

old exam

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

Student: _____

1. A bond traded at 102 $\frac{1}{2}$ means that:
 - A. The bond pays 2.5% interest
 - B. The bond traded at \$1,025 per \$1,000 bond
 - 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 $\frac{1}{2}$ % above the contract rate

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

4. When a bond sells at a premium:
 - A. The contract rate is above the market rate
 - 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

6. On January 1, 2009, a company issued and sold an \$850,000, 6%, 5-year bond payable and received proceeds of \$825,000. 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:

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

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

- 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

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 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
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
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
 - B. A debit to Cash for \$140,000
 - C. A credit to Common Stock for \$182,000
 - 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

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

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

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
 - B. Depreciation expense
 - C. Amortization of intangible assets
 - D. Bad debts expense
 - E. Decrease in merchandise inventory

26. A company's income statement showed the following: net income, \$124,000; depreciation expense, \$30, 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
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
 - B. Payment of a cash dividend
 - C. Declaration of a stock dividend
 - D. Payment of a stock dividend
 - E. Stock split
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 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 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 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 its 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.
May 1	Issued 1,000 shares of common stock for \$9.50 per share.
Mar. 1	Purchased 10,000 shares of treasury stock for \$17 per share.
May 5	Sold 4,000 shares of treasury stock for \$16 per share.
Oct. 12	Sold 2,000 shares of treasury stock for \$18 per share.

(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 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

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

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>