ACCT 311 Intermediate Accounting II Final Exam with Answers

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1. On January 1 of the current year, Tire Company enters into a five-year lease agreement for production equipment. The lease requires Tire Co to pay $12,500 per year in lease payments. At the end of the five-year lease term, Tire Co can purchase the equipment for $30,000. The fair value of the equipment $75,000. The estimated useful life of the equipment is 10 years. The present value of the lease payments is $50,000. The present value of the purchase option is $20,000. Tire's controller believes the purchase option price is sufficiently below the expected fair value of the equipment at the date the option becomes exercisable to reasonably assure its exercise. Tire Co would normally depreciate equipment of this type using the straight-line method. What amount is the carrying value of the asset related to this lease at December 31, of the current year?
2. A company leases trucks and properly classifies the leases into capital leases. The leases have a ten-year term and the lease calculations were done three years ago when interest rates were lower. Which of the following is the appropriate accounting treatment, if any, for the application of the fair value option to lease transactions?
3. An asset group is being evaluated for an impairment loss. The following financial information is available for the asset group:
Carrying Value: $100,000,000
Sum of the undiscounted cash flows   95,000,000
Fair value   80,000,000
4. A company has an operating lease for its office space. The lease term is 120 months and requires monthly rent of $15,000. As an incentive for the company to enter into the lease, the lessor granted the first eight months' rent at no cost. What amount of monthly rent/lease expense should be recognized over the life of the lease?
5. Sean's trial balance has the following selected items:
Cash (includes $10,000 in a bond sinking fund
for long-term bond payables) $50,000
Accounts receivable   20,000
Allowance for doubtful accounts   5,000
Deposits received from customers   3,000
Merchandise inventory   7,000
Unearned rent   1,000
Investment in Trading Securities   2,000

What amount should Sean report as total current assets in its balance sheet?
6. A note payable was issued in payment for services received. The services had a fair value less than the face amount of the note payable. The note payable has no stated interest rate. How should the note payable ne presented in the balance sheet?
7. Based on the stock transactions below, what is the weighted average number of shares outstanding as of December 21, Year 1, that should be used in the calculation of basic earnings per share in the financial statements issued on March 1, Year 2?
8. On January 1, 2016, a company's new president was awarded a $200,000 bonus that would be paid out in two $100,000 installments in 2018 (year 3) and 2019 (year 4) of employment, contingent on