

Accounting (II) (DOM1030)

Final Exam

11 June, 2018

College of Management, National Chiao Tung University

I. Multiple Choice Questions 單選選擇題 (16%, each for 2%)

D ① Which one of the following would **not** be considered an advantage of the corporate form of organization?

- a. Limited liability of owners
- b. Separate legal existence
- c. Continuous life
- d. Government regulations

C ② The officer who is generally responsible for maintaining the cash position of the corporation is the

- a. controller.
- b. treasurer.
- c. cashier.
- d. internal auditor.

A ③ The term *residual claim* refers to a shareholders' right to

- a. receive dividends.
- b. share in assets upon liquidation.
- c. acquire additional shares when offered.
- d. exercise a proxy vote.

A ④ Double taxation means that

- a. the earnings of the corporation are taxed once to the corporation and a second time when distributed to the shareholders.
- b. corporate profits are taxed by more than one government entity.
- c. the corporation is taxed as a separate legal entity.
- d. the corporation's profits are taxed as personal income to the shareholders.

B ⑤ The following data is available for Corporation at December 31, 2017:

Ordinary shares, par €10 (authorized 40,000 shares) €300,000

Treasury shares (at cost €15 per share) 900

60 shares

Based on the data, how many ordinary shares are outstanding?

- a. 40,000
- b. 30,000
- c. 39,940
- d. 29,940

- A 6. Elton Manufacturing Corporation purchased 8,000 shares of its own previously issued \$10 par ordinary shares for \$230,000. As a result of this event,
- a. Elton's Share Capital—Ordinary account decreased \$80,000.
 - ~~b. Elton's total equity decreased \$230,000.~~
 - ~~c. Elton's Share Premium—Ordinary account decreased \$150,000.~~
 - d. All of these answer choices are correct.

- D 7. Share dividends and share splits have the following effects on retained earnings:

<u>Share Splits</u>	<u>Share Dividends</u>
a. Increase	No change
b. No change	Decrease
c. Decrease	Decrease
d. No change	No change

- C 8. Indicate the respective effects of the declaration of a cash dividend on the following statement of financial position sections:

<u>Total Assets</u>	=	<u>Total Liabilities</u>	+	<u>Total Equity</u>
a. Increase		Decrease		No change
b. No change		Increase		Decrease
c. Decrease		Increase		Decrease
d. Decrease		No change		Increase

II. (13%)

At the beginning of 2017, NCTU Limited showed the following amounts in the shareholders' equity section of its balance sheet:

Shareholders' equity:

Ordinary Share \$ 10 par value, 100,000 shares authorized, 56,000 issued and outstanding.....	\$ 560,000
Share premium: Ordinary share.....	448,000
Total issued and paid capital	\$1,008,000
Retained earnings	600,000
Total shareholders' equity	<u>\$1,608,000</u>

The transactions relating to shareholders' equity during the year are as follows:

- (A) **20 Apr.** The company purchased 1,000 of its own shares at a price of \$15 per share.
- (B) **25 May** Reissued 500 of the treasury shares at a price of \$16 per share.
- (C) **15 June** Declared a 10 percent share dividend to shareholders of record at 22 June, to be distributed on 30 June. The market price of the shares at 15 June was \$12 per share. (The 500 shares remaining in the treasury do not participate in the stock dividend.)
- (D) **30 June** Distributed the stock dividend declared on 15 June.
- (E) **12 Aug.** Reissued 300 of the 500 remaining treasury shares at a price of \$12 per share.
- (F) **31 Dec.** The Income Summary account, show profit for the year of \$ 50,000, was closed into the Retained Earnings accounts.

Requirement:

- a. (12%) For each of the numbered paragraphs, prepare the necessary transactions entry. (Please denote transaction date with entry.)
- b. (1%) If the company over-evaluates or overstates its earnings by "manipulate" earnings amount, is the behavior ethical?

III. (6%)

Life9 reported net income of \$53,000 for 2018. Included in the income statement were depreciation expense of \$4,000 and a gain on disposal of plant assets of \$2,500. Life9 comparative statements of financial position show the following balances.

	12/31/16	12/31/17	
Accounts receivable	\$17,000	\$23,000	+ 6,000
Accounts payable	6,000	6,200	+ 200
Prepaid expense	4,000	2,000	- 2,000
Inventory	8,000	5,000	- 3,000

Requirement: Calculate net cash provided by operating activities for Life9.

IV. (8%)

Newman Corporation's comparative statements of financial position are presented below.

NEWMAN CORPORATION
Comparative Statement of Financial Position
December 31

	2017	2016	
(I) Equipment	\$ 60,000	\$ 70,000	- 10,000
Accumulated depreciation	(14,000)	(10,000)	- 4,000
(I) Investments	25,000	16,000	+ 9,000
(O) Accounts receivable	25,200	22,300	+ 2,900
Cash	<u>12,200</u>	<u>17,700</u>	

Total	<u>\$108,400</u>	<u>\$116,000</u>	
Share capital-ordinary	\$ 50,000	\$ 45,000	
Retained earnings	33,800	29,900	
Bonds payable	10,000	30,000	-20,000
Accounts payable	<u>14,600</u>	<u>11,100</u>	+ 3,500
Total	<u>\$108,400</u>	<u>\$116,000</u>	

Additional information:

1. Net income was \$19,300. Dividends declared and paid were \$15,400.
2. Equipment which cost \$10,000 and had accumulated depreciation of \$2,200 was sold for \$3,800.
3. All other changes in non-current account balances had a direct effect on cash flows, except the change in accumulated depreciation.

Requirement:

- (a) (4%) Calculate net cash by investing activities for 2017.
- (b) (4%) Calculate net cash by operating activities for 2017.

V. (4%)

Harris Corporation had net income of \$140,000 and paid dividends of \$50,000 to ordinary shareholders and \$20,000 to preference shareholders (including dividend in arrears of \$10,000 in 2016 and current-year of \$10,000 in 2017). Harris Corporation's ordinary shareholders' equity at the beginning and end of 2017 was \$870,000 and \$1,130,000, respectively.

Requirement:

- (a) (4%) Determine Harris Corporation's return on ordinary shareholders' equity

VI. (3%)

The following information is available for Gordon Corporation:

Share capital-ordinary (\$5 par)	\$550,000
Share premium-ordinary	200,000
Retained earnings	180,000
Treasury shares	70,000
Ordinary shares issued	110,000 shares
Ordinary shares outstanding	100,000 shares

Requirement:

- (a) (3%) Based on the preceding information, calculate the book value per share.

Part 2

1. (22%) Elston Corporation had the following equity accounts on January 1, 2014: Share Capital—Ordinary (\$5 par) \$400,000, Share Premium—Ordinary \$200,000, and Retained Earnings \$100,000. In 2014, the company had the following treasury share transactions.

Mar. 1 Purchased 5,000 shares at \$9 per share.
June 1 Sold 500 shares at \$12 per share.
Sept. 1 Sold 2,500 shares at \$10 per share.
Dec. 1 Sold 1,000 shares at \$6 per share.

Elston Corporation uses the cost method of accounting for treasury shares. In 2014, the company reported net income of \$34,000.

Instructions

1. Journalize the treasury share transactions, and prepare the closing entry at December 31, 2014, for net income.
2. Open accounts for (1) Share Premium—Treasury, (2) Treasury Shares, and (3) Retained Earnings and Post to these accounts.
- △ 3. Prepare the equity section for Elston Corporation at December 31, 2014.

2. (8%)

The balance in retained earnings on January 1, 2011, for Ola Smith Inc, was \$400,000. During the year, the corporation paid cash dividends of \$90,000 and distributed a share dividend of \$8,000. In addition, the company determined that it had understated its depreciation expense in prior years by \$50,000. Net income for 2011 was \$150,000. Prepare the retained earnings statement for 2011.

3.(20%) Condensed financial data of Sinjh Ltd. follow.

Sinjh Ltd.
Comparative Statements of Financial Position
December 31

<u>Assets</u>	<u>2014</u>	<u>2013</u>	
(I) Equipment	\$265,000	\$242,500	+ 22,500
Accumulated depreciation—equipment	(47,000)	(52,000)	
(I) Long-term investments	140,000	114,000	+ 26,000
(O) Prepaid expenses	29,300	26,000	+ 3,300
(O) Inventory	112,500	102,850	+ 9,650
(O) Accounts receivable	92,800	33,000	
(O) Cash	100,350	48,400	59,800
Total	<u>\$692,950</u>	<u>\$514,750</u>	
<u>Equity and Liabilities</u>			
(F) Share capital—ordinary	\$220,000	\$175,000	
(F) Retained earnings	234,450	105,450	
(F) Bonds payable	110,000	150,000	
(O) Accounts payable	112,000	67,300	
(O) Accrued expenses payable	16,500	17,000	
Total	<u>\$692,950</u>	<u>\$514,750</u>	

Sinjh Ltd. Income
Statement

For the Year Ended December 31, 2014

(O) Sales revenue	\$392,780	
(O) Gain on disposal of plant assets	5,000	\$397,780
Less:		
Cost of goods sold	135,460	
Operating expenses, excluding depreciation	12,410	
Depreciation expense	45,000	
Income tax expense	27,280	
Interest expense	4,730	224,880
Net income		<u>\$172,900</u>

Additional information:

1. New equipment costing \$80,000 was purchased for cash during the year.
2. Old equipment having an original cost of \$57,500 and accumulated depreciation of \$50,000 was sold for \$12,500 cash.
3. Bonds payable matured and were paid off at face value for cash.
4. A cash dividend of \$43,900 was declared and paid during the year.

Instructions

Prepare a statement of cash flows using the indirect method.