1. Carlton Co. manufactures equipment that is sold or leased. On December 31, 2001, Carlton leased equipment to Acme for a five-year period ending December 31, 2006, at which date ownership of the leased asset will be transferred to Acme. Equal payments under the lease are $66,000 (including $6,000 executory costs) and are due on December 31 of each year. The first payment was made on December 31, 2001. Collectibility of the remaining lease payments is reasonably assured, and Carlton has no material cost uncertainties. The normal sales price of the equipment is $231,000, and cost is $180,000. For the year ended December 31, 2001, what amount of income should Carlton realize from the lease transaction?
   a. $51,000.
   b. $66,000.
   c. $69,000.
   d. $99,000.

2. In a lease that is recorded as a sales-type lease by the lessor, interest revenue
   a. should be recognized in full as revenue at the lease's inception.
   b. should be recognized over the period of the lease using the straight-line method.
   c. should be recognized over the period of the lease using the effective interest method.
   d. does NOT arise.

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On January 2, 2001, Hernandez, Inc. signed a ten-year noncancelable lease for a heavy duty drill press. The lease stipulated annual payments of $70,000 starting at the end of the first year, with title passing to Hernandez at the expiration of the lease. Hernandez treated this transaction as a capital lease. The drill press has an estimated useful life of 15 years, with no salvage value. Hernandez uses straight-line depreciation for all of its plant assets. Aggregate lease payments were determined to have a present value of $420,000, based on implicit interest of 10%.

3. In its 2001 income statement, what amount of depreciation expense should Hernandez report from this lease transaction?
   a. $70,000.
   b. $46,667.
   c. $42,000.
   d. $28,000.

4. A lessee had a ten-year capital lease requiring equal annual payments. The reduction of the lease liability in year 2 should equal
   a. the current liability shown for the lease at the end of year 1.
   b. the current liability shown for the lease at the end of year 2.
   c. the reduction of the lease obligation in year 1.
   d. one-tenth of the original lease liability.
5. On December 31, 2001, Sanford, Inc. leased machinery with a fair value of $420,000 from Cey Rentals Co. The agreement is a six-year noncancelable lease requiring annual payments of $80,000 beginning December 31, 2001. The lease is appropriately accounted for by Sanford as a capital lease. Sanford's incremental borrowing rate is 11%. Sanford knows the interest rate implicit in the lease payments is 10%.

The present value of an annuity due of 1 for 6 years at 10% is 4.7908.
The present value of an annuity due of 1 for 6 years at 11% is 4.6959.

In its December 31, 2001 balance sheet, Sanford should report a lease liability of
a. $303,264.
b. $340,000.
c. $375,672.
d. $383,264.

6. Included in Stoner Corp.'s liability account balances at December 31, 2001, were the following:

14% note payable issued October 1, 2001, maturing September 30, 2002 $250,000
16% note payable issued April 1, 2001, payable in six equal annual installments of $100,000 beginning April 1, 2002 600,000

Stoner's December 31, 2001 financial statements were issued on March 31, 2002. On January 15, 2002, the entire $600,000 balance of the 16% note was refinanced by issuance of a long-term obligation payable in a lump sum. In addition, on March 10, 2002, Stoner consummated a noncancelable agreement with the lender to refinance the 14%, $250,000 note on a long-term basis, on readily determinable terms that have not yet been implemented. On the December 31, 2001 balance sheet, the amount of the notes payable that Stoner should classify as short-term obligations is
a. $350,000.
b. $250,000.
c. $100,000.
d. $0.
7. On December 31, 2001, Gant Co. has $4,000,000 of short-term notes payable due on February 14, 2002. On January 10, 2002, Gant arranged a line of credit with County Bank which allows Gant to borrow up to $3,000,000 at one percent above the prime rate for three years. On February 2, 2002, Gant borrowed $2,400,000 from County Bank and used $1,000,000 additional cash to liquidate $3,400,000 of the short-term notes payable. The amount of the short-term notes payable that should be reported as current liabilities on the December 31, 2001 balance sheet which is issued on March 5, 2002 is
a. $0.
b. $600,000.
c. $1,000,000.
d. $1,600,000.

8. Deltoid Corp. signed a three-month, zero-interest-bearing note on November 1, 2001 for the purchase of $40,000 of inventory. The face value of the note was $40,588. Assuming Deltoid used a "Discount on Note Payable" account to initially record the note and that the discount will be amortized equally over the three-month period, the adjusting entry made at December 31, 2001 will include a
a. debit to Discount on Note Payable for $196.
b. debit to Interest Expense for $392.
c. credit to Discount on Note Payable for $196.
d. credit to Interest Expense for $392.

9. Which of the following statements is correct?
   a. A company may exclude a short-term obligation from current liabilities if the firm intends to refinance the obligation on a long-term basis.
   b. A company may exclude a short-term obligation from current liabilities if the firm can demonstrate an ability to consummate a refinancing.
   c. A company may exclude a short-term obligation from current liabilities if it is paid off after the balance sheet date and subsequently replaced by long-term debt before the balance sheet is issued.
   d. None of these.

10. If a corporation purchases a lot and building and subsequently tears down the building and uses the property as a parking lot, the proper accounting treatment of the cost of the building would depend on
    a. the significance of the cost allocated to the building in relation to the combined cost of the lot and building.
    b. the length of time for which the building was held prior to its demolition.
    c. the contemplated future use of the parking lot.
    d. the intention of management for the property when the building was acquired.
11. Cotton Hotel Corporation recently purchased Holiday Hotel and the land on which it is located with the plan to tear down the Holiday Hotel and build a new luxury hotel on the site. The cost of the Holiday Hotel should be
a. depreciated over the period from acquisition to the date the hotel is scheduled to be torn down.
b. written off as an extraordinary loss in the year the hotel is torn down.
c. capitalized as part of the cost of the land.
d. capitalized as part of the cost of the new hotel.

12. Which of the following is NOT a major characteristic of a plant asset?
   a. Possesses physical substance
   b. Acquired for resale
   c. Acquired for use
   d. Yields services over a number of years

13. Which of the following assets do NOT qualify for capitalization of interest costs incurred during construction of the assets?
   a. Assets under construction for an enterprise's own use.
   b. Assets intended for sale or lease that are produced as discrete projects.
   c. Assets financed through the issuance of long-term debt.
   d. Assets not currently undergoing the activities necessary to prepare them for their intended use.

14. When computing the amount of interest cost to be capitalized, the concept of "avoidable interest" refers to
   a. the total interest cost actually incurred.
   b. a cost of capital charge for stockholders' equity.
   c. that portion of total interest cost which would not have been incurred if expenditures for asset construction had not been made.
   d. that portion of average accumulated expenditures on which no interest cost was incurred.

15. The period of time during which interest must be capitalized ends when
   a. the asset is substantially complete and ready for its intended use.
   b. no further interest cost is being incurred.
   c. the asset is abandoned, sold, or fully depreciated.
   d. the activities that are necessary to get the asset ready for its intended use have begun.
16. Which of the following statements is true regarding capitalization of interest?
   a. Interest cost capitalized in connection with the purchase of land to be used as a building site should be debited to the land account and not to the building account.
   b. The amount of interest cost capitalized during the period should not exceed the actual interest cost incurred.
   c. When excess borrowed funds not immediately needed for construction are temporarily invested, any interest earned should be offset against interest cost incurred when determining the amount of interest cost to be capitalized.
   d. The minimum amount of interest to be capitalized is determined by multiplying a weighted average interest rate by the amount of average accumulated expenditures on qualifying assets during the period.

17. When funds are borrowed to pay for construction of assets that qualify for capitalization of interest, the excess funds not needed to pay for construction may be temporarily invested in interest-bearing securities. Interest earned on these temporary investments should be
   a. offset against interest cost incurred during construction.
   b. used to reduce the cost of assets being constructed.
   c. multiplied by an appropriate interest rate to determine the amount of interest to be capitalized.
   d. recognized as revenue of the period.

18. For a nonmonetary exchange of plant assets, accounting recognition should NOT be given to
   a. a loss when the assets exchanged are similar.
   b. a gain when the assets exchanged are dissimilar.
   c. part of a gain when the assets exchanged are similar and cash is paid.
   d. part of a gain when the assets exchanged are similar and cash is received.

19. During 2001, Elston Co. incurred average accumulated expenditures of $300,000 during construction of assets that qualified for capitalization of interest. The only debt outstanding during 2001 was a $400,000, 10%, 5-year note payable dated January 1, 1999. What is the amount of interest that should be capitalized by Elston during 2001?
   a. $0.
   b. $10,000.
   c. $30,000.
   d. $40,000.
20. During 2001, Allen Corporation constructed assets costing $500,000. The weighted-average accumulated expenditures on these assets during 2001 was $300,000. To help pay for construction, $220,000 was borrowed at 10% on January 1, 2001, and funds not needed for construction were temporarily invested in short-term securities, yielding $4,500 in interest revenue. Other than the construction funds borrowed, the only other debt outstanding during the year was a $250,000, 10-year, 9% note payable dated January 1, 1995. What is the amount of interest that should be capitalized by Allen during 2001?
   a. $30,000.
   b. $15,000.
   c. $29,200.
   d. $47,200.

21. Fisher Company exchanged 500 shares of Dolan Company common stock, which Fisher was holding as an investment, for equipment from West Company. The Dolan Company common stock, which had been purchased by Fisher for $50 per share, had a quoted market value of $58 per share at the date of exchange. The equipment had a recorded amount on West's books of $26,500. What journal entry should Fisher make to record this exchange?
   a. Equipment ........................................ 25,000
      Investment in Dolan Co. Common Stock ... 25,000
   b. Equipment ........................................ 26,500
      Investment in Dolan Co. Common Stock ... 25,000
      Gain on Disposal of Investment ......... 1,500
   c. Equipment ........................................ 26,500
      Loss on Disposal of Investment ............ 2,500
      Investment in Dolan Co. Common Stock ... 29,000
   d. Equipment ........................................ 29,000
      Investment in Dolan Co. Common Stock ... 25,000
      Gain on Disposal of Investment ......... 4,000

22. Pitt Co. exchanged similar nonmonetary assets with Young Co. No cash was exchanged. The carrying amount of the asset surrendered by Pitt exceeded both the fair value of the asset received and Young's carrying amount of that asset. Pitt should recognize the difference between the carrying amount of the asset it surrendered and a. the fair value of the asset it received as a loss.
   b. the fair value of the asset it received as a gain.
   c. Young's carrying amount of the asset it received as a loss.
   d. Young's carrying amount of the asset it received as a gain.
23. Net realizable value is
   a. acquisition cost plus costs to complete and sell.
   b. selling price.
   c. selling price plus costs to complete and sell.
   d. selling price less costs to complete and sell.

24. In a period of rising prices, the inventory method which tends to give the highest reported inventory is
   a. FIFO.
   b. moving average.
   c. LIFO.
   d. weighted-average.

25. When an investment in an available-for-sale security is transferred to trading because the company anticipates selling the stock in the near future, the carrying value assigned to the investment upon entering it in the trading portfolio should be
   a. its original cost.
   b. its fair value at the date of the transfer.
   c. the higher of its original cost or its fair value at the date of the transfer.
   d. the lower of its original cost or its fair value at the date of the transfer.

26. APB OPINION NO. 21 specifies that, regarding the amortization of a premium or discount on a debt security, the
   a. effective interest method of allocation must be used.
   b. straight-line method of allocation must be used.
   c. effective interest method of allocation should be used but other methods can be applied if there is no material difference in the results obtained.
   d. par value method must be used and therefore no allocation is necessary.

27. When a company holds between 20% and 50% of the outstanding stock of an investee, which of the following statements applies?
   a. The investor should always use the equity method to account for its investment.
   b. The investor should use the equity method to account for its investment unless circumstances indicate that it is unable to exercise "significant influence" over the investee.
   c. The investor must use the fair value method unless it can clearly demonstrate the ability to exercise "significant influence" over the investee.
   d. The investor should always use the fair value method to account for its investment.
28. Byner Corporation accounts for its investment in the common stock of Yount Company under the equity method. Byner Corporation should ordinarily record a cash dividend received from Yount as
a. a reduction of the carrying value of the investment.
b. additional paid-in capital.
c. an addition to the carrying value of the investment.
d. dividend income.

29. Under the equity method of accounting for investments, an investor recognizes its share of the earnings in the period in which the
a. investor sells the investment.
b. investee declares a dividend.
c. investee pays a dividend.
d. earnings are reported by the investee in its financial statements.

30. Sloan Company's trading securities portfolio which is appropriately included in current assets is as follows:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2001</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cost</td>
</tr>
<tr>
<td>Arlington Corp.</td>
<td>$260,000</td>
</tr>
<tr>
<td>Downs, Inc.</td>
<td>245,000</td>
</tr>
<tr>
<td></td>
<td>$505,000</td>
</tr>
</tbody>
</table>

Ignoring income taxes, what amount should be reported as a charge against income in Sloan's 2001 income statement if 2001 is Sloan's first year of operation?
a. $0.
b. $20,000.
c. $30,000.
d. $50,000.