is the required journal entry as a result of this litigation? (Points: 5)

Debit Litigation Expense for \$500,000 and credit Litigation liability for \$500,000.

No journal entry is required.

Debit Litigation Expense for \$200,000 and credit Litigation Liability for \$200,000.

Debit Litigation Expense for \$300,000 and credit Litigation Liability for \$300,000.

11. (TCO D) If bonds are initially sold at a discount and the straight-line method of amortization is used, interest expense in the earlier years will (Points: 5)  
 exceed what it would have been had the effective-interest method of amortization been used.  
 be less than what it would have been had the effective-interest method of amortization been used.  
 be the same as it would have been had the effective-interest method of amortization been used.  
 be less than the stated (nominal) rate of interest.
12. (TCO D) When the interest payment dates of a bond are May 1 and November 1, and a bond issue is sold on June 1, the amount of cash received by the issuer will be (Points: 5)  
 decreased by accrued interest from June 1 to November 1.  
 decreased by accrued interest from May 1 to June 1.  
 increased by accrued interest from June 1 to November 1.  
 increased by accrued interest from May 1 to June 1.
13. (TCO D) Feller Company issues \$20,000,000 of ten-year, 9% bonds on March 1, 2010 at 97 plus accrued interest. The bonds are dated January 1, 2010, and pay interest on June 30 and December 31. What is the total cash received on the issue date? (Points: 5)  
 \$19,400,000  
 \$20,450,000  
 \$19,700,000  
 \$19,100,000
14. (TCO D) A company issues \$20,000,000, 7.8%, 20-year bonds to yield 8% on January 1, 2010. Interest is paid on June 30 and December 31. The proceeds from the bonds are \$19,604,145. What is interest expense for 2011, using straight-line amortization? (Points: 5)  
 \$1,540,207  
 \$1,560,000  
 \$1,569,192  
 \$1,579,793
15. (TCO D) On January 1, Patterson Inc. issued \$5,000,000, 9% bonds for \$4,695,000. The market rate of interest for these bonds is 10%. Interest is payable annually on December 31. Patterson uses the effective-interest method of amortizing bond discount. At the end of the first year, Patterson should report unamortized bond discount of (Points: 5)  
 \$274,500.

\$285,500.  
\$258,050.  
\$255,000.

(TCO C) Sisco Co. purchased a patent from Thornton Co. for \$180,000 on July 1, 2008. Expenditures of \$68,000 for successful litigation in defense of the patent were paid on July 1, 2011. Sisco estimates that the useful life of the patent will be 20 years from the date of acquisition.

**Instructions:**

Prepare a computation of the carrying value of the patent at December 31, 2011.

(TCO C) Fred's Company is considering the write-off of a limited life intangible asset because of its lack of profitability. Explain to the management of Fred's how to determine whether a writeoff is permitted.

3. (TCO D) Edwards Co. includes one coupon in each bag of dog food it sells. In return for four coupons, customers receive a dog toy that the company purchases for \$1.20 each. Edwards's experience indicates that 60 percent of the coupons will be redeemed. During 2010, 100,000 bags of dog food were sold, 12,000 toys were purchased, and 40,000 coupons were redeemed. During 2011, 120,000 bags of dog food were sold, 16,000 toys were purchased, and 60,000 coupons were redeemed.

**Instructions:**

Determine the premium expense to be reported in the income statement and the estimated liability for premiums on the balance sheet for 2010 and 2011.

4. (TCO D) Grider Industries, Inc. issued \$6,000,000 of 8% debentures on May 1, 2010 and received cash totaling \$5,323,577. The bonds pay interest semiannually on May 1 and November 1. The maturity date on these bonds is November 1, 2018. The firm uses the effective-interest method of amortizing discounts and premiums. The bonds were sold to yield an effective-interest rate of 10%.

**Instructions:**

Calculate the total dollar amount of discount or premium amortization during the first year (5/1/10 through 4/30/11) these bonds were outstanding. (Show computations and round to the nearest dollar.)

5. (TCO D) Hurst, Incorporated sold its 8% bonds with a maturity value of \$3,000,000 on August 1, 2009 for \$2,946,000. At the time of the sale, the bonds had five years until they reached maturity. Interest on the bonds is payable semiannually on August 1 and February 1. The bonds are callable at 104 at any time after August 1, 2011. By October 1, 2011, the market rate of interest has declined and the market price of Hurst's bonds has risen to a price of 101. The firm decides to refund the

**bonds by selling a new 6% bond issue to mature in five years. Hurst begins to reacquire its 8% bonds in the market and is able to purchase \$500,000 worth at 101. The remainder of the outstanding bonds is reacquired by exercising the bonds' call feature. In the final analysis, how much was the gain or loss experienced by Hurst in reacquiring its 8% bonds? (Assume the firm used straight-line amortization.) Show calculations.**