ACCOUNTING 202

APPENDIX C

TRUE-FALSE STATEMENTS

1. Interest is the difference between the amount borrowed and the principal.

2. Compound interest is computed on the principal and any interest earned that has not been paid or received.

3. The future value of a single amount is the value at a future date of a given amount invested assuming compound interest.

4. When the periodic payments are not equal in each period, the future value can be computed by using a future value of an annuity table.

5. The process of determining the present value is referred to as discounting the future amount.

6. A higher discount rate produces a higher present value.

7. In computing the present value of an annuity, it is not necessary to know the number of discount periods.

8. Discounting may be done on an annual basis or over shorter periods of time such as semiannually.

9. The present value of a bond is a function of two variables: (1) the payment amounts and (2) the discount rate.

10. When the discount rate is equal to the contractual rate, the present value of the bonds will equal the bonds' face value.

MULTIPLE CHOICE QUESTIONS

11. The factor 1.12486 is taken from the 4% column and 3 periods row in a certain table. From what table is this factor taken?
    a. Future value of 1
    b. Future value of an annuity
    c. Present value of 1
    d. Present value of an annuity

12. If $5,000 is put in a savings account paying interest of 4% compounded annually, what amount will be in the account at the end of 5 years?
    a. $4,109.65
    b. $6,000.00
    c. $6,077.55
    d. $6,083.25

13. Gomez Company deposits $10,000 in a fund at the end of each year for 5 years. The fund pays interest of 4% compounded annually. The balance in the fund at the end of 5 years is computed by multiplying
    a. $10,000 by the future value of 1 factor.
    b. $50,000 by 1.04.
    c. $50,000 by 1.20.
    d. $10,000 by the future value of an annuity factor.

14. If $2,500 is deposited in a savings account at the end of each year and the account pays interest of 5% compounded annually, what will be the balance of the account at the end of 10 years?
    a. $4,072.23
    b. $26,250.00
    c. $31,444.73
    d. $37,500.00

15. If you are able to earn an 8% rate of return, what amount would you need to invest to have $2,000 one year from now?
    a. $1,849.78
    b. $1,851.86
    c. $1,818.18
    d. $1,980.00

16. If you are able to earn a 15% rate of return, what amount would you need to invest to have $500 one year from now?
    a. $495.05
    b. $437.50
    c. $425.00
    d. $434.79

17. Suppose you have a winning sweepstakes ticket and you are given the option of accepting $500,000 three years from now or taking the present value of the $500,000 now. The sponsor of the prize uses a 6% discount rate. If you elect to receive the present value of the prize now, the amount you will receive is
    a. $419,810.
    b. $431,920.
    c. $445,000.
    d. $500,000.

18. The amount you must deposit now in your savings account, paying 6% interest, in order to accumulate $3,000 for a down payment 5 years from now on a new car is
    a. $600.00.
    b. $2,241.78.
    c. $2,238.66.
    d. $2,100.00.

19. Simmons Company has just purchased equipment that requires annual payments of $10,000 to be paid at the end of each of the next 4 years. The appropriate discount rate is 15%. What is the present value of the payments?
    a. $28,549.80
    b. $40,000.00
    c. $11,743.64
    d. $37,533.56

ANSWERS

True and False

1. F 2. T 3. T 4. F 5. T 6. F 7. F 8. T 9. F 10. T

Multiple Choice

11. A 12. D 13. D 14. C 15. B 16. D 17. A 18. B 19. A