EXAM NUMBER: ______

LEGAL ACCOUNTING
PROFESSOR WILLIS
SUMMER 2006

DATE: July 12, 2002
TIME: 9:00 A.M.
TIME LIMIT: FOUR HOURS

Instructions

1. You may consult any written or electronic materials you consider helpful.

2. Some questions have space provided for a short answer, such as a dollar amount or a single word (e.g., correct or incorrect). You must write an appropriate answer in such spaces or circle, underline or otherwise highlight the appropriate word. For example, if a question calls for a dollar amount, anything other than arabic numerals stated in terms of U.S. dollars will be incorrect. You may then explain your answer as you desire.

3. If you need additional space, please add it as you desire.

4. This exam is due in student affairs by 1:00 p.m. or it must be emailed to willis@law.ufl.edu by that time. If you need extra time, please state your reason for the need and proceed. Do not abuse this, however.

5. Place your exam number or other form of identification at the top of each page.

6. I will answer no questions prior to the time you turn in your paper.

7. Each question is worth 25 points. If you want to leave a question blank, you may do so. You must, however, allocate an extra 15 points to one other question (hence, you will lose 10 points for the privilege of leaving a question blank.)
QUESTION ONE

a. You owe $125,000 in student loans. You must begin paying them off today. The interest rate is 5.5% effective interest and payments are monthly. How much are your monthly payments assuming a ten-year pay-off?

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b. Your client was injured and cannot work. He had been earning $12,000 monthly after taxes. He just turned 30 at the time of the accident and he expected to work until age 65. The insurance company concedes liability. What dollar amount of settlement for lost wages would be reasonable for you to accept? You may provide a range of proposed settlements; however, what would be your realistic starting point?

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c. The following is an excerpt from an article appearing in the Gainesville Sun on July 12, 1998. The author discussed the relative merits of purchasing a time share versus annual hotel stays. Comment on the financial analysis.

For instance, a time share week in a two-bedroom unit in Orlando may cost $12,000, which gives the owner the right to use it for one week every year for 20 years, 30 years, or forever, depending on the deed. (Many weeks are deeded in perpetuity and are handed down to heirs).

Spread over 20 years, that's $600 a year, plus about another $400 in annual maintenance fees. Staying in comparable accommodations likely would cost twice as much.

d. You and your spouse are 28 years old and you have no children. You and your spouse plan to purchase a new home. You have $25,000 for a down payment. The negotiated price for the house is $275,000. The Bank has offered to lend you money for a thirty year period at 6.00% A.P.R. with no points or at 5.72% N.A.I. with three points. Which loan is better? Why? Please limit your answer to one page. Circle or highlight your choice:

6.00% A.P.R. with no points

5.72% N.A.I. with three points
QUESTION TWO

a. Pick a business you would like to start - anything (perhaps a law practice or a casino or a publishing company or a health club). Use your imagination to create transactions that occur for the first two months of business. You should have at least ten transactions, including such things as purchases, sales, payment of expenses (including prepayments), depreciation, amortization, adjusting and closing entries. The transactions should be realistic. You should show the journal entries and ledgers.

b. At the end of the two-month period, prepare a balance sheet for the business.

c. Using the balance sheet you prepared in question 2, calculate at least five common financial ratios, including debt/equity and return on investment (plus at least three others).

d. What financial conclusions do you draw from the computed ratios?

QUESTION THREE

Circle or highlight either true or False

True  False  1. A loan of $500,000 charging 3 points requires the borrower to pay $15,000 in “pre-paid interest”.

True  False  2. As interest rates fall, bond prices rise.

True  False  3. The LIFO method of inventory accounting typically results in higher cost of goods sold and thus higher income in times of inflation.

True  False  4. The FIFO method of inventory accounting typically results in higher cost of goods sold and thus lower income in times of inflation.

True  False  5. A credit to “cash” and a comparable debit to “sales” would form a journal entry recording the refund of money for a returned item.

True  False  6. Revenue accounts and liability accounts are both increased with a debit.

True  False  7. Asset accounts and expense accounts are both increased with a debit.

True  False  8. If beginning inventory equals 15,000, inventory purchases equal 15,000 and ending inventory equals 2000, cost of goods sold equal 28,000.
True  False  9. A cash purchase of treasury stock by a corporation would be recorded by a debit to “treasury stock” and a credit to “cash.”

True  False  10. The cash method of accounting is permitted by GAAP.

True  False  11. The cash method of accounting is permitted by the Internal Revenue Code.

True  False  12. Tax returns typically provide reliable evidence of a person’s economic income.

**QUESTION FOUR:**

A. Can a car dealer sell below cost and still make a profit? Please limit your answer to one-half page.
B. Distinguish Gross Profit from Net Profit.

C. Provide the correct term of art definition for “yield.”

D. If an author makes a deal with a movie studio for a percentage of “Net Profits” (with no further definition), who likely loses?