Session 5: Post Class tests

1. Which of the following explains why effective tax rates are usually lower than marginal (or statutory) tax rates for most firms?
    a. Multinational companies generate significant revenues from foreign markets
    b. Tax deferral strategies used by firms
    c. Differences in taxable income between tax books and reporting books
    d. Operating loss carry forwards
    e. All of the above
2. In accounting, the primary reason for R&D being treated as operating expenses, rather than capital expenses, is:
    a. That R&D expenses are usually small, relative to other operating expenses
    b. That the benefits from R&D are too uncertain.
    c. That R&D expenses deliver benefits primarily in the current year
    d. That the objective in accounting is to be conservative in estimating earnings.
    e. That they are investments in intangible assets
3. When converting leases to debt, which of the following processes do we follow to make the conversion?
    a. Discount contractual lease commitments in future years back to today, using the pre-tax cost of debt as the discount rate
    b. Discount contractual lease commitments in future years back to today, using the after-tax cost of debt as the discount rate
    c. Discount contractual lease commitments in future years back to today, using the cost of capital as the discount rate
    d. Discount expected lease payments in future years back to today, using the pre-tax cost of debt as the discount rate
    e. Discount expected lease payments in future years back to today, using the after-tax cost of debt as the discount rate
    f. Discount expected lease payments in future years back to today, using the cost of capital as the discount rate
4. Based upon current IFRS and GAAP accounting, when companies use options to compensate employees, how and when are earnings affected?
    a. Lowered in the period of the grant, by the exercise value of options (Stock price minus Exercise price on the option)
    b. Lowered in the period of the grant, by the estimated value of options at the time of the grant
    c. Lowered in the period of the grant, by the estimated value of options, but only if they are in-the-money. (Stock price > Exercise price)
    d. Lowered in the period that they are exercised, by the exercise value of the options (Stock price minus Exercise price on the option)
    e. They have no effect on earnings

5. When companies use restricted stock to compensate employees, these shares cannot be claimed by employees until they are vested. What effect do these grants have on share count?
    a. Share count is not affected, until the restrictions on shares are removed
    b. Share count is not affected, until the restricted shares get vested.
    c. Share count will increase by the number of restricted shares, at the time of the grant.
    d. Share count will never be affected. Restricted shares don't count.
    e. None of the above