FINAL EXAM

Course # 171039
Fair Value Accounting

based on the electronic .pdf file(s):

Fair Value Accounting
by: Delta CPE, 2014, 85 pages

5 CPE Credit Hours
Accounting & Auditing

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Chapter 0 - Course Material

1. Measuring the impairment loss on a long-lived asset (asset group) to be held and used requires a determination of its fair value. This fair value may in appropriate circumstances be based on: I) The sum of the individual fair values of the assets and liabilities of the asset group; II) The prices of similar assets or groups; or III) Present value estimates

   ______ I and III only.

   ______ I and II only.

   ______ II and III only.

   ______ I, II, and III.

2. According to SFAC 7, Using Cash Flow Information and Present Value in Accounting Measurements, the objective of present value is to estimate fair value when used to determine accounting measurements for

   ______ Neither Initial-Recognition Purposes, nor Fresh-Start Purposes

   ______ Both Initial-Recognition Purposes and Fresh-Start Purposes

   ______ Initial-Recognition Purposes, but not Fresh-Start Purposes

   ______ Fresh-Start Purposes, but not Initial-Recognition Purposes

3. Which of the following is NOT a necessary element of present value measurement?

   ______ Estimates of future cash flows.

   ______ The price of uncertainty inherent in an asset or liability.

   ______ Liquidity or market imperfections.

   ______ Observed transaction prices.

4. An interest method of allocation is most likely relevant when: I) The transaction giving rise to the asset or liability is viewed as a borrowing and a lending; II) Similar assets or liabilities are allocated using an interest method; III) The initial measurement was at present value; IV) The asset or liability has closely related estimated cash flows.

   ______ I only.

   ______ I and II only.

   ______ I, II, and III only.

   ______ I, II, III, and IV.

5. The fair value option is NOT allowed for

   ______ An interest in a variable interest entity that the entity is required to consolidate.

   ______ Recognized financial assets and financial liabilities.

   ______ Written loan commitment.

   ______ Forward purchase contract.

6. Upfront costs and fees applicable to items for which the fair value option is selected are

   ______ Capitalized.

   ______ Amortized.

   ______ Expensed as incurred.

|______ Depreciated.

7. Which one of the following is true?

|______ The fair value option limits the presentation of an asset or liability to the long-term section of the balance sheet.
|______ GAAP does not allow for the netting of carrying values and fair values on the balance sheet
|______ Unrealized gains and losses on items measured using the fair value option are recognized at an election date.
|______ Companies must classify cash receipts for items measured at fair value based on their nature.

8. Disclosures of fair value are required in ________________ financial statements.

|______ Annual and interim.

|______ Annual.

|______ Interim.

|______ Quarterly.

9. Amount of cash into which an asset is expected to be converted in due course of business less direct costs, if any, necessary to make that conversion is called.

|______ Current replacement cost.

|______ Fair value.

|______ Net realizable value.

|______ Net conversion value.

10. Which of the following statement is NOT true?

|______ No substantial differences between U.S. GAAP and IRFS.

|______ Both IFRS and U.S. GAAP offer a fair value option for financial assets and liabilities.

|______ Both the FASB and the IFRS plan to have revised fair value standards finalized by 2011; the revised standards will be mutually consistent.
|______ ASC 820 (FAS-159) does not require additional use of fair value beyond what is required in other statements.

11. ______________________ is NOT considered a pragmatic approach to common stock valuation.

|______ P/E ratios.

|______ Discounted cash flow analysis.

|______ Price-sales (P/S) ratios.

|______ Price-dividend ratios.

12. John Watson's uncle recently passed away, and included in the property that he inherited is a bond that pays an 8% coupon, has a face value of $1,000, has 10 years to maturity, and the investors require a rate of return of 10%. Assuming annual coupon payments, what is the value of the bond?

|______ $386.00

|______ $491.60

|______ $614.50

|______ $877.60

13. Calculate the capitalization rate for the following investment: Net operating income (NOI) =

$18,750; Purchase price = $150,000; and Equity = 20%

______ 10%.

______ 14%.

______ 12.5%.

______ 15%.

14. ___________________________ is a mathematical method used primarily to value debt securities without solely relying on quoted prices for the particular securities.

______ The expected cash flow model.

______ The present value model.

______ Matrix pricing.

______ Market multiples.

15. The present value of $110,000 expected to be received one year from today at an interest rate (discount rate) of 10% per year is which of the following values? (Note: the present value of $1 at 10% for one period is 0.909)

______ $121,012.

______ $99,990.

______ $110,000.

______ $909,000.

16. Purchase price divided by net operating income is

______ Gross Income Multiplier.

______ Net Income Multiplier.

______ Capitalization rate.

______ Discounted cash flow.

17. There is a 20% probability that future cash flows will be $100, a 50% probability that they will be $200, and a 30% probability that they will be $300. What is the expected cash flow?

______ $200.

______ $210.

______ $120.

______ $300.

18. FASB's ______________________ uses a range of cash flows along with their probabilities of occurrence.

______ Risk adjustment model.

______ Fair value model

______ Expected cash flow model.

______ Cost of capital model.

19. The FASB takes the position that after computing the expected cash flows, a company should discount those cash flows by the ______________.

______ Risk-free rate of return.

______ Risk-adjusted rate of return.

______ Pure rate of return.

|______ Expected inflation rate.

20. Nonperformance risks do NOT include:

|______ Collateral value risk.

|______ Default risk.

|______ Liquidity risk.

|______ Credit risk.

21. Which one of the following is NOT a lattice model?

|______ Binomial

|______ Black-Sholes-Merton

|______ Multinomial

|______ Trinomial

22. ASC 718-10-05 (FAS-123R, Share-Based Payment)

|______ Prefers use of any one of two particular methods as the valuation techniques of choice.

|______ Does not specify a preference for a particular valuation technique or model in estimating the fair value of employee share options and similar instruments.

|______ Requires an entity to use the expected cash flows method as defined by Statement of Financial Accounting Concepts (SFAC) No. 7, Using Cash Flow Information and Present Value in Accounting.

|______ Is an option valuation technique.

23. A reconciliation of the beginning and ending balances is required for any assets or liabilities measured at fair value

|______ On a recurring basis that use Level 3 during the period.

|______ On a nonrecurring basis that use Level 3 during the period.

|______ On a recurring basis that use Level 2 during the period.

|______ On a nonrecurring basis that use Level 1 during the period.

24. With items reported at fair value on a nonrecurring basis, it is unlikely that _________ inputs will be available.

|______ Level 0

|______ Level 3

|______ Level 2

|______ Level 1

25. Which of the following is NOT an asset that is measured at face value on a recurring basis?

|______ Trading securities.

|______ Impaired assets.

|______ Available-for-sale securities.

|______ Derivatives.

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- *Find the current CPE year and click "Go to My Courses".*
- *Find this course and click the "Go to Course" link.*
- *Step 2 on the Course Syllabus page is "Take the Final Exam". Click the "Begin Final Exam" link.*
- *Enter your answers on the online exam sheet.*
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