

ACCT 101
Review for Exam #4
Long Term Liabilities, Corporate Reporting (Equity) and Analysis,
Statement of Cash Flows

Test Review

As we have discussed, this is a tough test, as the topics are more difficult than previous exams. YOU MUST STUDY, and you should be caught up on all work. DOING MORE than required is pivotal to your understanding of this material.

Here is a summary of what we have been learning:

Chapter 10 – Long Term Liabilities

- Bonds – What they are, how they work, how they are quoted and priced, why bonds rarely sell at face value. There are LOTS of terms in this chapter
- JE's for issuing bonds, for paying interest, and for amortizing discounts and premiums. Also JE for accruing interest between bond payment dates.
- Long Term Notes payable, including installment notes
- Presentation of items on financial statements
- Ratios

Chapter 11 – Corporate Reporting and Analysis (Equity transactions)

- Familiarity with the corporate form of business – Advantages and Disadvantages, how to form a corporation, various types of stocks, and dividend requirements. There are LOTS of terms in this chapter.
- Cash Dividends – computing and allocating between different types of stock
- Stock Dividends - basic
- Stock Splits - basic
- JE's for common stock transactions
- Treasury Stock – what it is, how to record, treatment on financial statements.
- Presentation of items on financial statements
- Ratios – e.p.s., p/e, dividend yield

Chapter 12 – Statement of Cash Flows

- Why its necessary and what it shows
- Three Parts and ability to classify transactions
- How to Compute
- Indirect Method and what it shows
- Focus on Operating Section
- “Danger” items

Structure of Exam:

30 multiple choice questions

Six problems – Choose 4 and prepare complete solutions SHOWING ALL WORK

- JE's to issue bonds, record interest and amortization, Computation of bond interest expense
- Computation and JE's for installment note, along with amortization table.
- Allocate dividends between common stock and preferred stock
- JE's for common stock transactions including treasury stock and computation of before and after calculations
- Classifying transactions as Operating, Investing, or financing, and whether amounts would be added or subtracted on a Statement of Cash Flows
- Preparation of an Operating section of a Statement of Cash Flows

PROFESSOR Johnson

CHAPTER TEN

True-False:

1. () Interest expense on installment notes is calculated each period as the interest rate multiplied by the beginning-of-period principal balance.
2. () Bondholders do not share in either management or earnings of the issuing corporation.
3. () Bondholders are creditors of the issuing corporation.
4. () If bonds are sold at par value, the entry to record the sale has a debit to Cash and a credit to Bonds Payable.
5. () Investors will be willing to pay more than par (buy at a premium) for bonds when the market rate of interest is higher than the contract rate of interest.
6. () If the market rate of interest is 12%, it is 4% semiannually.
7. () The straight-line method of amortizing bond premium allocates an equal portion of the premium to each interest period.
8. () Callable bonds are bonds that can be redeemed at the option of the investor.
9. () The debt-to-equity ratio is computed by dividing total liabilities by total equity.
10. () The carrying amount of a bond payable decreases each year by the amount of discount amortized that year.

Multiple Choice:

You are given several words, phrases, or numbers to choose from in completing each of the following statements or in answering the following questions. In each case select the one that best completes the statement, or answers the question, and place its letter in the answer space provided.

1. _____ On December 31, the interest payment date, the carrying value of Taylor Company's issued bonds is \$106,000. The bonds have a par value of \$100,000. On January 1, Taylor buys and retires the outstanding bonds. The market price on this date is 103.5. The entry to retire the bonds includes a:
 - a. \$6,000 credit to Premium on Bonds Payable.
 - b. \$3,500 debit to Loss on Retirement of Bonds.
 - c. \$3,500 credit to Gain on Retirement of Bonds.
 - d. \$2,500 credit to Gain on Retirement of Bonds.
 - e. \$100,000 credit to Cash.
2. _____ Unsecured bonds that are supported by only the general credit standing of the issuer are called:
 - a. Callable bonds
 - b. Sinking fund bonds
 - c. Serial bonds
 - d. Coupon bonds
 - e. Debentures

- _____ 3. A company issued 5-year, 5% bonds with a par value of \$100,000. The company received \$95,735 when the bonds were issued. Using the straight-line method of amortizing discounts, the company's interest expense for the first semiannual interest payment is:
- a. \$2,926.50
 - b. \$5,853.00
 - c. \$2,500.00
 - d. \$5,000.00
 - e. \$9,573.50

Short problem:

Prepare journal entries for the following transactions:

2017:

Jan. 1 Issued a 10-year, \$1,000,000 bond with a stated interest rate of 8% at 99.

June 30 Made first semi-annual interest payment.

December 31 Made second semi-annual interest payment.

Date	Description	Dr.	Cr.
2017			
Jan. 1			
June 30			
Dec. 31			
	Total amount of interest expense over the life of the bond???? Show computation		

CHAPTER ELEVEN

True-False:

The following statements are either true or false. Place a (T) in the parentheses before each true statement and an (F) before each false statement.

1. () Par value has nothing to do with a stock's worth.
2. () Final authority in the management of corporation affairs rests with its board of directors.
3. () The life of a corporation may be unlimited.
4. () To transfer and sell his or her interest in a corporation, a stockholder must secure permission from the corporation's secretary.
5. () The chief executive officer of a corporation is usually elected by the stockholders at one of their annual meetings.
6. () The president of a corporation is responsible to its board of directors for management of the corporation's affairs.
7. () A small stock dividend should be recorded by capitalizing retained earnings equal to the book value of the stock to be distributed.
8. () In most states, a corporation must have current net income in order to pay a cash dividend.
9. () Since a stock dividend is payable in stock rather than in assets, it is not a liability of its issuing corporation.
10. () A stock split has no effect on total stockholders' equity, the equities of the individual stockholders, or on the balances of any of the contributed or retained capital accounts.
11. () Dividend yield is calculated by dividing market value per share by the dividend per share.
12. () A company with common stock having a market value of \$45 per share and earnings of \$5 per share has a price-earnings ratio of 9.
13. () A cash dividend reduces a corporation's cash and its stockholders' equity, but a stock dividend does not affect either cash or total stockholders' equity.
14. () For companies with simple capital structures, earnings per share is calculated by dividing net income minus preferred dividends, if any, by the weighted-average number of common shares outstanding.
15. () Hadley Corporation stock has a current market value of \$16 and is expected to pay cash dividends of \$1.20 during the next year. The expected dividend yield of Hadley stock is 7.5%.

Multiple Choice:

You are given several words, phrases, or numbers to choose from in completing each of the following statements or in answering the following questions. In each case select the one that best completes the statement or answers the question and place its letter in the answer space provided.

- _____ 1. The difference between the par value of stock and its issue price when it is issued at a price above par value is the:
- a. Paid-in capital.
 - b. Stock dividend.
 - c. Minimum legal capital.
 - d. Premium on stock.
 - e. Discount on stock.

- _____ 2. Vector Corporation has outstanding 3,000 shares of \$100 par value, 7% cumulative preferred stock and 10,000 shares of \$10 par value common stock. Dividends have not been paid on the preferred stock for the current and one prior year. The corporation has recently prospered, and the board of directors has voted to pay out \$49,000 of the corporation's retained earnings in dividends. If the \$49,000 is paid out, how much should the preferred and common stockholders receive per share?
- \$14.00 per share preferred, \$0.70 per share common.
 - \$ 7.00 per share preferred, \$2.80 per share common.
 - \$12.25 per share preferred, \$1.23 per share common.
 - \$ 1.14 per share preferred, \$4.56 per share common.
 - \$16.33 per share preferred, \$ -0- per share common.

- _____ 3. Stated value of stock is:
- One share's portion of the issuing corporation's net assets as recorded in the corporation's accounts.
 - An arbitrary amount assigned to stock by the corporation's board of directors which is credited to the stock account when the stock is issued.
 - The difference between the par value of stock and its issue price when it is issued at a price below or above par value.
 - The market value of the stock on the date of issuance.
 - The price at which a share of stock can be bought or sold.

- _____ 4. The statement of stockholders' equity is:
- A financial statement that discloses the inflows and outflows of cash during the period.
 - A financial report showing the assets, liabilities, and equity of an enterprise on a specific date.
 - A financial statement showing revenues earned by a business, the expenses incurred in earning those revenues, and the resulting net income or net loss.
 - A financial statement that lists the beginning and ending balances of each equity account and describes all the changes that occurred during the year.
 - None of the above.

- _____ 5. On December 15, RTA Corporation declares a \$.75 per share cash dividend on its 4,000 outstanding shares. Payment date is January 15. On December 15, RTA should make the following entry related to the cash dividend:

a.	Cash Dividends Declared	3,000	
	Retained Earnings		3,000
b.	Common Dividend Payable	3,000	
	Cash Dividends Declared		3,000
c.	Retained Earnings	3,000	
	Cash Dividends Declared		3,000
d.	Retained Earnings	3,000	
	Common Dividend Payable		3,000

Short problems:

On August 10 Mainline Corporation purchased for cash 2,000 shares of its own \$25 par value common stock at \$27 per share. On October 3 it sold 1,000 of the shares at \$30 per share. On November 4 it sold the remaining 1,000 shares at \$20 per share. Prepare the journal entries below to record the purchase and sales of the stock.

DATE	ACCOUNT TITLES AND EXPLANATION	P.R.	DEBIT			CREDIT		
Aug. 10								
	Purchased 2,000 shares of treasury stock.							
Oct. 3								
	Sold 1,000 shares of treasury stock.							
Nov. 4								
	Sold 1,000 shares of treasury stock.							

CHAPTER TWELVE

INSTRUCTIONS: Selected changes in various corporate accounts during a fiscal year are described below. By the use of x's, indicate the section of the statement of cash flows (indirect method) in which the change is reported. If the item described is not reported, so indicate.

	Section of Statement of Cash Flows				For Scoring
	Operating Activities	Investing Activities	Financing Activities	Non-cash Activities	
0. Merchandise Inventory—net increase	X				0. ____
1. Retained Earnings—debit for stock dividends distributed					1. ____
2. Common Stock—credit for issuance at par for cash					2. ____
3. Bonds Payable—debit for redemption of bonds					3. ____
4. Office Supplies—net decrease					4. ____
5. Accounts Receivable—net decrease					5. ____
6. Retained Earnings—debit for net loss					6. ____
7. Purchased stock in another company					7. ____
8. Bonds Payable—credit for issuance for cash					8. ____
9. Retained Earnings—debit for cash dividends paid					9. ____
10. Equipment—credit for items sold					10. ____
11. Accumulated Depreciation—Equipment—debit for fully depreciated items discarded					11. ____

OPERATING ACTIVITIES SECTION OF STATEMENT OF CASH FLOWS

INSTRUCTIONS: Selected data from various accounts during a fiscal year are presented below. By using x's, indicate whether each of the items will be (1) added to or (2) deducted from net income in arriving at cash flows from operating activities, using the indirect method. If the change is not reported in the determination of cash flows from operating activities, place an x in the Not Reported column.

	Cash Flows from Operating Activities			For Scoring
	Added to Net Income	Deducted from Net Income	Not Reported	
0. Stock dividends declared			x	0. ____
1. Depletion expense				1. ____
2. Building and land purchased by issuing common stock				2. ____
3. Decrease in prepaid expenses				3. ____
4. Depreciation expense on equipment				4. ____
5. Decrease in dividends payable				5. ____
6. Common stock issued for cash				6. ____
7. Decrease in inventories				7. ____
8. Decrease in accounts payable				8. ____
9. Gain on sale of land				9. ____
10. Amortization expense on patents				10. ____
11. Gain on sale of long-term investments				11. ____
12. Increase in accounts receivable				12. ____

Fill in the blanks:

Complete the following by filling in the blanks.

- 1-2. What are the two alternative methods of reporting operating activities in the statement of cash flows?
 - 1.
 - 2.
- 3-8. Indicate the section of the statement of cash flows (indirect method) in which each of the following would appear (answer operating activities, investing activities, or financing activities):
 - 3. Amortization of patent
 - 4. Depreciation expense on equipment
 - 5. Sale of long-term investments, no gain or loss.....
 - 6. Sale of equipment at book value
 - 7. Redemption of bonds payable
 - 8. Sale of patents
 - 9. Cash dividends of \$50,000 were declared during the year. Cash dividends payable were \$14,000 and \$16,000 at the beginning and end of the year, respectively. Cash dividends paid during the year is \$_____

10. The net income from operations was \$80,000 and the only revenue or expense item not affecting cash was depreciation expense of \$42,000. What amount of net cash flows from operating activities would appear in the statement of cash flows? \$ _____
11. A corporation purchased and retired 5,000 shares of its \$15 par common stock, originally issued at par, for \$35. Cash flows amounted to \$ _____
12. If a loss of \$2,000 is incurred in selling (for cash) a fixed asset having a book value of \$25,000, the total amount reported as a cash flow in Investing Activities is \$ _____
13. The \$97,000 net income for the year included a charge of \$8,000 for the amortization of a patent. Excluding the effect of other adjustments, the amount of net cash flows from operating activities is \$ _____.
14. A corporation issued \$2,000,000 of bonds payable at 104. Cash flow was \$ _____
15. 25,000 shares of \$10 par common stock were issued at \$16. The total amount reported in the cash flows from financing activities section of the statement of cash flows is \$ _____

Short problem:

Based on the following information, compute the net cash provided by operating activities:

Net income	\$125,000
Depreciation expense	10,000
Increase in accounts receivable	12,000
Decrease in merchandise inventory	8,000
Increase in accounts payable	5,000
Dividends paid	9,000
Equipment purchased	15,000
Decrease in accrued liabilities	11,000

ANSWER: The net cash flow from operating activities is: \$ _____