

# Corporation and partnership

[Business](#), [Company](#)



Salta Company installs a manufacturing machine in its factory at the beginning of the year at a cost of \$87, 000. The machine's useful life is estimated to be 5 years, or 400, 000 units of product, with a \$7, 000 salvage value. During its second year, the machine produces 84, 500 units of product. Determine the machines' second-year depreciation under the units of production method: Answer:

\$16, 900 Cost-Salvage Value/Total units of production

$$(87, 000 - 7, 000)/400, 000 = 0. 2$$

$$0. 2 * 84, 500 = 16, 900$$

Amortization: Answer: Is the systematic allocation of the cost of an intangible asset to expense over its estimated useful life.

Big River Rafting pays \$310, 000 plus \$15, 000 in closing costs to buy out a competitor. The real estate consists of land appraised at \$105, 000, a building appraised at \$210, 000 and equipment appraised at \$35, 000. Compute the cost that should be allocated to the land. Answer: \$97, 500

$$105, 000 + 210, 000 + 35, 000 = 350, 000$$

$$105, 000/350, 000 = 0. 3$$

$$0. 3 * 325, 000 = 97, 500$$

Leasehold: Answer: are the rights granted to the lessee by the lessor of a lease.

Copyright: Answer: Gives its owner the exclusive right to publish and sell a musical or literary work during the life of the creator plus 70 years.

A patent: Answer: Gives its owner exclusive right to manufacture and sell a patented item or to use a process for 20 years. Carmel Company acquires a mineral deposit at a cost of \$5,900,000. It incurs additional costs of \$600,000 to access the deposit, which is estimated to contain 2,000,000 tons and is expected to take 5 years to extract. Compute the depletion expense for the first year assuming 418,000 tons were mined. Answer:

$$\$1,358,500 \quad 5,900,000 + 600,000 = 6,500,000$$

Cost - Salvage Value/ Total Units of Capacity

$$6,500,000 - 0 / 20,000,000 = 3.25$$

$$3.25 * 418,000 = 1,358,500$$

Cambria Company reports net sales of \$4,315 million; the cost of goods sold of \$2,808 million; net income of 283 million; and average total assets of \$2,136. Compute its total asset turnover. Answer: 2.02 Net Sales/Average Total Asset  $4,315 / 2,136 = 2.02$  Salta Company installs a manufacturing machine in its factory at the beginning of the year at a cost of \$87,000. The machine's useful life is estimated to be 5 years, or 400,000 units of product, with a \$7,000 salvage value. During its second year, the machine produces 84,500 units of product.

Determine the machine's second-year depreciation under the straight-line method. Answer: \$16,000 Cost - salvage value/useful life in periods  $87,000 - 7,000 / 5 = 16,000$

A depreciation asset costing \$75,000 is purchased on September 1, year 1. The asset is estimated to have a salvage value of \$10,000 and an estimated

useful life of 4 years. Double-declining-balance depreciation is used. If the asset is sold on December 31, Year 3 for \$13, 000, the journal entry to record the sale will include: Answer: A debit to loss on sale for \$2, 625.

The current FUTA tax rate is 0. 8% and SUTA tax rate is 5. 4%. Both taxes are applied to the first \$7, 000 of an employee’s pay. Assume that an employee earned \$8, 900. What is the amount of total unemployment taxes the employer must pay on the employee’s wages? Answer:

$$434. 00 \ 7, 000 * 5. 4\% = 378$$

$$7000 * 0. 8\% = 56$$

$$378 + 56 = 434$$

FICA taxes include: Answer: Social Security taxes

Liability: Answer: Must sometimes be estimated

If the times interest ratio: Answer: Increase then the risk decreases.

Gross pay is? Answer: Total compensation earned by an employee before any deductions.

A company’s income before interest expense and taxes is \$250, 000 and its interest expense is \$100, 000. It’s times interest earned ratio is: Answer: 2. 50  
Income before Interest expense and income taxes/Interest Expense 250, 000/100, 000 = 2. 50

Employee vacation benefits: Answer: are estimated liabilities

The amount of federal income taxes withheld from an employee's paycheck is determined by: Answer: the amount of the employee's current earnings for the pay period and number of withholding allowances the employee claims.

Amount received in advance from customers for future products or services:

Answer: are liabilities

A company estimates that a warranty expense will be 4% of sales. The company's sales for the current period are \$185,000. The current period's entry to record warranty expense is: Answer: Debit warranty expense \$7,400; credit estimated warranty liability \$7,400  $185,000 \times 4\% = 7,400$  An employee earned 62,500 during the year working for an employer. The FICA tax rate for social security is 6.2% and the FICA tax rate for Medicare is 1.45%. The current FUTA tax rate is 0.8% and SUTA is 5.4%.

Both unemployment taxes are applied to the first \$7,000 of an employee's pay. What is the total unemployment taxes does the employee have to pay?

Answer: \$0.00 Employees do not pay unemployment taxes.

FUTA taxes are: Answer: unemployment taxes Arena Company's salaried employee's earned two weeks' vacation per year. It pays \$858,000 in total employee salaries for 52 weeks but its employees work only 50. Record Arena Company's weekly journal entry to record the vacation expense; Answer: Debit vacation benefits expense \$17,160; Credit vacation benefits payable \$17,160  $858,000/50 = 17,160$

A company sells computers at a selling price of \$1,800 each. Each computer has a 2-year warranty that covers the replacement of defective parts. It is estimated that 2% of all computers sold will be under the warranty at an

average cost of \$150 each. During November the company sold 30,000 computers and 400 computers were serviced under the warranty at a total cost of 55,000. The balance is the estimated warranty liability account on November 1 was \$29,000. What is the company's warranty expense for the month of November? Answer: 90,000 ( $30,000 \times 2\% \times 150$ ) = 90,000

A company had fixed interest expense of \$6,000, its income before interest expense and any income taxes is \$18,000, and its net income is \$8,400. The company's Times interest earned ratio equals: Answer: 3.0

Advanced ticket sales totaling \$6,000,000 cash would be recognized as follows: Answer: Debit Cash; Credit Unearned Revenue During August, Arena Company sells \$356,000 in the product that has a one year warranty. Experience shows that warranty expenses average about 5% of the selling price. The warranty liability account has a balance of \$12,800 before adjustment.

Customers returned product for warranty repairs during the month that used \$9,400 in parts and repairs. The entry to record customer warranty repairs is: Answer: Debit Estimated Warranty Liability \$9,400; credit Parts Inventory \$9,400 Obligations not expected to be paid within the length of one year or the company's operating cycle is reported as: Answer: Long-term liability

Times Interest earned computation is: Answer:  $(\text{Net Income} + \text{Interest expense} + \text{Income taxes}) / \text{Interest expense}$  The difference between the amount received from issuing a note payable and the amount repaid is referred to as: Answer: Interest

A contingent Liability: Answer: is a potential obligation that depends on a future event arising from a past transaction or event.

In the accounting records of a defendant, lawsuits: Answer: should be recorded if payment for damages is probable and the amount can be reasonably estimated.

A company's fixed interest expense is \$8, 000 its income before interest expense and income taxes is \$32, 000. Its net income is \$9, 600. The company's time's interest earned ratio equals: Answer: 4. 0