

Schmidt key

ACCT 101 - Exam #4 - Chap 10 - 12 - Schmidt

Student: _____

1. A bond traded at 102 ½ means that:

- A. The bond pays 2.5% interest
- B. The bond traded at \$1,025 per \$1,000 bond p 409
- C. The market rate of interest is 2.5%
- D. The bonds were retired at \$1,025 each
- E. The market rate of interest is 2 ½% above the contract rate

2. The contract between the bond issuer and the bondholders, which identifies the rights and obligations of the parties is called a(n):

- A. Debenture
- B. Bond indenture p 410
- C. Mortgage
- D. Installment note
- E. Mortgage contract

3. What is the debt to equity ratio for a company with \$700,000 in total liabilities and \$3,500,000 in total equity?

- A. 20%
- B. 5
- C. \$2,100,000
- D. 2%
- E. .5

$$\frac{700,000}{3,500,000} = 20\%$$

4. When a bond sells at a premium:

- A. The contract rate is above the market rate - you can get more than face
- B. The contract rate is equal to the market rate
- C. The contract rate is below the market rate
- D. It means that the bond is a zero coupon bond
- E. The bond pays no interest

5. A company issues 9%, 20-year bonds with a par value of \$750,000. The current market rate is 9%. The amount of interest owed to the bondholders for each semiannual interest payment is.

- A. \$0
- B. \$33,750**
- C. \$67,500
- D. \$750,000
- E. \$1,550,000

$$P \times R \times T$$

$$750,000 \times .09 \times 6/12 = 33750$$

6. On January 1, 2009, a company issued and sold an \$850,000, 6%, 5-year bond payable and received proceeds of \$25,000. Interest is payable each June 30 and December 31. The company uses the straight-line method to amortize the discount. The journal entry to record the first interest payment is:

$$\overset{\text{Int}}{850,000} \times .06 \times 6/12 = 25,500$$

$$\text{Discount } 25,000 \div 10 = 2,500$$

$$\underline{28,000}$$

Int Exp.

A.	Bond Interest Expense	25,500	
	Cash		25,500
B.	Bond Interest Expense	51,000	
	Cash		51,000
C.	Bond Interest Expense	28,000	
	Discount on Bonds Payable		2,500
	Cash		25,500
D.	Bond Interest Expense	23,000	
	Discount on Bonds Payable	2,500	
	Cash		25,500
E.	Bond Interest Expense	25,500	
	Discount on Bonds Payable	2,500	
	Cash		28,000

C 7. Adidas issued 10-year, 8% bonds with a par value of \$200,000. Interest is paid semiannually. The market rate on the issue date was 7.5%. Adidas received \$206,948 in cash proceeds. Which of the following statements is true?

premium

$$200,000 \times .08 \times 6/12 = 8000$$

- A. Adidas must pay \$200,000 at maturity and no interest payments
- B. Adidas must pay \$206,948 at maturity and no interest payments
- C. Adidas must pay \$200,000 at maturity plus 20 interest payments of \$8,000 each**
- D. Adidas must pay \$206,948 at maturity plus 20 interest payments of \$8,000 each
- E. Adidas must pay \$200,000 at maturity plus 20 interest payments of \$7,500 each

8. A company received cash proceeds of \$206,948 on a bond issue with a par value of \$200,000. The difference between par value and issue price for this bond is recorded as a:

- A. Credit to Interest Income
- B. Credit to Premium on Bonds Payable
- C. Credit to Discount on Bonds Payable
- D. Debit to Premium on Bonds Payable
- E. Debit to Discount on Bonds Payable

9. On January 1, 2009, Merrill Company borrowed \$100,000 on a 10-year, 7% installment note payable. The terms of the note require Merrill to pay 10 equal payments of \$14,238 each December 31 for 10 years. The required general journal entry to record the first payment on the note on December 31, 2009 is:

A.	Notes payable.....	7,238	
	Interest expense.....	7,000	
	Cash.....		14,238
B.	Notes payable.....	7,000	
	Interest expense.....	7,238	
	Cash.....		14,238
C.	Notes payable.....	10,000	
	Interest expense.....	7,000	
	Cash.....		17,000
D.	Notes payable.....	14,238	
	Cash.....		14,238
E.	Notes payable.....	10,000	
	Interest Expense.....	4,238	
	Cash.....		14,238

$Int = 100,000 \times .07 = 7000$
Int

10. The total amount of stock that a corporation's charter allows it to issue is referred to as:

- A. Issued stock
- B. Outstanding stock
- C. Common stock
- D. Preferred stock
- E. Authorized Stock

11. Par value of a stock refers to the:

- A. Issue price of the stock
- B. Value assigned to a share of stock by the corporate charter
- C. Market value of the stock on the date of the financial statements
- D. Maximum selling price of the stock
- E. Dividend value of the stock

12. A company issued 7% preferred stock with a \$100 par value. This means that:

- A. Preferred shareholders have a guaranteed dividend
- B. The amount of the potential dividend is \$7 per year per preferred share
- C. Preferred shareholders are entitled to 7% of the annual income
- D. The market price per share will approximate \$100 per share
- E. Only 7% of the total contributed capital can be preferred stock

13. A company has 2,000 shares of \$1 par value common stock and 200 shares of 5%, \$110 par, non-cumulative preferred stock outstanding. The balance in Retained Earnings at the **beginning** of the year was \$500,000. Net income for the current year was \$300,000. If the company paid a dividend of \$2 per share on its common stock, what is the balance in Retained Earnings at the **end** of the year?

- A. \$800,000
- B. \$805,100
- C. \$794,900
- D. \$494,900
- E. \$194,900

$$\begin{array}{r}
 \text{Beg RE} \quad 500,000 \\
 + \text{NI} \quad 300,000 \\
 - \text{DIV} - \text{C/S} \quad 4,000 \quad (2 \times 2,000) \\
 - \quad \text{P/S} \quad 1100 \quad (110 \times .05 \times 200) \\
 \hline
 794,900
 \end{array}$$

14. The price-earnings ratio is calculated by dividing:

- A. Market value per share by earnings per share
- B. Earnings per share by market value per share
- C. Dividends per share by earnings per share
- D. Dividends per share by market value per share
- E. Market value per share by dividends per share

15. A company has a market value per share of \$73.00. Its net income is \$1,750,000 and the weighted-average number of shares outstanding is 350,000. The company's price-earnings ratio equals:

- A. 20.9
- B. 4.2
- C. 14.6
- D. 20.0
- E. 6.8

$$\frac{73}{1,750,000 \div 350,000} = 14.6$$

16. A corporation sold 14,000 shares of its \$10 par value common stock at a cash price of \$13 per share. The entry to record this transaction would include:

- A. A debit to Contributed Capital in Excess of Par Value, Common Stock for \$42,000 *no*
- B. A debit to Cash for \$140,000 *no*
- C. A credit to Common Stock for \$182,000 *no*
- D. A credit to Common Stock for \$140,000 *-*
- E. A credit to Contributed Capital in Excess of Par Value, Common Stock for \$182,000 *no*

$$\begin{array}{r}
 \text{Cash } (14,000 \times 13) \quad 182,000 \\
 \text{C/S } (14,000 \times 10) \quad 140,000 \\
 \hline
 42,000
 \end{array}$$

17. A stock dividend:

- A. Is not a liability on the balance sheet
- B. Does not reduce a corporation's assets and stockholders' equity
- C. Transfers a portion of equity from retained earnings to contributed capital
- D. Does not affect total equity, but does affect the components of equity
- E. All of the above

18. A company has 1,000 shares of \$50 par value, 4.5% cumulative and nonparticipating preferred stock and 10,000 shares of \$10 par value common stock outstanding. The company paid total cash dividends of \$1,000 in its first year of operation. The cash dividend that must be paid to preferred stockholders in the second year before any dividend is paid to common stockholders is:

- A. \$1,000
- B. \$1,250
- C. \$2,250
- D. \$3,500
- E. \$4,500

$$50 \times .045 = 2.25 \text{ per share} \times 1000 = 2250$$

$$\text{in arrears } 1250 + \text{current yr } 2250 = 3500$$

(2250 - 1000)

19. Treasury stock is classified as:

- A. An asset account
- B. A contra asset account
- C. A revenue account
- D. A contra equity account
- E. A liability account

20. The following data were reported by a corporation:

Authorized shares	20,000
Issued shares	15,000
Treasury shares	3,000

) Issued less those we hold in T/S

The number of outstanding shares is:

- A. 12,000
- B. 15,000
- C. 17,000
- D. 20,000
- E. 23,000

21. The appropriate section in the statement of cash flows for reporting the purchase of equipment for cash is:

- A. Operating activities
- B. Financing activities
- C. Investing activities
- D. Schedule of noncash investing or financing activity
- E. None of these. This is not reported on the statement of cash flows

22. The appropriate section in the statement of cash flows for reporting the issuance of common stock for cash is:

- A. Operating activities
- B. Financing activities
- C. Investing activities
- D. Schedule of noncash investing or financing activity
- E. None of these. This is not reported on the statement of cash flows

23. A company's transactions with its creditors to borrow money and/or to repay the principal amounts of loans are reported as cash flows from:

- A. Operating activities
- B. Investing activities
- C. Financing activities
- D. Direct activities
- E. Indirect activities

24. The statement of cash flows helps address questions such as

- A. How is the increase in investments financed?
- B. What is the source of cash for new plant assets?
- C. How much cash is generated from or used in operations?
- D. Why is cash flow from operations different from income?
- E. All of the above

25. When using the indirect method to calculate and report net cash provided or used by operating activities, which of the following is subtracted from net income?

- A. Decrease in income taxes payable **yes**
- B. Depreciation expense **no**
- C. Amortization of intangible assets **no**
- D. Bad debts expense **no**
- E. Decrease in merchandise inventory **no**

NI
Adds: Depn
105528
↓ CA
TCL

Deducts: TCA
2101

26. A company's income statement showed the following: net income, \$124,000; depreciation expense, \$30,000 and gain on sale of plant assets, \$14,000. An examination of the company's current assets and current liabilities showed the following changes as a result of operating activities: accounts receivable decreased \$9,400; merchandise inventory increased \$18,000; prepaid expenses decreased \$6,200; accounts payable increased \$3,400. Calculate the net cash provided or used by operating activities.

- A. \$139,000
- B. \$141,000
- C. \$145,800
- D. \$155,000
- E. \$167,000

NI 124,000

Adds: Dep Exp 30,000
 losses
 ↓ AR 9,400
 ↑ Inv 18,000
 ↓ Prepd Exp 6,200
 ↑ AP 3,400

} 49,000

Deducts: gains 14,000
 Net Inc 18,000

} 32,000

Net Cash 141,000

27. A machine with a cost of \$130,000 and accumulated depreciation of \$85,000 is sold for \$50,000 cash. The amount that should be reported as a source of cash under cash flows from investing activities is:

- A. \$50,000
- B. \$5,000
- C. \$45,000
- D. Zero. This is an operating activity
- E. Zero. This is a financing activity

28. The first line item in the operating activities section of a spreadsheet for a statement of cash flows prepared using the indirect method is:

- A. Cash
- B. Cash received from customers
- C. Increase (decrease) in accounts receivable
- D. Net income
- E. Adjustments to net income

29. Which of the following items is reported on the statement of cash flows under financing activities?

- A. Declaration of a cash dividend *No, must be paid*
- B. Payment of a cash dividend *yes*
- C. Declaration of a stock dividend *no*
- D. Payment of a stock dividend *no*
- E. Stock split *no*

LT Liab Equity

30. The appropriate section in the statement of cash flows for reporting the purchase of land in exchange for common stock is:

- A. Operating activities
- B. Financing activities
- C. Investing activities
- D. Schedule of noncash investing or financing activity
- E. None of these. This is not reported on the statement of cash flows

Problem Section – TURN YOUR SCAN TRON FACE DOWN BEFORE CONTINUING ON. Choose four of the following six problems and prepare complete solutions SHOWING ALL CALCULATIONS!

31. On Jan 1, 2009 ABC Enterprises issues bonds that have a \$3,650,000 par value, mature in 20 years, and pay 10% interest semiannually on 6/30 and 12/31. The bonds are sold at 101. Prepare the following JE's showing details for all amounts. Assume that discounts/premiums are amortized on each interest date. Also answer the question d. Round answers to nearest dollar.

- (a) Prepare the JE on Jan 1 to issue the bond.
 - (b) Prepare the JE on 6/30 to record the interest payment and the amortization of the premium or discount. (You can do in one or two JE's.)
 - (c) Prepare the JE on 12/31/ to record the interest payment and the amortization of the premium or discount.
 - (d) How much total bond interest expense will be recognized over the life of the bond?
-

32. On January 1, ABC Company borrows \$90,000 cash by signing a four year 5% installment note. The note requires four equal payments of amortized interest and principal on December 31 of each year from 2009 to 2012. The present value of an annuity factor for the note is 3.5460.

- (a) Compute the amount of each of the four annual payments
 - (b) Prepare an amortization table which shows the payment number, the date of the payment, the total of the payment, and the split between principal and interest for each of the four payments. Round to the nearest whole dollar.
-

33. Norton's outstanding stock consists of 13,000 cumulative, 8% preferred stock with a \$10 par value and 32,500 shares of common stock with a \$1 par value. During it's first four years of operations, the corporation declared the following total cash dividends.

2009	\$ 8,000
2010	\$10,000
2011	\$60,000
2012	\$120,000

Allocate the dividends declared between the preferred shareholder's and the common shareholders for each year. Be sure to show supporting calculations.

34. A company reported the following stockholders' equity on January 1 of the current year:

Common stock, \$10 par, 1,000,000 shares authorized, 400,000 shares issued.....	\$4,000,000
Contributed capital in excess of par. common.....	1,200,000
Retained earnings.....	1,600,000
Total stockholders' equity.....	<u>\$6,800,000</u>

(a) Prepare journal entries for the following selected transactions related to this company's stock during the current year:

Apr 1	Issued 5,000 shares of common stock for \$ 14 per share.	CASH \$70,000
May 1	Issued 1,000 shares of common stock for \$9.50 per share.	9500
Mar. 1	Purchased 10,000 shares of treasury stock for \$17 per share.	170,000
May 5	Sold 4,000 shares of treasury stock for \$16 per share.	64000
Oct. 12	Sold 2,000 shares of treasury stock for \$18 per share.	36000

(b) In addition to the journal entries, answer the following questions:

- (b1) After the transactions are recorded, how many shares are authorized?
- (b2) After the transactions are recorded, how many shares are issued?
- (b3) After the transactions are recorded, how many shares are outstanding?

35. For each of the following items, indicate whether it would be classified as an (O) operating activity, an (I) investing activity, a (F) financing activity or a significant, (N) noncash financing and investing activity. In addition, indicate whether the amount would be ADDED on the statement or SUBTRACTED on the statement by indicating a plus or minus.

1. Paid cash dividends
2. Bought treasury stock
3. Issued bonds payable for cash
4. Issued stock for cash
5. Sold equipment for cash at book value
6. Accounts payable decreased over the previous year.
7. Purchases of land for cash
8. Accounts receivable increased over the prior year.
9. Purchased land in exchange for a note payable
10. Net Loss

Net Income
 Adds: Dpn
 losses
 ↓ CA
 ↑ CL
 Deducts: Gains
 ↑ CA
 ↓ CL

36. Based on the following income statement and balance sheet for Rashid Corporation, prepare the cash flows from operating activities using the indirect method. Use proper format and describe each line you put on the answer sheet.

Rashid Corporation Income Statement For Year Ended December 31, 2010		
Sales		\$504,000
Cost of goods sold	\$327,600	
Depreciation expense	42,000	
Other operating expenses	125,500	(495,100)
Other gains (losses):		
Gain on sale of equipment		7,200
Income before taxes		\$ 16,100
Income tax expense		(4,800)
Net income		\$ 11,300

Rashid Corporation Balance Sheets At December 31		
	2010	2009
Assets		
Cash	\$ 64,650	\$ 55,800
Accounts receivable	21,000	29,000
Inventory	58,000	52,100
Equipment	240,000	222,000
Accumulated depreciation	(106,000)	(96,000)
Total assets	<u>\$277,650</u>	<u>\$262,900</u>
Liabilities:		
Accounts payable	\$ 28,400	\$ 23,700
Income taxes payable	1,050	1,200
Total liabilities	\$ 29,450	\$ 24,900
Equity:		
Common stock	\$106,000	\$106,000
Contributed Capital in excess of par value	18,000	18,000
Retained earnings	124,200	114,000
Total equity	<u>\$248,200</u>	<u>\$238,000</u>
Total liabilities and equity	<u>\$277,650</u>	<u>\$262,900</u>

△
 8850
 <8000>
 5900
 18,000
 10,000

 4700
 <150>

 -
 -
 10,200

Name: Schmidt

ACCT 101 – Fundamentals of Acct I
Exam #4 – Chapters 10 – 12

FOLLOW DIRECTIONS.

SHOW ALL CALCULATIONS

CHOOSE FOUR of the problems from exam directions and prepare complete solutions using good format on the attached working papers. If you do more than four, than only the first four will be graded.

Calcs: Cash Received = $3,650,000 \times 1.01 = 3,686,500$

Face	3,650,000
Premium	<u>36,500</u>

31. Prepare the JE's as described in exam.

GENERAL JOURNAL

Int = $P \times R \times T = 3,650,000 \times .10 \times 6/12 = 182,500$

Prem Amort = $36,500 \div 40 \text{ periods} = 912.50$ PAGE _____

	DATE	DESCRIPTION	P/R	DEBITS	CREDITS	
a.	1 Jan 1	Cash		3,686,500		1
	2	Premium on Bonds Pay			36,500	2
	3	Bonds Payable			3,650,000	3
	4	$3,650,000 \times 1.01 = 3,686,500$				4
	5					5
b.	6 June 30	Interest Expense		181,587		6
	7	Premium on Bonds Pay		913-		7
	8	Cash			182,500	8
	9					9
c.	10 Dec 31	Interest Exp.		181,587		10
	11	Premium on Bonds Pay		913		11
	12	Cash			182,500	12
	13					13
	14					14
d.	15	Total Interest Expense				15
	16					16
	17	$181,587 \times 40 \text{ periods}$				17
	18	$= 7,263,480$				18
	19					19
	20	OR				20
	21					21
	22	$182,500 \text{ Int pymt} \times 40 = 7,300,000$				22
	23	less Premium		(36,500)		23
	24			7,263,500		24
	25					25
	26					26
	27					27
	28					28
	29					29
	30					30
	31					31
	32					32

32 (a) Compute the amount of each of the four annual payments

$$\frac{90,000}{3.5460} = 25380.71 \text{ or } 25381$$

(b) Prepare an amortization schedule for the loan

Payment #	Date	Payment	Interest	Principal	Loan Balance
0		(see above)			90,000
1	12/31/09	25381	4500 (90,000 x .05)	20,881	69,119
2	12/31/10	25381	13456 (69,119 x .05)	21,925	47,194
3	12/31/11	25381	2360 (47,194 x .05)	23,021	24,173
4	12/31/12	25381	1209 (rounded)	24,173	0

33 Allocate the dividends between preferred and common shareholders according to exam directions

Year	Total to Be distributed	Preferred Shareholders	Common Shareholders
2009	\$8,000	8000	—
2010	\$10,000 (2400 in arrears)	10,000	—
2011	\$60,000 (2800 in arrears)	13,200	46,800
2012	\$120,000	10,400	109,600
	<u>198,000 Totals</u>	<u>41,600</u>	<u>156,400</u>

$$10 \times .08 = 80 \times 13000 = 10,400 \text{ owed each yr.}$$

34 Prepare journal entries for transactions as directed in exam and answer the questions:

GENERAL JOURNAL

PAGE

	DATE	DESCRIPTION	P/R	DEBITS	CREDITS	
(a)	1	Apr 1 Cash (5000x14)		70,000		1
	2	Common Stock (5000x14)			50,000	2
	3	PIC-c/s			20,000	3
	4	Issued 5000 shares				4
	5	@ 14 per share				5
	6					6
	7	May 1 Cash (1000x9.50)		9,500		7
	8	PIC-c/s		500		8
	9	Common stock (1000x10)			10,000	9
	10	issued shares @ 9.50				10
	11					11
	12	May 1 Treasury stock		170,000		12
	13	Cash			170,000	13
	14	(10,000x17)				14
	15	treasury shares in				15
	16	@ 17 per share				16
	17					17
	18	5 Cash (4000x16)		64,000		18
	19	R/E		4,000		19
	20	Treasury stock (4000x17)			68,000	20
	21					21
	22					22
	23	Oct 12 Cash (#2000x18)		36,000		23
	24	Treasury stock (2000x17)			34,000	24
	25	PIC-T/S			2,000	25
	26					26
	27					27
	28					28
	29					29
	30					30
	31					31
	32					32

(b) Answer the following questions and SHOW CALCULATIONS where appropriate:

After the above transactions are recorded, how many shares are authorized? Co. charter.

1,000,000

After the above transactions are recorded, how many shares are issued?

$$400,000 + 5000 + 1000 = 406,000$$

Apr 1 May 1

35 Identify the transactions in exam and state whether the transaction would be an addition (+) or a deduction (-) on the statement of cash flows:

Section:

O = Operating

I = Investing

F = Financing

N = Non cash financing and investing activity

Example	Section	Add (+) or Subtract (---)
Increase in prepaid expense account	O	---
1	<u>F</u>	<u>-</u>
2	<u>F</u>	<u>-</u>
3	<u>F</u>	<u>+</u>
4	<u>F</u>	<u>+</u>
5	<u>I</u>	<u>+</u>
6	<u>O</u>	<u>-</u>
7	<u>I</u>	<u>-</u>
8	<u>O</u>	<u>-</u>
9	<u>N</u>	<u>N/A</u>
10	<u>O</u>	<u>-</u>

36. Show all calculations. Prepare a Statement of Cash Flows USING PROPER FORMAT as directed in exam:

Work for
Operating Section

Account	Incr/Decr	Basic Formula:
Cash	8,850	Net Income
A/R	<8000>	Adds: Dpn
Invent.	5900	10588
Equip.	18,000	↓ EA
Accum Dpn	10,000	↑ CA
A/P	4,700	Deducts: Gains
INC TAX payable	<150>	↑ CA
C/S	-	↓ CL
PIC	-	
R/E	14,200	

Rashid Corp.
Operating Section: Statement of Cash Flows
For the Year Ended Dec 31 2010

Net Income \$11,300

Adds: Depreciation Exp	42,000	
Decrease in A/R	8,000	
Increase in A/P	4,700	54,700

Deducts: Gain on Sale of Equip	7,200	
Increase in Inventories	5,900	
Decrease in Inc Tax Paybl.	150	
total Deductions		<13,250>
Net Cash Flows From op Activities		52,750