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QUESTION 1

The discount rate set by the Federal Reserve is the:

A. Rate that commercial banks charge for loans to each other.

B. Rate that commercial banks charge for loans to the general public.

C. Rate that the central bank charges for loans to commercial banks.

D. Ratio of a bank\\'s reserves to its demand deposits.

Correct Answer: C

Explanation:

Choice "c" is correct. The discount rate refers to the rate established by the Federal Reserve for shortterm

(often overnight) loans the Fed makes to member banks.

Choice "a" is incorrect. The discount rate is the rate the Federal Reserve charges.

Choice "b" is incorrect per above Explanation: .

Choice "d" is incorrect. This would be the bank\\'s reserve ratio - not the discount rate.

QUESTION 2

Eller, Fort, and Owens do business as Venture Associates, a general partnership. ABC Corp. brought a breach of contract suit against Venture and Eller individually. ABC won the suit and filed a judgment against both Venture and Eller. ABC will generally be able to collect the judgment from:

A. Partnership assets only.

B. The personal assets of Eller, Fort, and Owens only.

C. Eller\\'s personal assets only after partnership assets are exhausted.

D. Eller\\'s personal assets only.

Correct Answer: C

Explanation:

Choice "c" is correct. When a judgment is obtained against both a partnership and an individual general partner, the plaintiff must proceed against the partnership assets first and then the assets of any individual general partner. The partnership assets must be exhausted before any general partner\\'s individual assets can be attached. Choices "a", "b", and "d" are incorrect, per the above rule.

QUESTION 3

Ryan, age 57, is single with no dependents. On July 1, 1997, Ryan\\'s principal residence was sold for the net amount of $500,000 after all selling expenses. Ryan bought the house in 1963 and occupied it until sold. On the date of sale, the house had a basis of $180,000. Ryan does not intend to buy another residence. What is the maximum exclusion of gain on sale of the residence that may be claimed in Ryan\\'s 1997 income tax return?

A. $320,000

B. $250,000

C. $125,000

D. $0

Correct Answer: B

Explanation:

Choice "b" is correct. $250,000 maximum exclusion from taxable income.

Rule: An individual may exclude from income up to $250,000 gain provided that the property was the

taxpayer\\'s primary residence for 2 of the last 5 years. Married taxpayers may exclude gains up to

$500,000.

Choice "a" is incorrect. $320,000. Ryan, age 57, was not married. Thus, his exclusion was limited to

$250,000.

Choice "c" is incorrect. The $125,000 exclusion was old law and eliminated for sales after 5/6/97.

Choice "d" is incorrect, per the above rule.

QUESTION 4

On January 1, 1991, ABC Co. installed cabinets to display its merchandise in customers\\' stores. ABC expects to use these cabinets for five years. ABC\\'s 1991 multi-step income statement should include:

A. One-fifth of the cabinet costs in cost of goods sold.

B. One-fifth of the cabinet costs in selling, general, and administrative expenses.

C. All of the cabinet costs in cost of goods sold.

D. All of the cabinet costs in selling, general, and administrative expenses.

Correct Answer: B

Explanation:

Choice "b" is correct. One-fifth of the cabinet costs (depreciation expense) should be included in selling,

general, and administrative expenses for 1991.

Choice "a" is incorrect. Merchandise display cabinets in stores relate to selling activities, not to the purchase cost of goods sold.

Choices "c" and "d" are incorrect. Merchandise display cabinets are fixed assets whose cost should be allocated systematically over their five-year useful life.

QUESTION 5

Which of the following statements is(are) correct regarding the methods a target corporation may use to ward off a takeover attempt?

I. The target corporation may make an offer ("self-tender") to acquire stock from its own shareholders.

II.

The target corporation may seek an injunction against the acquiring corporation on the grounds that the attempted takeover violates federal antitrust law.

A.

I only.

B.

II only.

C.

Both I and II.

D.

Neither I nor II.

Correct Answer: C

Explanation:

Choice "c" is correct.

Rule: A tender offer is a general invitation by a bidder to the shareholders of a target company to tender their shares to the bidder at a specified price during a specified time. A target of a takeover may ward off a tender offer by offering to repurchase shares from its shareholders. If a takeover will violate federal antitrust law, a court will enjoin the takeover.

Choices "a", "b", and "d" are incorrect, per the above rule.