

Name: Ver A Key

ACCT 2101
Exam #4 Fall 2015
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 and show 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 3-point penalty if you fail to sign the honor pledge.

Honor Pledge:

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

Signature

2. To treat all students equally, I do not answer questions during an exam. Answer each question based on the information given. Notify me if you discover a typographical error.
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/silenced and placed on the top of your desk (face down) in plain view at all times during the exam. Any 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 – 16 @ 2 points each	32
Multiple choice – 20 @ 3 points each	60
Problems - 2	<u>20</u>
Total	<u>112</u>

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

6. Graded exams will be returned to the bins unless you sign below and ask me not to file your graded exam in the bins. Exams not filed in the bins will be available in my office during office hours.

DO NOT FILE my graded exam in the bin:

Signature _____



VERSION A

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

A	Authorized number of shares
B	Book value
C	Cumulative preferred stock
D	Dividends in arrears
E	Fair value
F	Financing activities
G	Free cash flow
H	Initial public offering
I	Investing activities
J	Issued number of shares

K	Noncash investing and financing activities
L	Operating activities
M	Outstanding number of shares
N	Par value
O	Quality of income ratio
P	Seasoned new issue
Q	Stock dividend
R	Stock split
S	Treasury stock

- S 1 Capital stock, either common or preferred, that the issuing corporation has reacquired and has not subsequently resold or retired.
- Q 2 A proportional distribution of shares among a corporation's stockholders.
- G 3 A measure used by managers and analysts to assess a firm's ability to pursue long-term investment opportunities
- O 4 A measure used by managers and analysts to assess the cash content of earnings
- C 5 Stock on which unpaid dividends accumulate over time and that must be satisfied before a dividend can be paid to common stockholders.
- R 6 An increase in the number of outstanding shares of stock accompanied by a proportionate reduction in the ^{per} or stated value.
- B 7 A company's total assets ^{SIC} less its liabilities; stockholders' equity or net assets.
- L 8 Business activities that involve the cash effects of transactions and other events that enter into the determination of net income.
- I 9 Business activities that involve the acquisition and sale of marketable securities and long-term assets and the making and collecting of loans.
- F 10 Business activities that involve obtaining resources from stockholders and creditors and providing the former with a return on their investments and the latter with repayment.
- A 11 The maximum number of shares a corporation can issue without a change in its state charter or articles of incorporation.
- N 12 An arbitrary amount assigned to each share of stock; constitutes a corporation's legal capital.
- M 13 Shares that have been issued and that are still in circulation.
- J 14 The total number of shares of a corporation's stock that have been sold or issued by the corporation
- K 15 Transactions that involve seller financing with no exchange of cash
- P 16 The sale of shares of a company's stock to the public after the company's stock has been traded on established markets.

13 pts

Problem 1

For the year ended June 30, 2015, Houser Company's net income was \$7,400. Its depreciation expense was \$2,000. The company also reported a gain on the sale of investments of \$1,800 and interest expense of \$2,000. During the year, Accounts receivable increased by \$4,400, Inventories decreased by \$7,000, Accounts payable increased by \$14,000, Accrued liabilities decreased by \$600, and Long-term debt increased by \$15,000. Using the indirect method, determine Houser Company's net operating cash flow. A 3 part heading for the statement of cash flows is not required; just the computation of operating cash flow is required.

Net income	7400	0, 1
Depn. XP	2,000	0, 1, 2
Gain on sale	(1800)	0, 1, 2
Am Op A/Cs		
Increase in A/R	(4400)	0, 1, 2
Decrease in inventory	7,000	0, 1, 2
Increase in AP	14,000	0, 1, 2
Decrease in accrued liability	(600)	0, 1, 2
Net cash provided by operations	\$ 23,600	

Correct line item 1 pt.

Correct amt to line item, 1 pt
& direction

2 pts / line

Subtract 1 pt for any incorrect
line items

Ver A

Problem 2 ^{7 pts}

Below are the income statement and condensed statement of cash flows for Lola Corporation for its fiscal year ended December 31, 2014.

Income Statement		
Net sales		\$825,000
Cost of goods sold		460,000
Gross margin		365,000
Operating expense		235,000
Operating income		130,000
Other income (expense):		
Interest expense	(27,500)	
Dividend income	1,700	
Loss on equipment sales	(1,150)	(25,950)
Income before income tax		104,050
Provision for income taxes		26,100
Net income		<u>\$77,950</u>

Statement of Cash Flows		
OPERATING ACTIVITIES		
Net income		\$77,950
Non-cash revenue and expense		21,100
Change in operating accounts		(39,750)
Net cash provided by operating activities		<u>59,300</u>
INVESTING ACTIVITIES		
Proceeds from sale of investments		41,250
Purchase of equipment		(12,500)
Proceeds from sale of equipment		4,950
Net cash provided by investing activities		<u>33,700</u>
FINANCING ACTIVITIES		
Proceeds from stock issue		15,000
Repayment of notes payable		(50,000)
Cash used in financing activities		<u>(35,000)</u>
Net change in cash		58,000
Cash at beginning of the year		40,925
Cash at end of the year		<u>\$98,925</u>

Additional information:

At the beginning of the year, Lola had 17,000 shares of \$1 par value common stock outstanding. On July 1, Lola issued another 3,000 shares of stock. At year-end, there were 20,000 shares of common stock issued and outstanding.

Required:

- What was EPS for the year ended December 31, 2014? 4.21
- What was Lola's quality of income ratio for year ended December 31, 2014? .761
- What was Lola's free cash flow for year ended December 31, 2014? 46,800

$$\text{EPS} = \frac{\text{Net Income}}{\text{Shares Outstanding}} = \frac{77,950}{17 + 20}{2} = 4.21$$

$$\text{Quality of Income Ratio} = \frac{\text{OCF}}{\text{NI}} = \frac{59,300}{77,950} = .761$$

$$\text{FCF} = \text{OCF} - \text{DIV} - \text{CAPEX} = 59,300 - 0 - 12,500 = 46,800$$

Ver A

Multiple-Choice (3 points each) – Answer each multiple-choice question on a Scantron Form. Failure to complete a Scantron form is a 4-point penalty.

- C 1. Katz Corporation has issued 400,000 shares of common stock and holds 20,000 shares in treasury. The charter authorized the issuance of 500,000 shares. The company has declared and paid a dividend of \$1 per share. What is the total amount of the dividend?

A. \$400,000
B. \$20,000
C. \$380,000
D. \$500,000

$$\begin{aligned} \text{O/S shs} &= 400,000 - 20,000 = 380,000 \\ \text{Div. per sh.} & \quad \underline{\$1} \\ & \quad \underline{\underline{\$380,000}} \end{aligned}$$

- D 2. Which statement regarding treasury stock is false?

A. Treasury stock is considered to be issued but not outstanding. T
B. Treasury stock has no voting, dividend, or liquidation rights. T
C. Treasury stock reduces total equity on the balance sheet. T
D. None of the above are false.

- C 3. Which statement regarding dividends is false?

A. Dividends represent a sharing of corporate profits with owners. T
B. Both stock and cash dividends reduce retained earnings. T
C. Cash dividends paid to stockholders reduce net income. F
D. None of the above statements are false.

- D 4. When treasury stock is purchased with cash, what is the impact on the balance sheet equation?

A. No change: the reduction of the asset cash is offset with the addition of the asset treasury stock.
B. Assets decrease and stockholders' equity increases.
C. Assets increase and stockholders' equity decreases.
D. Assets decrease and stockholders' equity decreases.

DR TStock SAE -
CR Cash A -

- C 5. A company issued 100,000 shares of common stock with a par value of \$1 per share. The stock sold for \$20 per share. By what amount does stockholders' equity increase?

A. \$100,000
B. \$1,900,000
C. \$2,000,000
D. No change in stockholders' equity

$$\begin{aligned} & 100,000 \text{ shs} \\ & \times \$20 \text{ FV/sh} \\ & \hline & 2,000,000 \end{aligned}$$

total increase in assets and equity

C 6. In the current year, a company has net income of \$225,000 and declares and pays dividends in the amount of \$75,000. What is the net impact on retained earnings?

- A. Increase of \$225,000
- B. Decrease of \$75,000
- C C. Increase of \$150,000
- D. Decrease of \$150,000

$$\begin{array}{r}
 + \text{NI } 225,000 \\
 - \text{Div. } (75,000) \\
 \hline
 + \underline{\underline{150,000}}
 \end{array}$$

D 7. Total cash inflow in the operating activity section of the statement of cash flows should include which of the following?

- A. Cash received from customers at the point of sale. TO
- B. Cash collections from customer accounts receivable. TO
- C. Cash received in advance of revenue recognition (unearned revenue). TO
- D D. All of the above.

A 8. Which of the following would not appear in the investing section of the statement of cash flows?

- A. Purchase of inventory. O
- B. Sale of obsolete equipment used in the factory. I
- C. Purchase of land for a new office building. I
- D. All of the above would appear.

C 9. Which of the following is not a benefit of the corporate form of business?

- A. Raising large amounts of capital is easier.
- B. Ownership interests are easily transferred.
- C C. Guaranteed return of the owners' investment.
- D. Limited liability of the owners (stockholders).

No guarantee of profits

D 10 A corporation's charter permits the corporation to issue 100,000 shares of \$0.01 par value common stock. The corporation sold 50,000 shares and, later, reacquired 1,000 shares to hold as treasury stock. What is the number of shares outstanding?

- A. 100,000
- B. 50,000
- C. 51,000
- D D. 49,000

$$50 - 1 = \underline{\underline{49}}$$

- B 11 Consider the following information for Jimmy, Inc., a calendar year corporation:

Number of common shares outstanding on Jan 1	1,100,000
Number of shares of 5% \$100 preferred shares outstanding at Jan. 1	10,000
Number of shares of common stock purchased as Treasury stock on July 1	200,000
Net income	\$1,500,000
Preferred stock cash dividends declared and paid	\$50,000
Common stock cash dividends declared and paid	\$687,500

There were no other changes to the stock accounts during the year. What is the earnings per share?

- A. \$1.32
B. \$1.45
 C. \$1.50
 D. \$1.61

$$1,500,000 - 50,000 = 1,450,000 \text{ NI to common}$$

$$1,100,000 \text{ shs o/s 6 mo} \times \frac{1}{2} = 550,000$$

$$900,000 \text{ shs o/s 6 mo} \times \frac{1}{2} = 450,000$$

WA shs outstand.

$$\frac{1,450,000}{1,000,000}$$

$$\frac{1,450}{1,000} = 1.45$$

- C 12 A corporation sold 20,000 shares of \$2 par value common stock for \$20 per share. The journal entry to record the transaction will include:

- A. A credit to Gain on Sale of Common Stock for \$360,000.
 B. A credit to Common Stock for \$400,000.
C. A credit to Common Stock for \$40,000.
 D. A credit to Capital in Excess of Par Value for \$36,000.

$$\begin{array}{r} 20,000 \text{ shs} \\ \times \$20 \text{ FV/SS} \\ \hline 400,000 \\ 40,000 \text{ Par} \\ \hline 360,000 \text{ APIC} \end{array}$$

- B 13 Which of the following is TRUE about treasury stock?

- A. It is an asset. T
B. It is a contra-equity account. T
 C. It receives cash dividends. F
 D. It retains voting rights. F

- B 14 The corporation declares and issues a small stock dividend of 15 percent of its 120,000 outstanding shares of its \$2 par common stock. The market price for a share of the company's stock is \$6. The journal entry to record the stock dividend is:

- A. Common stock.....\$108,000
 Retained earnings.....\$108,000
B. Retained earnings.....\$108,000
 Common stock.....\$36,000
 Additional paid-in capital.....\$72,000
 C. Retained earnings.....\$36,000
 Common stock.....\$36,000
 D. Common stock.....\$36,000
 Additional paid-in capital.....72,000
 Retained earnings.....\$108,000

$$\begin{array}{r} 120,000 \text{ shs} \\ \times 15\% \\ \hline 18,000 \text{ shs} \\ \times \$6 \text{ FV/sh} \\ \hline 108,000 \text{ DN.} \\ 36,000 \text{ Par} \\ \hline 72,000 \text{ APIC} \end{array}$$

- C 15 Preferred stock is called preferred over common stock because:
- A. It receives dividends first and can vote.
 - B. It has a par value and receives dividends first.
 - C It is first in line for the payment of dividends and the distribution of assets in the case of bankruptcy.
 - D. It can be cumulative as to its dividends and can vote.

- B 16 Consider the following:

Activity	Cash Amount
Purchased production equipment for cash	\$150,000
Issued common stock for cash	\$250,000
Proceeds from sale of office equipment	\$12,000
Sold merchandise on account (credit sales)	\$560,000
Paid cash dividends	\$45,000

(150,000)

12,000

(138,000)

What was the net cash inflow (outflow) from investing activities?

- A. \$138,000
- B \$(138,000)
- C. \$205,000
- D. \$112,000

- C 17 Consider the following:

Net cash provided by operating activities	\$450,000
Net cash used in investing activities	(\$230,000)
Net cash provided by financing activities	\$200,000
Depreciation expense	\$80,000

} 420,000

What was the net increase or decrease in cash during the period?

- A. The cash increase or decrease for the period cannot be determined.
- B. \$880,000
- C \$420,000
- D. \$500,000

- C 18 Equipment with an original cost of \$160,000 and accumulated depreciation of \$140,000 was sold for \$25,000 cash resulting in a gain of \$5,000. When using the indirect method of preparing a statement of cash flows, what amount of this transaction will be reported as an investing activity?
- A. \$5,000
 - B. \$20,000
 - C \$25,000
 - D. \$30,000
- Cash inflow

B 19 Consider the following transactions:

Paid interest expense with cash	O	\$6,000
Paid cash dividends	F	\$35,000
Sold common stock for cash	F	\$1,400,000
Purchased treasury stock for cash	F	\$410,000
Sold used equipment for cash	I	\$20,000
Sold bonds for cash	F	\$600,000

(35,000)
 1,400,000
 (410,000)
 600,000

1,555,000

What was the net cash inflow or (outflow) from financing activities?

- A. \$1,549,000
- B. \$1,555,000
- C. (\$1,555,000)
- D. (\$655,000)
- E. \$655,000

D 20 A building was acquired in exchange for 20,000 shares of the company's \$10 par common stock. This transaction is reported in the company's statement of cash flows as:

- A. A financing activity.
- B. An operating activity.
- C. An investing activity.
- D. A noncash investing and financing activity.