

EXAM NUMBER: _____

Accounting and Finance For Lawyers
PROFESSOR WILLIS
Summer 2010

DATE: July 5, 2010
TIME: 12:30 P.M.
TIME LIMIT: Due by July 31, 2010

Instructions

1. You may consult any written materials you consider helpful.
2. 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 or circle the appropriate word. For example, if a question calls for a dollar amount, anything other than arabic numerals stated in terms of U.S. dollars will be incorrect.
3. If you need additional space, please add it as you desire.
4. This exam should be emailed to willis@law.ufl.edu.
5. Place your exam number or other form of identification at the top of each page.
6. I will answer no questions prior to the time you turn in your paper.

QUESTION ONE

a. You owe \$90,000 in student loans. You must begin paying them off today. The interest rate is 6.0% nominal annual interest and payments are monthly. How much are your monthly payments assuming a ten-year pay-off?

\$ _____

b. Suppose instead that you have a twenty-year pay-off. How much are your monthly payments?

\$ _____

c. Your client was injured and cannot work. He had been earning \$5,000 weekly after taxes. He just turned 30 at the time of the accident (which was three years ago today) and he reasonably expected to work until age 66. The insurance company concedes liability. Compute the dollar amount you expect the insurance company to offer for lost wages. Compute the dollar amount you expect to demand in initial negotiations. Give an estimate of a reasonable amount for which you expect to settle.

Insurance Company Offer: \$ _____

Plaintiff Demand: \$ _____

Reasonable Settlement: \$ _____

d. You must save \$100,000 to pay-off a balloon note in five years. You want to begin depositing an amount in a money market account in a local bank. You plan to deposit the same amount each month until the note is due. How much must you deposit? You should consider current yields on such accounts. You may project changes in interest rates over the next five years if you deem that appropriate.

\$ _____

QUESTION TWO

Describe what happened in the following accounting entries:

a. Accounts Receivable	\$5000	
Cash		\$5000

b. Treasury Stock	400,000	
Capital Stock		400,000

True False 5. A credit to "cash" and a comparable debit to "accounts receivable" would form a journal entry recording the collection of a customer account.

True False 6. Revenue accounts and liability accounts are both decreased with a debit.

True False 7. Asset accounts and expense accounts are both increased with a credit.

True False 8. If beginning inventory equals 11,000, inventory purchases equal 47,000 and ending inventory equals 12000, cost of goods sold equals 46,000.

True False 9. Treasury Stock is an asset.

True False 10. The cash method of accounting is not consistent with GAAP.