

Name: Answer Key Ver A

ACCT 2101 – Prof. J. M. Turner
Exam #5 Fall 2012

INSTRUCTIONS – Please read before you take the exam. Failure to follow instructions will result in the loss of points.

1. This is a closed book and closed notes exam. 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.
2. DO NOT TAKE THE EXAM APART FOR ANY REASON.
3. To treat all students equally, I do not answer questions during an exam. Answer each question based on the information given. If you think there is a typing error, please let me know.
4. 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 System.
5. 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. **Insert your Scantron form inside of this exam when you turn it in.**
6. There are 10 pages (front and back) in this exam. Points available are as follows:

Multiple choice – 14 @ 2.5 points each	35
Terminology matching – 12 @ 2 points each	24
Problems (2)	<u>40</u>
Total available points	<u>99</u>

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. If you sign below, your exam will not be placed in the bins for this class. Otherwise, graded exams will be returned to the bins for this class.

Do not return my graded exam to the bin: _____

Multiple Choice (2.5 points each) – Enter your answer on the SCANTRON sheet.

Use the following data for questions 1 & 2.

A company issued 5-year bonds paying interest semiannually. The face amount of the bonds was \$20,000. The stated interest rate is 4%. The bonds were priced to yield 2%.

B 1. Based on the above facts, the present value of the future interest payments is:

A. \$7,577

B B. \$3,789

C. \$1,941

D. \$3,593

E. None of the above.

$$\$400 \times 9.4713 = 3788.52$$

B 2. Based on the above facts, the present value of the future principal payment:

A. \$20,000

B B. \$18,106

C. \$19,030

D. 16,406

E. None of the above.

$$\$20,000 \times 0.9053 = 18,106$$

C 3. San Antonio Outdoor Furniture issues bonds with a face value of \$1,000,000 having an 8 percent coupon rate of interest. The market rate for similar bonds is 11 percent. The bonds were issued:

A. At par.

B. At a premium.

C C. At a discount.

D. At coupon.

B 4. DC Waste uses the effective interest method to determine the interest expense on \$3,350,000 of bonds issued with a coupon rate of 7%, when the market rate was 4%. The bonds mature in 10 years and pay interest every six months. If the premium at the time the bonds were issued was \$821,752 what amount of interest expense is recognized by the company on the first interest payment?

A. \$67,000

B B. \$83,435

C. \$117,250

D. \$146,011

3350000

821,752

4,171,752

x 2%

83,435.04

- A 5. When bonds with a face value of \$6,320,000 having a 8 percent stated rate of interest are issued at \$5,960,000, the journal entry to record the transaction would be:

<u>A.</u>	Cash	\$5,960,000
	Discount on bonds payable	\$360,000
	Bonds payable	\$6,320,000
B.	Cash	\$5,960,000
	Loss on bonds payable	\$360,000
	Bonds payable	\$6,320,000
C.	Cash	\$5,960,000
	Bonds payable	\$5,960,000
D.	Cash	\$5,960,000
	Interest payable	\$360,000
	Bonds payable	\$6,320,000

- A 6. Lane County Transit District issued zero coupon bonds with a maturity value of \$7,720,000 in 10 years. The bonds were sold at a price to yield 9% percent compounded annually. What were the total proceeds generated by this bond issue? (Round "PV Factor" to 4 decimal places.)

- A \$3,260,928
 B. \$4,459,072
 C. \$8,414,800
 D. \$7,720,000

$$\begin{array}{r}
 \text{PV of } 7,720,000 = 7,720,000 \\
 \times \\
 \hline
 .4224 \\
 \hline
 3,260,928
 \end{array}$$

- C 7. Dorris Outdoor Furniture issued 5 year bonds with a face value of \$1,000,000 having a 9% percent coupon rate of interest, with interest payments made every six months. The market rate for similar bonds is 8% percent. What were the total proceeds for the bond issue? (Round "PV Factors" to 4 decimal places.)

- A. \$711,197
 B. \$1,022,231
C. \$1,040,591
 D. \$1,000,000

$$1,000,000 \times 9\% \times \frac{1}{2} = 45,000 \text{ /period}$$

$$\begin{array}{r}
 \text{PVA, } i = 4\%, n = 10 \quad \times 8.1109 \\
 \hline
 364,991
 \end{array}$$

$$\begin{array}{r}
 \text{PV of } 1,000,000 \\
 i = 4\%, n = 10 \\
 \hline
 1,000,000 \\
 \times .6756 \\
 \hline
 675,600
 \end{array}$$

Total

$$\begin{array}{r}
 364,991 \\
 675,600 \\
 \hline
 1,040,591
 \end{array}$$

- D 8. Owning stock of a corporation has certain benefits. Which of the following is not one of those benefits?
- A. A residual claim to assets remaining upon distribution of the company.
 - B. The ability to vote on major issues concerning management of the corporation.
 - C. The right to receive a proportional share of profits distributed.
 - D. The right to receive annual dividends.

- A 9. River City Publications incorporated on February 1, 2011. The following information related to their common stock during the first month of the company's operations:

Feb-1	Shares authorized	5,160,000
Feb-5	Shares issued	1,580,000
Feb-16	Shares issued	774,000
Feb-20	Treasury stock purchased	217,600
Feb-24	Shares issued	312,800

1,580,000
+ 774,000
- 217,600
+ 312,800

How many shares of stock are outstanding at the end of February 2011?

- A. 2,449,200 shares
- B. 7,609,200 shares
- C. 8,044,400 shares
- D. 2,884,400 shares

2,449,200

- C 10. Which of the following is correct about treasury stock transactions?
- A. Companies purchase shares of stock so that they can obtain the voting rights and vote on important issues.
 - B. Treasury stock is an asset.
 - C. Companies will repurchase their stock for employee bonus plans.
 - D. Selling treasury stock for more than the purchase price allows the company to experience gains that increase net income.

B 11. Beatrice Manufacturing purchased 61,900 shares of its own \$7 par stock on the open market when it had a price of \$33.90 per share. If these shares of stock were sold for \$21.00 per share, what would the journal entry be to record this transaction?

- A. Cash\$2,098,410
Treasury stock..... \$2,098,410
- B. Cash \$1,299,900
Additional paid-in capital \$798,510
Treasury stock..... \$2,098,410
- C. Cash\$1,299,900
Loss on the sale of treasury stock \$798,510
Treasury stock..... \$2,098,410
- D. Cash\$2,098,410
Retained Earnings \$2,098,410

C 12. Pinnacle Sports, Inc. paid cash dividends of \$0.30 per share on September 25, 2011 to shareholders of record on August 19, 2011. The board of directors had declared the dividend when they met in May 2011. On September 25, 2011:

- A. No journal entry was required.
- B. The journal entry required a credit to retained earnings.
- C. The journal entry required a credit to cash.
- D. The journal entry required a credit to dividends payable.

B 13. Hunt Foods has the following stocks outstanding: 50,800 shares cumulative, 6% preferred stock, \$20 par value, and 104,000 shares of \$1 par, common stock. The company has not been able to pay dividends the last two years, however this year the company declared and paid a cash dividend of \$209,000. How much were the common shareholders paid?

- A. \$140,413
- B. \$26,120
- C. \$148,040
- D. \$87,080

$$\begin{array}{r}
 \$20 \times 6\% = \$1.20 \text{ pfd div/sh} \\
 \times 50,800 \\
 \hline
 60,960 \\
 \times 3 \\
 \hline
 182,880 \\
 \text{pfd dividend owed} \\
 \text{Total dividend} \quad 209,000 \\
 \hline
 \text{Amt to Common} \quad \$26,120
 \end{array}$$

- C 14. Rodgers, Inc. has a complex capital structure. It has 1,000 shares of 5%, \$100 par value cumulative preferred stock issued and outstanding. All preferred dividends have been paid in prior years. It originally issued 230,000 shares of \$.01 par value common stock at \$28.00 per share. Rodgers currently has 30,000 shares of its common stock held as Treasury stock with a cost of \$960,000. It had 200,000 shares of its common stock outstanding for all of 2011. During 2011, Rodgers reported net income of \$1,680,000. What is the amount of earnings per share (EPS) for 2011?

- A. \$7.30
B. \$8.40
C. \$8.38
D. \$7.28

$$\begin{aligned}
 \text{pfd div.} &= 1,000 \times (\$100 \times 5\%) = 5,000 \\
 \text{Net income} & & 1,680,000 \\
 \text{NI to Common S/H} & & 1,675,000 \\
 \div \text{Common shs o/s} & & \div 200,000 \\
 \text{EPS} & & \underline{\underline{\$ 8.375}}
 \end{aligned}$$

Bonus Question (2 points): Recently, the head of the U.S. Central Intelligence Agency resigned his post as a result of his involvement in a love pentagon (3 men and 2 women are involved in the scandal). What is the name of the former head of the CIA who resigned in disgrace as a result of his extramarital affair? You must indicate his last name.

Gen DAVID PETRAEUS
PETRAEUS

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

A	Authorized number of share	M	Dividends in arrears
B	Bond discount	N	Indenture
C	Bond premium	O	Issued number of shares
D	Bond principal	P	Legal capital
E	Callable bond	Q	Outstanding number of shares
F	Convertible bond	R	Payment date
G	Coupon rate	S	Record date
H	Cumulative dividend preference	T	Stock dividend
J	Current dividend preference	U	Stock split
K	Debenture	V	Treasury stock
L	Declaration date	W	Yield

- K 1 An unsecured bond; no assets are specifically pledged to guarantee repayment
- N 2 A bond contract that specifies the legal provisions and terms of a bond issue
- F 3 A bond that may be converted to other securities of the issuer
- D 4 The amount payable at the maturity of the bond and on which the periodic cash interest payments are computed
- W 5 The market rate of interest on a debt when it is issued
- C 6 The difference between the selling price and par when a bond is sold for more than par
- Q 7 The number of shares that are owned by stockholders on any particular date
- A 8 The maximum number of shares of a corporation's capital stock that may be issued
- P 9 The permanent amount of capital that must remain in the business
- V 10 A corporation's own stock that has been issued but subsequently reacquired and is still held by that corporation
- R 11 The date on which a cash dividend is paid to the stockholders of record
- J 12 The feature of preferred stock that grants priority on dividend distributions over common stock

Problem 1 (27 points)

A company issued 5-year \$1,000,000 bonds paying interest semi-annually. The coupon rate is 4%, but the bonds were priced to yield 6% to investors. The bonds sold for \$914,704.

Required:

1. Prepare in journal form the entry to record the issue of the bonds:

Account	Debit	Credit
Cash	\$914,704	
Discount on bonds payable	85,296	
Bonds payable		\$1,000,000

2. Complete the amortization table below for the first two semiannual payment periods

Period	Beginning carrying value	Interest expense @ 3%	Payment	Discount amortization	Ending carrying value
1	914,704	27,441	20,000	7,441	922,145
2	922,145	27,664	20,000	7,664	929,809

3. Prepare in journal form the entry to record the second payment to the bond investors.

Account	Debit	Credit
Interest Expense	27,664	
Discount on bonds payable		7,664
Cash		20,000

4. After the second payment, how would the bonds be reported in the financial statements of the issuing company (where, at what amount, and how classified)?

Noncurrent liabilities on the balance sheet:
Bonds payable \$929,809

Problem 2 (13 points)

El Hombre, Inc., was issued a charter on January 15, 2011, that authorized the following capital stock:

Common stock, \$1 par value, 500,000 shares

Preferred stock, 3 percent, par value \$100 per share, 50,000 shares

During 2011, the following selected transactions were completed in the order given:

- A. Sold and issued 20,000 shares of the common stock at \$28 cash per share.
- B. Sold and issued 200 shares of preferred stock at \$100 cash per share.
- C. On December 15, the board of directors declared dividends totaling \$5,600 to stockholders of record on January 15, 2012.
- D. At the end of 2011, the company reported net income of \$40,000.

Required:

- 1. Prepare the stockholders' equity section of the balance sheet at December 31, 2011.

Stockholders' Equity

4	Preferred stock, 3%, \$100 par, 50,000 shares authorized; 200 shares issued and outstanding	\$ 20,000
4	Common stock, \$1 par, 500,000 shares authorized; 20,000 shares issued and outstanding	20,000
2	Additional paid-in capital	540,000
3	Retained earnings [\$40,000 – 5,600]	<u>34,400</u>
	Total stockholders' equity	<u>\$614,400</u>

Present Value multipliers

Present value interest factor of \$1										
Period	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.9901	0.9804	0.9709	0.9615	0.9524	0.9434	0.9346	0.9259	0.9174	0.9091
2	0.9803	0.9612	0.9426	0.9246	0.9070	0.8900	0.8734	0.8573	0.8417	0.8264
3	0.9706	0.9423	0.9151	0.8890	0.8638	0.8396	0.8163	0.7938	0.7722	0.7513
4	0.9610	0.9238	0.8885	0.8548	0.8227	0.7921	0.7629	0.7350	0.7084	0.6830
5	0.9515	0.9057	0.8626	0.8219	0.7835	0.7473	0.7130	0.6806	0.6499	0.6209
6	0.9420	0.8880	0.8375	0.7903	0.7462	0.7050	0.6663	0.6302	0.5963	0.5645
7	0.9327	0.8706	0.8131	0.7599	0.7107	0.6651	0.6227	0.5835	0.5470	0.5132
8	0.9235	0.8535	0.7894	0.7307	0.6768	0.6274	0.5820	0.5403	0.5019	0.4665
9	0.9143	0.8368	0.7664	0.7026	0.6446	0.5919	0.5439	0.5002	0.4604	0.4241
10	0.9053	0.8203	0.7441	0.6756	0.6139	0.5584	0.5083	0.4632	0.4224	0.3855

Present value of an (ordinary) annuity of \$1 per period										
Period	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.9901	0.9804	0.9709	0.9615	0.9524	0.9434	0.9346	0.9259	0.9174	0.9091
2	1.9704	1.9416	1.9135	1.8861	1.8594	1.8334	1.8080	1.7833	1.7591	1.7355
3	2.9410	2.8839	2.8286	2.7751	2.7232	2.6730	2.6243	2.5771	2.5313	2.4869
4	3.9020	3.8077	3.7171	3.6299	3.5460	3.4651	3.3872	3.3121	3.2397	3.1699
5	4.8534	4.7135	4.5797	4.4518	4.3295	4.2124	4.1002	3.9927	3.8897	3.7908
6	5.7955	5.6014	5.4172	5.2421	5.0757	4.9173	4.7665	4.6229	4.4859	4.3553
7	6.7282	6.4720	6.2303	6.0021	5.7864	5.5824	5.3893	5.2064	5.0330	4.8684
8	7.6517	7.3255	7.0197	6.7327	6.4632	6.2098	5.9713	5.7466	5.5348	5.3349
9	8.5660	8.1622	7.7861	7.4353	7.1078	6.8017	6.5152	6.2469	5.9952	5.7590
10	9.4713	8.9826	8.5302	8.1109	7.7217	7.3601	7.0236	6.7101	6.4177	6.1446