Name:_________________________________

ACCT 2101
Exam #4 Fall 2013
Prof. J. M. Turner

INSTRUCTIONS – Please read before you take the exam.

1. This is a closed-book and closed-notes quiz. You must do your own work without assistance from anyone. Giving or receiving assistance from anyone during the exam will result in a grade of zero and reporting to the Office of Student Integrity. To attest to your compliance with this instruction and the Georgia Tech honor system, please sign the honor pledge below before turning in your exam. There is a 4 point penalty if you fail to sign the honor pledge.
2. To treat all students equally, I do not answer questions during an exam. Answer each question based on the information given.
3. You may use only a calculator supplied by me. You may not use your cell phone or personal computer during the exam. All cell phones must be turned off and placed on the top of your desk in plain view at all times during the exam. Use of your cell phone during the exam is considered cheating and a violation of the Honor Code.
4. Each multiple-choice question has only one best answer. If you choose more than one answer, it will be considered an incorrect answer. **Enter your answer to the multiple choice questions on the Scantron sheet provided.** What you enter on the Scantron sheet is your answer for grading purposes. Please totally erase changes on the Scantron or get a clean Scantron form and re-enter your answers. Failure to complete the Scantron will result in a 4 point penalty.
5. Point allocation:

Terminology matching – 15 @ 2 points each	30
Problems (2)	28
Multiple choice – 15 @ 3 points each	45
Total	103

Grades will be expressed as a percentage of total available points.

Honor Pledge:
On my honor, I pledge that I have neither given nor received any unauthorized help on this exam.

____
(Signed)

If you do not want your graded exam returned to the grading bins for this class, please sign below.

Do not return my graded exam to the bin:_______________________________________

Matching (2 points each) Match the term with the phrase that best describes or defines it. Terms may be used used only once.

A	Amortized cost method
B	Authorized number of shares
C	Common stock
D	Cumulative dividend preference
E	Current dividend preference
F	Declaration date
G	Dividends in Arrears
H	Equity method
I	Fair Value method
J	Goodwill
K	Issued shares
L	Legal capital
M	Merger

N	No-Par Value stock
O	Outstanding shares
P	Payment date
Q	Preferred stock
R	Realized gain or loss
S	Record date
T	Securities Available for Sale
U	Stock dividend
V	Stock Split
W	Trading Securities
X	Treasury Stock
Y	Unrealized gain or loss

X __ 1 A corporation's own stock that has been issued but subsequently reacquired and is still being held by that corporation.

U __ 2 A distribution of additional shares of a corporation's own stock

V __ 3 An increase in the total number of authorized shares by a specified ratio

Y __ 4 Changes in the value of securities (stocks or bonds) that are currently held

G __ 5 Dividends on cumulative preferred stock that have not been declared in prior years

W__ 6 Investments in securities held primarily for active trading (buying and selling) in the near term

M__ 7 Occurs when one company purchases all of the assets and liabilities of another company and the acquired company goes out of existence

K __ 8 Represents the total number of shares of stock that have been sold by a corporation

Q __ 9 Stock that has specified rights over common stock

F___ 10 The date on which the board of directors officially approves a dividend distribution to shareholders.

J ___ 11 The excess of the purchase price over the fair value of an acquired company's identifiable net assets.

E __ 12 The feature of preferred stock that grants priority on preferred dividends over common dividends

P __ 13 The date on which a cash dividend is paid to the stockholders of record.

L___ 14 The permanent amount of capital defined by state law that must remain invested in the business by stockholders.

I ___ 15 The required method of accounting for a passive investment in the equity securities of another corporation.

____1. RKJ Company has provided the following:

- 100,000 shares of $5 par value common stock are authorized;
- 70,000 shares were issued for $9 per share;
- 65,000 shares are outstanding.

Which of the following statements is correct based only on the above facts?

A. Common stock is reported at $630,000 on the balance sheet.
B. Additional-paid in capital is reported at $260,000 on the balance sheet.
C. Common stock is reported at $350,000 on the balance sheet.
D. Treasury stock is reported at $45,000 on the balance sheet.

C. Common stock ($350,000) = Issued shares (70,000) X Par value ($5). Additional paid in capital = $4 X 70,000 = $280,000. There is no data given to allow a determination of the amount paid for the treasury stock.

____2. Which of the following represents the maximum number of shares of stock issuable to the public?

A. Authorized shares
B. Issued shares
C. Outstanding shares
D. Treasury shares

A. The maximum number of shares that can be issued equals the number of authorized shares.

____3. Which of the following represents the number of shares currently in the hands of investors?

A. Authorized shares
B. Issued shares
C. Outstanding shares
D. Treasury shares

C. The outstanding shares of stock represent stock currently held by investors.

____4. Rye Company has provided the following information:

- Number of issued common shares, 225,000;
- Net income, $500,000;
- Number of authorized common shares, 400,000;
- Number of treasury shares, 25,000.

What is Rye's earnings per share, assuming that the number of treasury shares has not changed during the year?

A. $2.50
B. $1.25
C. $2.22
D. $1.33

A. Earnings per share ($2.50) = Net income ($500,000) ÷ Average Outstanding shares (225,000 - 25,000)

____5. Which of the following journal entries is correct when common stock is initially issued for cash at a price in excess of the stock's stated value?

A. DR Cash
CR Common stock

B. DR Cash
CR Common stock
CR Additional paid-in capital

C. DR Cash
CR Common stock
CR Retained earnings

D. DR Cash
CR Common stock
CR Other comprehensive income – Gain on sale of stock

B. Common stock is credited for stated value and capital in excess of par is credited for the excess of the selling price above stated value.

____6. During 2010, Thomas Corporation repurchased some shares of its own common stock. What effect did this transaction have on 2010 stockholders' equity and earnings per share, respectively?

	Stockholders Equity	Earnings per share
A.	Decrease	No effect
B.	Increase	No effect
C.	Decrease	Decrease
D.	Decrease	Increase

D. Treasury stock is a contra-equity account, which therefore reduces stockholders' equity. Purchasing treasury stock reduces the number of shares outstanding, which increases earnings per share given that the number of outstanding shares is the earnings per share denominator.

____7. Which of the following entries would be recorded when a company reissues 1,000 shares of treasury stock for $50 per share when they were repurchased at a cost of $47 per share and have a $1 par value?

A. DR Cash 50,000
CR Treasury Stock 47,000
CR Additional paid-in capital 3,000

B. DR Cash 50,000
CR Treasury Stock 47,000
CR Retained earnings 3,000

C. DR Cash 50,000
CR Common stock 1,000
CR Additional paid-in capital 49,000

D. DR Cash 50,000
CR Treasury stock 47,000
CR Gain on sale of Treasury stock 3,000

A. Realized gain is credited to additional paid-in capital

____8. Which of the following is correct about trading securities or securities available for sale?
A. Securities available for sale are not passive investments.
B. Trading securities may only be investments in bonds.
C. Securities available for sale are classified as either current or noncurrent assets, depending on when management intends to sell them.
D. Trading securities are classified as noncurrent assets.

C. "A" is a false statement. "B" is false since trading securities may only be equity investments. "D" is false since, by definition, "trading securities" are expected to be sold in the near term.

____9. A company's investment in 393,000 shares of Acme, Inc. common stock dropped from $32.30 per share to $27.70 per share as of the balance sheet date. If the investment is classified as securities available-for-sale, what journal entry, if any, should be made?

A. Loss on Acme, Inc. stock $1,807,800
Investment in Acme, Inc. stock $1,807,800

B. No journal entry is necessary

C. Other Comprehensive Income – Net unrealized loss $1,807,800
Retained earnings $1,807,800

D. Other Comprehensive Income – Net unrealized loss $1,807,800
Investment in Acme, Inc. stock $1,807,800

D. For available-for-sale securities, unrealized gains and losses are recorded as equity adjustments (Other comprehensive income) and as an adjustment of the book value (carrying value) of the security.

____10. A company has a securities available-for-sale investment in 502,000 shares of Mama's Kitchen common stock. The stock was purchased in 2009 for $16.10 per share and rose to $19.30 per share by the end of the year. In 2010, the company sold all of its shares of Mama's Kitchen for $22.20 per share. What journal entry, should be made to record the sale?

A. DR Cash 9,688,600
CR Investment in Mama's Kitchen 9,688,600

B. DR Cash 11,144,400
CR Investment in Mama's Kitchen 8,082,200
CR Gain on sale of investments.......................... 3,062,200

C. DR Cash 9,688,600
CR Investment in Mama's Kitchen 8,082,200
CR Gain on sale of investments.......................... 1,606,400

D. DR Cash 11,144,400
DR OCI - Net unrealized gain..................1,606,400
CR Investment in Mama's Kitchen 9,688,600
CR Gain on sale of investments.......................... 3,062,200

D. The gain recognized is the difference between the selling price and the original cost ($22.20 – 16.10 = $6.10 x 502,000 = $3,062,200). The book value of the investment would have been adjusted to the fair value at the end of 2009 ($19.30 X 502,000 = $9,688,600). OCI – Net unrealized gain of $1,606,400 ($19.30 – 16.10 = $3.20 X 502,000) would have been booked when the value of the stock was adjusted at the end of 2009 to its then fair value.

____11. Which of the following is correct about the equity method?
A. Significant influence is measured as owning over 50 percent of an affiliates' voting stock.
B. The net income of the affiliate must be reported as a liability on the balance sheet.
C. Significant influence is measured as owning 20 to 50 percent of an affiliates' voting stock.
D. The equity method requires the investment in the affiliate company to be part of shareholders' equity.

C. All of the other statements are false.

____12. Jackson Steel Co. recently acquired Blanton Machinery, Inc. Blanton had the following identifiable assets and liabilities:

	Book value	Fair value
Cash	$48,200	$48,200
Accounts receivable	79,800	79,800
Fabrication equipment	712,000	662,000
Patents	-0-	96,000
Bonds payable	208,000	208,000

Jackson paid $1,224,000 in cash for Blanton. What amount of goodwill would be recorded for this acquisition?
A. $130,000
B. $176,000
C. $546,000
D. $592,000

C. Goodwill occurs when the purchase price exceeds the fair value of the acquired company's net identifiable assets. $1,224,000 – (48,200 + 79,800 + 662,000 +96,000 – 208,000) = 546,000.

____13. When one company acquires all of the outstanding stock of another company, what is required in accounting for the investment?

A. Company management has to decide whether to classify the investment as "securities available for sale" or as "trading securities."
B. The companies must continue to present their own separate financial statements.
C. Consolidated financial statements must be presented.
D. The equity method must be used to account for the acquired company's earnings and dividends.

C. Only passive investments are classified as Trading or AFS securities. GAAP requires consolidated financial statements for members of a controlled group of corporations. The accounting for the investment in controlled corporations by the parent company on its separate books and records is not mandated, nor relevant to the balances that appear on the consolidated financial statements.

____14. On May 1 of the current year, Kathy Company, Inc. sold the stock of Zenith, Inc. that Kathy had held as an investment. The investment in Zenith stock was properly classified as a trading security on Kathy's books and records. At the date of the sale, the book value (carrying value) of the stock was $15,000. The stock was originally purchased for cash of $13,500. Kathy sold the stock for $15,800. What entry is necessary on Kathy's books to record the sale of the Zenith stock?

A.	DR	Cash	15,800	
	CR	Investment in stock		15,000
	CR	Gain on sale of stock		800
B.	DR	Cash	15,800	
	CR	Investment in stock		13,500
	CR	Gain on sale of stock		2,300
C.	DR	Cash	15,800	
	DR	Other comprehensive income – unrealized gain	1,500	
	CR	Investment in stock		15,000
	CR	Gain on sale of stock		2,300
D.	DR	Cash	15,800	
	CR	Gain on sale of stock		15,800

A. With respect to trading securities, recognized gain or loss is measured by the difference between selling price and book value at date of sale. Any difference between original cost

and book value at date of sale was recognized in income or loss when the book value of the investment was adjusted to fair value at a balance sheet measurement date.

___15. Milton Company had net income of 669,000 during 2012. Milton has both preferred and common stock outstanding. Dividends due on the preferred stock total $17,000 each year. At the beginning of 2012, Milton had 200,000 shares of common stock issued and outstanding. Only July 1, 2012, Milton sold an additional 25,000 shares of its common stock for $637,500. What is Milton Company's earnings per share for 2012 (round to the nearest cent)?

A. $3.07
B. $3.15
C. $2.90
D. $3.26

A. Earnings per share = Net income available to common stock ÷ average number of common shares outstanding. Net income available to common = Net income – preferred dividends = $669,000 – 17,000 = $652,000. Average number of common shares outstanding = (200,000 + 225,000) / 2 = 212,500. EPS = $652,000 ÷ 212,500 = $3.07.

Bonus Question – 2 points Enter your answer below in the space provided.

The text for this class, ACCT 2101, is *Financial Accounting*, 7th ed. Name any one of the three authors – last name only.

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Problem 1 (12 points) You must show your work to receive full credit.

Ann Company, Inc. has the following capital structure:

Preferred stock, 6% $100 par value, non-cumulative; authorized 10,000 shares; issued and outstanding 2,000 shares

Preferred stock, 4% $100 par value, cumulative; authorized 20,000 shares; issued and outstanding 1,000 shares

Common stock, $1 par value; authorized 500,000 shares; issued and outstanding 100,000 shares

Complete the following table to show the amount of dividends that would be paid to each class of stock each year.

Year	Total Dividends Declared & Paid	Non-Cumulative Preferred	Cumulative Preferred	Common
2009	$36,000			
2010	-0-			
2011	$30,000			

SOLUTION

Year	**Total Dividends Declared & Paid**	**Non-Cumulative Preferred**	**Cumulative Preferred**	**Common**
2009	**$36,000**	**12,000**	**4,000**	**20,000**
2010	**-0-**	**0**	**0**	**0**
2011	**$30,000**	**12,000**	**8,000**	**10,000**

Problem 2 (16 points)

Rodgers, Inc. owns 30,000 shares of Smith Company, which represents 30% of Smith's outstanding stock. The balance in the "Investment in Smith" account on Rodgers's books at January 1, 2012 was $150,000. During 2012, Smith Company reported net income of $420,000, and declared and paid dividends of $30,000 to its shareholders. Smith company stock had a fair value per share of $30 at January 1, and $38 at December 31, 2012.

Required:

1. Prepare any journal entries needed on Rodgers's books to account for the investment In Smith during 2012.

Account	**Debit**	**Credit**
Investment in Smith	126,000	
Equity in Earnings of Affiliate		126,000
To record share of earnings; 30% X $420,000 = $126,000		
Cash	9,000	
Investment in Smith		9,000
To record share of dividends; 30% X $30,000 = $9,000		

2. What is the correct balance in the "Investment in Smith" account at year-end December 31, 2012?

   <u>$150,000 + 126,000 – 9,000 = **$267,000**</u>

3. What is the correct amount of revenue (or income) that should be reported by Rodgers in 2012 with respect to its investment in Smith Company?

   <u>Equity in affiliate earnings = **$126,000**</u>