Session 3: Post Class tests

1. In conventional (as opposed to fair value) accounting, which of the following best describes how fixed assets are recorded?
    a. At original cost
    b. At current market value
    c. At original cost, adjusted for loss is value from aging of the asset (estimated with depreciation)
    d. At original cost, adjusted for loss is value from aging of the asset (estimated with depreciation), as well as for inflation.
    e. None of the above
2. When a company owns 10% of another company for a strategic/business reason, how is that investment recorded on the balance sheet?
    a. At original cost for the 10% holding
    b. At book value for the 10% holding
    c. At market value for the 10% holding
    d. At liquidation value for the 10% holding
    e. At book value for a 100% holding on assets, with a liability (minority interests) shown for the 90% that does not belong to the company.

    How would your answer change if the investment is held for trading reasons?
3. When a company owns 60% of another company for a strategic/business reason, how is that investment recorded on the balance sheet?
    a. At original cost for the 60% holding
    b. At book value for the 60% holding
    c. At market value for the 60% holding
    d. At liquidation value for the 60% holding
    e. At book value for a 100% holding on assets, with a liability (minority interests) shown for the 40% that does not belong to the company.
4. Goodwill often is the biggest intangible asset on a balance sheet. Which of the following is the best description of goodwill?
    a. It measures value of intangible assets in an acquired company
    b. It measures the value of growth in an acquired company
    c. It measures the premium paid over and above the book value to acquire a company.
    d. It measures overpayment on an acquisition
    e. None of the above
5. The shareholders' equity in a company reflects the accounting value for the equity in the company, or book value. For which of the following companies is book value likely to be closest to market or intrinsic value?
    a. For growth companies, with significant intangible assets
    b. For mature companies, with significant intangible assets
    c. For growth companies, with significant physical and tangible assets
    d. For mature companies, with significant physical and tangible assets
    e. None of the above.