Exam No.____

UNIVERSITY OF FLORIDA
COLLEGE OF LAW
FINAL EXAMINATION
LEGAL ACCOUNTING

SUMMER SEMESTER 1994
PROFESSOR WILLIS

DATE: JULY 12, 1994
TIME: 9:00 A.M.
TIME LIMIT: 3 HOURS

INSTRUCTIONS

1. Any written materials you believe are helpful are allowed.

2. Write your exam number on the top of this page.

3. You should attempt to answer the questions in the space provided. You may use additional space: however, you should not need to.

4. Your answers may be written in ink or pencil or typed.

5. Unless otherwise indicated, all parties are on the accrual method of accounting and use the calendar year. All parties are unrelated unless otherwise indicated.

6. If you feel you need further facts, indicate what sort of facts you would want to know and what difference they would make in your answer.

7. Count the pages of this booklet. There should be 7 remaining pages.

8. Plan your answer before you write in the space provided. Part of the test considers whether you can present an organized, logical, coherent answer. You need not use complete sentences; however, you should write clearly.

9. Write legibly!

10. Relax.
QUESTION ONE

You have started a new law practice as a solo practitioner. You use the accrual method of accounting and the calendar year. You have furnished your office at a total cost of $15,000.00 and have purchased furniture (for $8,000), books (for $4,000), and equipment (for $3,000) You purchased all the items on January 2, 1994.

You reasonably estimate the various items each have a useful life of ten years and a salvage value equal to ten percent of their cost

You paid a total of $5000.00 cash for the items and you charged the remaining $10,000.00 of cost to a revolving credit account with the seller.

Provide the journal entry for the acquisition of the furniture, books, and equipment.

<table>
<thead>
<tr>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
</table>

If you use the straight line method of depreciation, what would be the adjusting entry reflecting depreciation for the above items for 1994 and 1995?

12/31/94  DEBIT  CREDIT

12/31/95  DEBIT  CREDIT
If you use the double declining balance method of depreciation, what would be the adjusting entry:

12/31/94

DEBIT

CREDIT

12/31/95

DEBIT

CREDIT

If you elected to use § 179 depreciation for tax purposes in 1994, what would be the adjusting entry (for tax purposes) for the above items for 1994 and 1995:

12/31/94

DEBIT

CREDIT

12/31/95

DEBIT

CREDIT

If, during late 1994, your spouse sought a dissolution of marriage and alimony (which would be a function of your 1994 income), which of the above depreciation methods would you want to use for 1994 (assuming you would want to minimize alimony)?
QUESTION TWO

You have just graduated from law school and have passed the bar exam. You must begin repaying your student loans on September 1, 1995. On that date you owe $50,000.00. The note requires you to pay .75% interest per month, or 9.0% nominal interest per year. You agree to repay the loan monthly over ten years. What will be your monthly payments?

What will be the total interest you pay over the ten years? (Compute the total amount of all payments and then subtract the principal).

If, instead, you elect to repay the loan monthly over twenty years, what will be your monthly payments?

What will be the total interest you pay over the twenty years?

Suppose, instead, that you decide to further your education for two years and to begin repaying the loan on September 1, 1997. Suppose further that neither the government, nor any other entity, pays the interest on the loan during the deferral period; instead, you are responsible for the interest. However, the lender agrees to capitalize the interest for two years (add it to principal) at a rate of 9.0% nominal interest to be compounded monthly.

How much will you owe on September 1, 1997?

If you elect to repay the loan monthly over ten years, beginning September 1, 1997, what will be your monthly payments?
QUESTION THREE

Briefly define the following terms:

1. A.C.R.S.
2. Qualified Opinion Letter
3. F.A.S.B.
4. Current Assets
5. Perpetual Inventory System
6. Acid Test Ratio
7. PIE ratio
8. Big Six
9. G. A. A. P.
10. G.A.A.S.
With respect to each of the following statements, circle T if you agree with the statement. Circle F if you disagree with it.

T F 1. As bond prices increase, interest rates increase as well.

T F 2. Tax returns, if prepared properly, usually provide a clear reflection of income for a small business.

T F 3. At a nominal interest rate of 10.00% per year, to be compounded monthly, the present value today of $10,000,000.00 to be received in ten years is approximately $3,964,069.72.

T F 4. By issuing an unqualified opinion, a C.P.A. guarantees the accuracy of the financial statements.

T F 5. The higher the interest rate, the higher the present value of an annuity due.

T F 6. The higher the interest rate, the lower the present value of an annuity in arrears.

T F 7. Because accounting is not a science, financial statements necessarily contain much information which results from speculation, assumptions, or other imprecise choices.

T F 8. Because depreciation deductions allowed by the Internal Revenue Code are generally greater than that which would reflect economic reality, they represent a form of trickle-down economics, which some people support and others oppose. Nevertheless, this rapid depreciation may distort the taxpayer's income such that it can be a poor measure of income for alimony or child support purposes.

T F 9. Temporary accounts are closed at the end of each accounting period. This procedure is necessary for the preparation of an income statement.

T F 10. Accounting is more interesting than you thought it was two months ago.