Exam Number: ________

Note: Please double check your exam number to be certain you use the correct one. If you are unsure of your number (or, for any other reason), you may use your social security number, or student number or some other form of clear identification.

UNIVERSITY OF FLORIDA
COLLEGE OF LAW
FINAL EXAMINATION
LEGAL ACCOUNTING
SUMMER SEMESTER, 1996
PROFESSOR WILLIS

DATE: JULY 15, 1996
TIME: 9:00 A.M.
TIME LIMIT: FOUR HOURS

INSTRUCTIONS

1. You May Consult Any Written Materials You Consider Helpful.

2. Unless Otherwise Indicated, All Parties Are on The Cash Method of Accounting And Use The Calendar Year. All Parties Are Unrelated Unless Otherwise Indicated. All Parties Are Single And Not Heads of Households, Unless Otherwise Indicated.

3. Answer in the Space Provided. If you must obliterate an answer, you may use a comparable amount of space on other paper.

4. 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.

5. This exam is due in my office by 1:00 p.m.

6. Place your exam number or other form of identification at the top of this page.

7. I will answer no questions prior to the time you turn in your paper.
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 $17,500.00 and have purchased furniture (for $6,000), books (for $5,000), and equipment (for $6,500). You purchased all the items on July 19, 1996. You use a half-year convention for depreciation.

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

You paid $3,000 cash for the items and you borrowed the remaining $14,500 from a bank for the remaining cost. The bank charges 12% nominal annual interest on the loan.

Provide the journal entries for the acquisition of the furniture, books, and equipment, as well as for the loan.

<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 1996 and 1997?

<table>
<thead>
<tr>
<th>12/31/96</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
</table>
If you use the double declining balance method of depreciation, what would be the adjusting entry reflecting depreciation for the above items for 1996 and 1997?

If you elected to use section 179 depreciation for tax purposes in 1996, what would be the adjusting entry (for tax purposes) for the above items for 1996 and 1997?

If, during late 1996, your spouse sought a dissolution of marriage and alimony (which would be a function of your 1996 income), which of the above depreciation methods would
you want to use for 1996 (assuming you would want to minimize alimony)?

If you repay the bank loan in 48 equal payments, what will be the amount of the payments, assuming the first payment is due one month after you borrow the money?

$____________________

If, instead, you repay the bank loan in 60 equal payments, what will be the amount of the payments, assuming the first payment is due one month after you borrow the money?

$____________________

QUESTION TWO

Briefly define the following terms:

1. ACRS

2. FASB

3. APB

4. GAAP
5. GAAS

6. QDRO

7. EPIC

8. APR

9. APY

10. EFF

11. Points

12. Ledger
13. Journal

14. Big Six

15. Sinking Fund

16. Qualified Opinion

17. Acid Test Ratio

18. P/E Ratio

19. Current Liabilities
QUESTION THREE

Your client wants to plan his affairs to minimize his obligation to pay alimony or child support, each of which is generally a function of his “income.” As a general rule the legal system uses tax returns as a measure of “income,” although generally accepted accounting principles are also quite relevant. You may properly predict that his spouse - when the divorce comes - will not demand an audit by a C.P.A.

Ignore your own moral and ethical beliefs regarding whether such “divorce” planning is an appropriate endeavor for a lawyer’s time. Your client does not want to reduce his “true” income; however, he does want to reduce his “apparent” income.

He has a small law firm and a small farm on which he typically has raised soybeans or similar annual crops.

He requests your advice. You should list some options for him. You may suggest anything that is legal and that makes reasonable sense. You cannot suggest that he lie about his income or that he hide his assets. You may, however, suggest that he take advantage of various accounting choices that will cause his income to appear artificially low. For example, you might suggest:

-- Paint your barn now, if it at all needs it. The $1000 or so cost will be an “expense” which will reduce your “income.” It is not something you would “have to” capitalize.

List as many suggestions as you can think of. Generally, he has been netting about $75,000 (after expenses) from the practice and about $25,000 (after expenses) from the farm. He has about $20,000 in cash and plenty of available credit.