EXAM REVIEW – CHAPTERS 7, 8, 9

STUDY SUGGESTIONS

- Review your class notes, homework exercises and problems.
- Be sure to review any chapter appendicies assigned on the General Course Outline.
- Review **Demonstration Problem, Summary and Key Terms** at the end of each chapter.
- Answer the **Multiple Choice Quiz** at the end of each chapter.
- Answer **Multiple Choice Quiz A and B** on the textbook website www.mhhe.com/wild .
- Know accounting terms and concepts by answering the **Discussion Questions** at the end of each chapter.
- Know the account classification (i.e. asset, liability, or owner's equity) and normal balance of all accounts.
- Know what the financial ratios mean and how to calculate them.
- Other online help is available ay a variety of sites such as:

Key Terms and Concepts to Know

Chapter 7 – Accounting for Receivables

- **Direct write-off method**
    - Journal entry to write off uncollectible account receivable
    - Journal entry to record customer payment of an account receivable previously written off
- **Allowance method.**
    - Reasons for using the Allowance account
    - Percent of sales method to estimate bad debt expense
    - Percent of Receivables Method to estimate bad debt expense
    - Journal entry to record bad debt expense for the period
    - Analyzing the allowance account to determine ending balance
    - Journal entry to write off uncollectible account receivable
    - Journal entry to record customer payment of an account receivable previously written off
- **Notes Receivable**
    - Computing the interest earned, term, maturity date and maturity value of a note
    - Journal entries to record issuance of a note, honoring the note at maturity date and dishonoring the note at maturity date
    - Accruing interest revenue at the end of a period prior to maturity date.

- **Selling or pledging receivables**
- **Accounts receivable turnover ratio**

Chapter 8 - Accounting for Long-Term Assets

- Determining the cost of long-term assets.
- Classify fixed asset costs as either capital expenditures or revenue expenditures (operating expenses).
- **Depreciation Expense and Accumulated Depreciation**
  - Compute depreciation expense the using straight-line, the units-of-production, and the declining-balance methods.
  - Adjust depreciation expense calculations when the asset is owned for less than a full year (partial year depreciation).
  - Compute and journalize adjustments to depreciation for changes in estimates, such as salvage value or useful life.
- Acquiring and depleting natural resources, such as timber or minerals
- Acquiring and amortizing intangible assets, such as patents and copyrights.
- **Disposal of fixed assets:**
  - Discarding assets
  - Selling assets
- Compute total asset turnover.

Chapter 9 – Accounting for Current Liabilities

- Liabilities are probable future payments for which there are current obligations to pay due to the occurrence of past events.
- Classify liabilities as current or long-term
- Three different types of current liabilities:
  - Determinable - known and determinable in amount
  - Estimated – known and the amount can be reasonably estimated
  - Contingent - depends upon a probable future event occurring; amount may be known or reasonably estimated
- **Notes Payable**
  - Computing the interest expense, term, maturity date and maturity value of a note
  - Journal entries to record issuance of a note and honoring the note at maturity date
  - Accruing interest expense at the end of a period prior to maturity date.
- Accounting for other accrued liabilities such as warranties, vacation, bonus and deferred revenue.
- Times interest earned ratio.

Practice Problems

Problem 1 - Uncollectible Receivables

a) What are the two methods of accounting for uncollectible receivables?
b) What is the journal entry used to write-off an uncollectible account when using the direct write-off method?
c) What is the journal entry used to write-off an uncollectible account when using the allowance method?
d) What is the journal entry used to reinstate an account when using the direct write-off method?
e) What is the journal entry used to reinstate an account when using the allowance method?
f) What are the two methods used to estimate uncollectible accounts expense when using the allowance method?

Problem 2 - Estimated uncollectible amounts based on sales

Before year-end adjustment, the Allowance for Doubtful Accounts has a credit balance of $25,000. Uncollectible accounts are estimated as 1% of credit sales, which were $1,500,000. The accounts receivable balance is $325,000.

a) What is the uncollectible accounts expense for the period?
b) What is the journal entry required?
c) What is the balance of the Allowance for Doubtful Accounts after adjustment?
d) What is the net realizable value of the receivables after adjustment?

Problem 3 - Estimated uncollectible amounts based on analysis (aging) of receivables

Before the year-end adjustment the Allowance for Doubtful Accounts has a debit balance of $5,000. Using the aging of receivables method, the desired balance of the Allowance for Doubtful Accounts is estimated as $35,000.

a) What is the uncollectible accounts expense for the period?
b) What is the journal entry required?
c) What is the balance of the Allowance for Doubtful Accounts after adjustment?
d) If the accounts receivable balance is $325,000, what is the net realizable value of the receivables after adjustment?

Problem 4 - Entries for receipt and dishonor of note receivable

A 60-day, 12% note for $15,000, dated March 1 is received from a customer on account. The maker dishonors the note at maturity.

a) What is the journal entry to record the receipt of the note?
b) What is the maturity date of the note?
c) What is the maturity value of the note?
d) What is the journal entry to record the dishonor of the note receivable?

Problem 5 - Compute Accounts receivable turnover ratio

The Nicholas Company had net sales on account of $6,570,000 during 1998. The beginning and ending accounts receivable were $475,000 and 535,000 respectively. Compute the accounts receivable turnover ratio.

Problem 6 - Straight-line depreciation

A machine with a cost of $50,000 has an estimated residual value of $5,000 and an estimated useful life of 5 years.
What is the amount of annual depreciation computed by the straight-line method?

Problem 7 - Depreciation by the units-of-production method

A truck that cost $40,000 has a residual value of $5,000 and an estimated useful life of 100,000 miles.

a) Compute the depreciation rate per mile.
b) Compute the first year's depreciation if the truck was driven 12,000 miles?

Problem 8 - Depreciation by the declining-balance method

Production equipment acquired at the beginning of the year at a cost of $85,000 has an estimated residual value of $10,000 and an estimated useful life of 10 years. It is depreciated using the declining-balance method at twice the straight-line rate.

a) What is the depreciation expense for the first year?
b) What is the depreciation expense for the second year?

Problem 9 - Disposal of fixed asset

A metal stamping machine acquired on January 1, 1990 at a cost of $ 55,000 had an estimated residual value of $ 5,000 and an estimated life of 10 years. It was sold on July 1, 1998 for $ 10,000.

a) What was the annual depreciation using the straight-line method?
b) What was the book value on July 1, 1998 when it was sold?
c) Journalize the entry to record the sale, including the depreciation for the current year.

Problem 10 - Depletion entries

Bosch Company acquired mineral rights for $15,000,000. The mineral deposit is estimated at 60,000,000 tons. During the current year 11,500,000 tons were mined and sold for $3,500,000.

a) Determine the amount of depletion expense for the current year.
b) Journalize the adjusting entry to recognize the expense.

Problem 11 - Amortization of patent rights

On January 2, 1998, the Jackson Corporation acquired patent rights from the Cooper Company for $85,000, incurring legal costs of $5,000. Although the patent will not expire for 17 years, its estimated useful is only 15 years. Journalize the entry to amortize the patent at the end of the current fiscal year.

Problem 12 - Classifying liabilities

Axis Company has the following liabilities on its trial balance:

Notes Payable due in 7 months
Wages Payable
Mortgage Payable due in 10 years
Note payable due in 15 moths payable
Monthly FICA Taxes Payable
Notes Payable due in 7 months
Wages Payable

Classify each liability as either current or long-term.

Problem 13 – Contingent Liabilities

Jones Inc. is the defendant in two lawsuits. They expect to lose the first case and estimate that the damages will be approximately $1,000,000. Although they expect to prevail in the second case, the damages will be approximately $500,00 if they lose. Identify which lawsuit(s) should be recorded as a liability and the reason for the liability.

Problem 14 – Deferred Revenue

As of October 31, a concert promoter received $5,000,000 for advance ticket sales for a series of four concerts beginning November 5. Record the journal entries for October 31 and for the second concert on November 6.

Problem 15- Entries for a note payable

The company purchases inventory using a 60-day, 12% note for $15,000, dated December 1. The maker honors the note at maturity.

a) What is the journal entry to record the issuance of the note?
b) What is the maturity date of the note?
c) What is the maturity value of the note?
d) What is the journal entry on December 31?
e) What is the journal entry on the maturity date?
f) What is the journal entry to record the issuance of the note?

Practice True / False Questions

1. The best estimate for the amount of cash a company expects to collect from its accounts receivable is the face value of the receivables.
   True False

2. The face value of Accounts Receivable less the balance in the Allowance for Doubtful Accounts is equal to the net realizable value of the receivables.
   True False

3. The direct write-off method does a better job of matching revenues and expenses than does the allowance method.
   True False

4. Warner Company had $400,000 in credit sales for 2013, and it estimated that 2% of the credit sales would not be collected. The balance in Accounts Receivable at the end of the year was $76,000. Warnock had never used the allowance method to account for its receivables till 2013. The net realizable value of its accounts receivable at the end of the year was $68,000.
   True False

5. When an uncollectible account receivable is written off, the amount of total assets is unchanged.
   True False

6. When a company receives payment from a customer whose account was previously written off, the customer's account should be reinstated.
   True False

7. When a customer's account, previously written off as uncollectible, is reinstated, the net realizable value of Accounts Receivable increases.
   True False

8. On June 1, 2013, Cho Company collected a $12,000 note receivable that had been issued on June 1, 2012. The note carried a 6% interest rate. The interest revenue recognized on the maturity date is $720.
   True False

9. A copyright is an intangible asset with an indefinite useful life.
   True False

10. The depreciable cost of a long-term asset is the difference between the amount paid for the asset and its salvage value.
    True False

11. Accumulated Depreciation is a temporary account that is closed each year.
    True False

12. An expenditure that improves the quality of service provided by a plant asset is added to the historical cost of the asset.
    True False

13. Depletion of a natural resource is calculated using the straight-line basis.
    True False

14. The use of estimates and revision of estimates are uncommon in financial reporting.
    True False

15. A trademark is a tangible asset with an indefinite useful life.
    True False

16. Land differs from other property because it is not subject to depreciation.
    True False

17. Contingent liabilities are only recognized if they arise from past events.
    True False

18. All lawsuits to which a company is a party should be either disclosed in the company's footnotes or recognized as a liability on its balance sheet.
    True False

19. If a company offers a warranty on the products it sells, the company records the warranty expense at the time that service is provided to customers under the terms of the warranty.
    True False

20. A classified balance sheet is one that distinguishes between operating and non-operating assets.
    True False

21. If a company is located in an area where floods or earthquakes are deemed to be possible, the company should record a contingent liability.
    True False

Practice Multiple Choice Questions

1. The year-end adjusting entry to recognize uncollectible accounts expense will
   a) Increase assets and decrease equity.
   b) Decrease assets and decrease equity.
   c) Increase liabilities and increase equity.
   d) Decrease liabilities and increase equity.

2. On January 1, 2013, the Accounts Receivable balance was $18,500 and the balance in the Allowance for Doubtful Accounts was $1,400. On January 15, 2013 a $400 uncollectible account was written-off. The net realizable value of accounts receivable immediately after the write-off is:
   a) $18,100.
   b) $16,700.
   c) $17,100.
   d) $17,500.

Use the following information to solve the next two questions:
The Mason Company earned $95,000 of revenue on account during 2013. There was no beginning balance in the accounts receivable and allowance accounts. During 2013 Morgan collected $68,000 of cash from its receivables accounts. The company estimates that it will be unable to collect 3% of its sales on account.

3. The amount of uncollectible accounts expense recognized on the 2011 income statement was
   a) $2,040.
   b) $660.
   c) $2,850.
   d) $27,000.

4. The net realizable value of Morgan's receivables at the end of 2011 was
   a) $24,150.
   b) $24,960.
   c) $29,850.
   d) $27,000.

5. Harvey Company uses the allowance method to account for uncollectible accounts. An account that had been previously written-off as uncollectible was recovered. How would the recovery affect the company's accounting equation?
   a) Increase assets and increase equity.
   b) Increase assets and decrease liabilities.
   c) Reduce liabilities and increase equity.
   d) Have no effect on assets, liabilities or equity.

6. Jobin Company ended 2012 with balances in Accounts Receivable and Allowance for Doubtful Accounts of $46,000 and $1,800, respectively. During 2013, Jobin wrote off $3,000 of Uncollectible Accounts. After aging its receivables, Jobin estimates that the ending Allowance for Doubtful Accounts balance should be $3,200. What will Jobin report as Uncollectible Accounts Expense on its 2013 income statement?
   a) $3,200
   b) $4,400
   c) $1,400
   d) . $3,000

7. Hailey Medical Supply Co., which had no beginning balance in its Accounts Receivable and Allowance for Doubtful Accounts, earned $80,000 of revenue on account during 2013. During 2013, Hailey collected $64,000 of cash from its receivables accounts. The company estimates that it will be unable to collect 1% of revenue on account. The amount of net realizable value of receivables on the December 31, 2013 balance sheet would be:
   a) $15,360.
   b) $15,200.
   c) $16,000.
   d) $15,000.

8. Which one of the following is not an accurate description of the Allowance for Doubtful Accounts?
   a) The account is an income statement account.

   b) The account is a contra account.
   c) The amount of the Allowance for Doubtful Accounts decreases the net realizable value of a company's receivables.
   d) The account is increased by an estimate of uncollectible accounts expense.

9. Rinehart Company made a loan of $8,000 to one of the company's employees on April 1, 2013. The one-year note carried a 6% rate of interest. The amount of interest revenue that Rinehart would report in 2013 and 2014, respectively would be:
   a) $480, $0
   b) $0, $480
   c) $360, $120
   d) . $120, $360

10. The party that issues a promissory note is known as
    a) Lender.
    b) Maker.
    c) Borrower.
    d) Both b) and c)

11. Bybee Corporation acquired real estate that contained land, building and equipment with costs as follows: Land, $185,000; Building, $550,000 and Equipment, $365,000. Bybee uses the units of production method when depreciating its equipment. Bybee estimates that the purchased equipment will produce 1,000,000 units over its 5-year useful life and has salvage value of $17,000. Bybee produced 265,000 units with the equipment by the end of the first year of purchase. Which amount below is closest to the amount Bybee will record for depreciation expense for the equipment in the first year?
    a) $96,725
    b) $62,600
    c) $92,220
    d) $82,945

12. Anchor Company purchased a manufacturing machine with a list price of $80,000 and received a 2% cash discount on the purchase. The machine was delivered under terms FOB shipping point, and freight costs amounted to $1,200. Anchor paid $1,500 to have the machine installed and tested. Insurance costs to protect the asset from fire and theft amounted to $1,800 for the first year of operations. Based on this information, the amount of cost recorded in the asset account would be:
    a) $81,100.
    b) $79,600.
    c) $82,900.
    d) $78,400

13. On January 1, 2013, Frankfort Company made a basket purchase including land, a building and equipment for $760,000. The appraised values of the assets are $40,000 for the land, $680,000 for the building and $80,000 for equipment. Frankfort uses the double declining balance method of depreciation for the equipment which is estimated to have a useful life of four years and a salvage value of $10,000. The depreciation expense for 2013 for the equipment is:
    a) $40,000.
    b) $20,000.
    c) $19,000.
    d) $38,000.

14. On January 1, 2013, Innovative Manufacturing Company purchased equipment with a list price of $22,000 with a 5% cash discount. A total of $1,000 was paid for installation and testing. During the first year, Innovative paid $1,500 for insurance on the equipment and another $550 for routine maintenance and repairs. Innovative uses the units-of-production method of depreciation. Useful life is estimated at 100,000 units, and estimated salvage value is $2,000. During 2013, the equipment produced 13,000 units. What is closest to the amount of depreciation for the year?
    a) $2,847
    b) $2,587
    c) $3,042
    d) $2,782

15. Which of the following is considered an accelerated depreciation method?
    a) Double declining balance
    b) Units of production
    c) MACRS
    d) Both A and C

16. On January 1, 2013 Midwest Co. purchased a truck that cost $38,000. The truck had an expected useful life of 10 years and a $4,000 salvage value. The amount of depreciation expense recognized in 2014 assuming that Midwest uses the double declining-balance method is:
    a) $5,440
    b) $6,080.
    c) $3,800.
    d) $7,600.

17. On April 1, 2013, Texas Energy Company purchased an oil producing well at a cash cost of $6,000,000. It is estimated that the oil well contains 600,000 barrels of oil, of which only 500,000 can be profitably extracted. By December 31, 2013, 25,000 barrels of oil were produced and sold. The amount of depletion expense for 2013 on this well would be:
    a) $300,000.
    b) $400,000.
    c) $240,000.
    d) $250,000.

18. Which of the following assets is not considered to have indefinite useful lives?
    a) Copyrights
    b) Goodwill
    c) Renewable franchises
    d) Trademarks

19. Which of the following terms is used to identify the expense recognition for intangible assets?
    a) Amortization.
    b) Depletion.
    c) Depreciation.
    d) Allocation.

20. Goodwill may be recorded in which of the following circumstances
    a) When the property, plant and equipment of a business increase in value.
    b) When a business earns a very high net income.
    c) When one business purchases another business.
    d) When a business sells property for more than its book value.

21. Fallon Company issued a $20,000 note to the Capital Bank on August 1, 2013. The note carried a one-year term and a 12% rate of interest. The adjusting entry on Fallon's books to record accrued interest expense on December 31, 2013 will
    a) Decrease assets and decrease retained earnings by $1,000.
    b) Increase liabilities and decrease equity by $800.
    c) Increase liabilities and decrease equity by $1,000.
    d) Decrease equity and increase liabilities by $2,400.

22. Which of the following represents the correct journal entry to record a taxable cash sale of $800 if the sales tax rate is 5%?
    a) A debit to cash for $840, a debit to sales tax expense for $40, and a credit to sales revenue for $800.
    b) A debit to cash for $840, a credit to sales tax payable for $40, and a credit to sales revenue for $800.
    c) A debit to cash for $800, a credit to sales tax payable for $40, and a credit to sales revenue for $760
    d) None of the above.

23. Under what condition should a pending lawsuit be recognized as a liability on a company's balance sheet?
    a) The outcome is reasonably possible.
    b) The outcome is probable.
    c) The amount can be reasonably estimated.
    d) Both B and C.

24. Mighty Burger has been named as a plaintiff in a $5 million lawsuit filed by a customer over the addictive nature of the company's french fries. Mighty Burger's attorneys have advised them that the likelihood of a future obligation from the suit is remote. As a result of the lawsuit, Mighty Burger should:
    a) Disclose the lawsuit in the footnotes to the financial statements.
    b) Recognize a $5 million liability on its balance sheet for the contingency.
    c) Ignore the lawsuit in its financial statements.
    d) Settle with the customer immediately for $5 million to avoid harmful publicity.

25. Bacchus Co. had sales of $400,000 in 2013. The company expects to incur warranty expenses amounting to 3% of sales. There were $6,500 of warranty obligations paid in cash during 2013. Based on this information:
    a) Warranty expenses would decrease net earnings by $12,000 in 2013.
    b) Assets would decrease by $6,500 as a result of the accounting events associated with warranties in 2013.
    c) Total warranty obligations would increase by $5,500 in 2013.
    d) All of these.

26. On October 1, 2013, Beacon Corporation borrowed $10,000 from First Bank by signing a one-year, 6% note. On December 31, 2013 Beacon failed to make the adjusting entry to accrue the related interest. This error will cause:
    a) Net income for 2013 to be overstated and liabilities for 2013 to be overstated.
    b) Net income for 2013 to be understated and net income for 2014 to be overstated.
    c) Net income for 2014 to be understated and liabilities for 2013 to be understated.
    d) Net income for 2013 to be understated and liabilities for 2013 to be overstated.

27. Hamm Co. borrowed $10,000 from Townsend Co. on March 1, 2013. Hamm is to repay the principal and interest on March 1, 2014. The interest rate is 8%. If the year-end adjustment is properly recorded, what will be the effects of the accrual on Hamm's 2013 financial statements?
    a) Increase assets and increase liabilities
    b) Increase assets and increase revenues
    c) Increase liabilities and increase expenses
    d) No effect

28. Monthly remittance of sales tax:
    a) Reduces stockholders' equity.
    b) Increases liabilities.
    c) Reduces liabilities.
    d) All of the above.

Solutions to Practice Problems

Problem 1

a) The two methods of accounting for uncollectible receivables are the direct write-off method and the allowance method.

b)

Uncollectible accounts expense	xxx	
Accounts receivable		xxx

c)

Allowance for doubtful accounts	xxx	
Accounts receivable		Xxx

d)

Allowance for doubtful accounts	xxx	
Uncollectible accounts expense		xxx

e)

Accounts receivable	xxx	
Allowance for doubtful accounts		xxx

f) The two methods used to estimate uncollectible accounts expense when using the allowance method are the percent of sales and the percent of receivables.

Problem 2

a) The uncollectible accounts expense for the period is $15,000 = 1% of $1,500,000

b)

Uncollectible accounts expense	15,000	
Allowance for doubtful accounts		15,000

c) The balance of the Allowance after adjustment is $40,000 = 25,000 + 15,000

d) The net realizable value after adjustment is $285,000 = 325,000 - 40,000

Problem 3

a) The uncollectible accounts expense for the period is $40,000 = 35,000 + 5,000

b)

Uncollectible accounts expense	40,000	
Allowance for doubtful accounts		40,000

c) The balance of the Allowance after adjustment is $35,000

d) The net realizable-value after adjustment is $290,000 = 325,000 - 35,000

Problem 4

a)	Notes receivable	15,000	
	Accounts receivable		15,000
b)	Maturity date of the note is April 30.		
c)	Maturity value of the note is $15,300 = 15,000 X. 12 X 60 / 360		
d)	Accounts receivable	15,300	
	Notes receivable		15,000
	Interest revenue		300

Problem 5

a) Accounts receivable turnover for 1998 was 13.0
6,570,000 / (475,000 + 535,000) / 2 = 13.0

b) The number of days' sales in receivables at year end was 29.7 days
535,000 / (6,570,000 / 365) = 29.7

Problem 6 - Straight-line depreciation

(50,000 - $5,000) / 5 years = $9,000 per year

Problem 7 Depreciation by the units-of-production method

($45,000- $5,000)/100,000miles = $0.35 per mile
12,000 miles X $.35 = $4,200

Problem 8 Depreciation by the declining-balance method

a) First year: 20% of $85,000 = $17,000

b) Second year: 20% of ($85,000 - $17,000) = $13,600

Problem 9 - Disposal of fixed asset

a) ($55,000 - $5,000) / 10 years = $5,000 per year
b) $55,000 - (8.5 years X $5,000) = $12,500
   Accumulated depreciation at beginning of year: 5,000 x 8 = 40,000
c) Depreciation Expense (for 1/2 year) = 5,000 / 2 = 2,500

Depreciation expense	2,500	
Accumulated depreciation		2,500
Accumulated depreciation	42,500	
Equipment		55,000
Cash	10,000	
Loss on disposal	2,500	

Problem 10 - Depletion entries

a) $15,000,000 / 60,000,000 = $.25 per ton
   11,500,000 X $.25 = $2,875,000 depletion expense
b)

Depletion Expense	2,875,000	
Accumulated Depletion		2,875,000

Problem 11 - Amortization of patent rights

Amortization Expense - Patents	6,000	
Accumulated Amortization - Patents		6,000

Problem 12 - Classifying liabilities

Current	Notes Payable due in 7 months Wages Payable FICA Taxes Payable First year of Mortgage Payable due in 10 years First 12 months of Note payable due in 15 months payable monthly
Long-term	Final 9 years of Mortgage Payable due in 10 years Final 3 months of Note payable due in 15 months payable monthly

Problem 13– Contingent Liabilities

Although the amount of damages can be estimated for both lawsuits, only the first case should be recorded as a liability since there is a high probability of loss. The second case should be disclosed in the footnotes to the financial statements.

Problem 14 – Deferred Revenue

Oct. 31	Cash	5,000,000	
	Unearned Ticket Revenue		5,000,000
Nov. 6	Unearned Ticket Revenue	1,250,000	
	Earned Ticket Revenue		1,250,000

Problem 15 - Entries for a note payable

a)	Inventory	15,000	
	Notes Payable		15,000
b)	The maturity date of the note is January 30.		
c)	The maturity value of the note is $15,300		
	15,000 X. 12 X 60 / 360		
d)	Interest expense	150	
	Interest payable		150
e)	Notes payable	15,000	
	Interest expense	150	
	Interest payable	150	
	Cash		15,300

Solutions to True / False Questions

1. False - The best estimate for the amount of cash a company expects to collect is the net realizable value of its accounts receivable.
2. True
3. False - The direct write-off method does not do a good job of matching because uncollectible accounts expense may not be recognized in the same accounting period as the sale.
4. True
5. True
6. True
7. False - Reinstating an account does not affect net realizable value because accounts receivable and allowance for doubtful accounts increase equally.
8. False - Cho will only recognize five months of interest revenue on June 1, 2013. The other seven months of interest were recognized (accrued) in 2012.
9. False - Copyrights granted by the government extend for the life of the creator plus 70 years. Renewable franchises, trademarks and goodwill have indefinite useful lives.
10. True
11. False - Accumulated depreciation is a contra-asset which is a permanent account.
12. True
13. False - Depletion of a natural resource is usually calculated using the units-of-production basis.
14. False - Estimates (for such things as useful life and salvage value) are used extensively in accounting, and revision of those estimates is not uncommon.
15. False - A trademark is an intangible asset, not a tangible asset.
16. True
17. True
18. False - Lawsuits that are considered frivolous are neither disclosed nor recognized.
19. False - Warranty expense is estimated and recorded at year-end based on the year's sales.
20. False - A classified balance sheet distinguishes between current and non-current assets and liabilities.
21. False - Contingent liabilities are only reported for future costs that are the result of past events, such as lawsuits that have already been filed. They are not reported for natural disasters, regardless of their probability.

Solutions to Multiple Choice Questions

1.	B
2.	C
3.	C
4.	A
5.	D
6.	B
7.	B
8.	A
9.	C
10.	D
11.	C
12.	A
13.	D
14.	B
15.	D
16.	B
17.	A
18.	A
19.	A
20.	C
21.	C
22.	B
23.	D
24.	C
25.	D
26.	C
27.	C
28.	C