

Name: _____

ACCT 2101 – Prof. J. M. Turner

Exam #5 Spring 2013

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 – 15 @ 3 points each	45
Terminology matching – 12 @ 2 points each	24
Problem (1)	<u>27</u>
Total available points	<u>96</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: _____

Bonus Question (2 points): On Monday, Atlanta hosted the NCAA Men's National Basketball tournament – the so-called Final Four. The next night, the NCAA Women's (Div. I) National Basketball tournament championship game was played in New Orleans, LA. Who won the 2013 Women's NCAA basketball championship? (Hint: The final four featured UConn, California, Louisville, and Notre Dame.)

U Conn

Multiple Choice (3 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 \$30,000. The stated interest rate is 4%. The bonds were priced to yield 6%.

- B 1. Based on the above facts, the present value of the future interest payments (rounded to nearest dollar) is:

A. \$2,688
☒ B. \$5,118
C. \$7,300
D. \$4,416
E. None of the above.

$$\begin{aligned} \$600 \times 8.5302 &= \$5,118.12 \\ i &= 3\% \\ n &= 10 \end{aligned}$$

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

A. \$20,268
☒ B. \$22,323
C. \$25,878
D. \$16,752
E. None of the above.

$$\begin{aligned} \$30,000 \times .7441 &= \$22,323 \\ i &= 3\% \\ n &= 10 \end{aligned}$$

- C 3. The Man, Inc. issues bonds with a face value of \$10,000,000 having an 8 percent coupon rate of interest. The market rate for similar bonds is 7.5 percent. The bonds were issued:

A. At a discount.
B. At par.
☒ C. At a premium.
D. At coupon.

$\text{coupon} > \text{mkt}$
bonds would sell @ premium;
investors are willing to settle
in a rate < coupon rate

- C 4. The Man, Inc. uses the effective interest method to determine the interest expense on \$4,300,000 of bonds issued with a coupon rate of 7%, when the market rate was 8%. The bonds mature in 10 years and pay interest every six months. If the difference between the face amount and issue price of the bonds is \$292,140 at the time the bonds were issued, what amount of interest expense does the company recognize on the first interest payment?

A. \$150,500
B. \$100,065
☒ C. \$160,314
D. \$140,275

$$\begin{aligned} \text{Coupon} &< \text{market} \\ \text{bonds would sell @ a discount} \\ \text{CV} &= 4,300,000 - 292,140 = 4,007,860 \\ \text{mkt rate per compounding} \\ \text{period} &= 8\% / 2 = \frac{4\%}{160,314.40} \end{aligned}$$

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

- A. Cash \$5,960,000
Interest payable \$640,000
Bonds payable \$5,320,000
- B. Cash \$5,960,000
Discount on bonds payable \$640,000
Bonds payable \$5,320,000
- C C. Cash \$5,960,000
Premium on bonds payable \$640,000
Bonds payable \$5,320,000
- D. Cash \$5,960,000
Bonds payable \$5,960,000

C 6. MARTA issued zero coupon bonds with a maturity value of \$900,000 in 10 years. The bonds were sold at a price to yield 4% percent compounded annually. What were the total proceeds generated by this bond issue?

- A. \$902,365
B. \$900,032
C C. \$608,040
D. \$564,660
E. \$900,000

$$i = 4\%$$

$$n = 10$$

$$PV \$1 = \frac{.6756}{\times 9,000,000} \quad \frac{.6756}{\times 900,000}$$

$$\underline{\underline{6,080.400}} \quad \underline{\underline{\$ 608,040}}$$

D 7. Daurice Outdoor Furniture issued 4 year bonds with a face value of \$600,000 having a 4% percent coupon rate of interest, with interest payments made every six months. The market rate for similar bonds is 6% percent. What were the total proceeds for the bond issue?

- A. \$525,475
B. \$858,612
C. \$907,730
D D. \$557,876
E. \$600,000

$$i = 3\%$$

$$n = 8$$

$$PVA = 7.0197 \quad PV \$1 \quad .7894$$

$$600,000 \times 4\% \times \frac{1}{2} = \times 12,000 \quad \times 600,000$$

$$\underline{\underline{84,236.40}} \quad + \quad \underline{\underline{473,640}} = \underline{\underline{557,876^4}}$$

D 8. Which of the following statements is false?

- A. Stockholders have a residual claim on assets in the event of liquidation.
- B. Shares of stock held in the treasury are deducted from the number of issued shares in the determination of the number of outstanding shares.
- C. Common stockholders have voting rights at annual stockholder meetings.
- D D. Corporations are governed by their stockholders.

Governed by Board of Directors.

C 9. 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. $\$4 \times 70,000 = 280,000$.
- C. Common stock is reported at \$350,000 on the balance sheet.
- D. Treasury stock is reported at \$45,000 on the balance sheet. - cannot tell from facts.

$$70,000 \text{ shs issued @ par } \$5 = \$350,000$$

D 10. Which of the following statements about earnings per share is correct?

- A. Increased net income would cause earnings per share to decrease. *False*
- B. Issuance of more common shares would cause earnings per share to increase. *False*
- C. Purchasing treasury shares would cause earnings per share to decrease. *False*
- D. It is calculated using the average number of common shares of stock outstanding. *True*

A 11. 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 \$1 par value?

- A.
- | | |
|-------------------------------------|----------|
| Cash | \$50,000 |
| Treasury Stock | \$47,000 |
| Capital in excess of par value..... | \$3,000 |
- B.
- | | |
|------------------------|----------|
| Cash | \$50,000 |
| Treasury Stock | \$47,000 |
| Retained earnings..... | \$3,000 |
- C.
- | | |
|-------------------------------------|----------|
| Cash | \$50,000 |
| Common Stock..... | \$1,000 |
| Capital in excess of par value..... | \$49,000 |
- D.
- | | |
|-------------------------------------|----------|
| Cash | \$50,000 |
| Treasury Stock | \$47,000 |
| Gain on sale of Treasury stock..... | \$3,000 |

$$\begin{array}{lcl} \text{Selling price} & = & \$50.000 \\ \text{Cost} & = & 47.000 \\ \hline \text{Increase in APIC} & & \underline{\underline{3,000}} \end{array}$$

- C 12. During 2012, Thomas Corporation repurchased some shares of its own common stock. What effect did this transaction have on 2012 stockholders' equity and earnings per share, respectively?

	Stockholders' Equity	Earnings per share
A.	Decrease	No effect
B.	Increase	No effect
<u>C.</u>	Decrease	Increase
D.	Decrease	Decrease

Treasury stock decreases SHE, and reduces # of shares outstanding. Ceteris paribus, this would increase EPS

- D 13. On December 15, 2009, the board of directors of Cross Corporation declared a cash dividend, payable on January 8, 2010 of \$.80 per share on the 2,000,000 common shares outstanding. On December 15, 2009, Cross Corporation should

- A. Not prepare a journal entry because the event had no effect on the corporation's financial position until 2010.
 B. Decrease retained earnings \$1.6 million and increase expenses \$1.6 million.
 C. Decrease cash \$1.6 million and decrease retained earnings \$1.6 million.
D. Decrease retained earnings \$1.6 million and increase liabilities by \$1.6 million.

Liability is booked on declaration date

- B 14. A company declares a 40% stock dividend when there were 4 million common shares outstanding with a \$1 par value. The current market price is \$20 per common share. Which of the following will be the effect of the stock dividend?

- A. Contributed capital will decrease by \$1.6 million and retained earnings will increase by \$1.6 million.
B. Retained earnings will decrease by \$1.6 million and contributed capital will increase by \$1.6 million.
 C. Retained earnings will decrease by \$32 million and contributed capital will increase by \$32 million.
 D. Contributed capital will decrease by \$32 million and retained earnings will increase by \$32 million.

Large stock dividend accounted for @ par

$$40\% \times 4,000,000 = 1,600,000 \text{ shs @ } \$1 \text{ par} = \$1,600,000$$

- A 15. A company reported total stockholders' equity of \$520,000 on its balance sheet dated December 31, 2010. During the year ended December 31, 2011, the company reported net income of \$60,000, declared and paid a cash dividend of \$18,000, sold treasury stock costing \$12,000 for \$15,000, and issued additional common stock for \$70,000. What is total stockholders' equity as of December 31, 2011?

- A. \$647,000
 B. \$630,000
 C. \$667,000
 D. \$635,000

Begin SHE	520
+ NI	60
- Dividend	(18)
+ Treas. stock	15
+ Issue stock	70
End SHE	<u>647</u>

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 shares
B	Bond discount
C	Bond premium
D	Bond principal
E	Callable bond
F	Convertible bond
G	Coupon rate
H	Cumulative dividend preference
J	Current dividend preference
K	Debenture
L	Declaration date

M	Dividends in arrears
N	Dividend yield
O	Indenture
P	Issued number of shares
Q	Legal capital
R	Outstanding number of shares
S	Payment date
T	Record date
U	Stock dividend
V	Stock split
W	Treasury stock

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

Problem 1 (27 points)

A company issued 5-year \$1,000,000 bonds paying interest semi-annually. The coupon rate is 6%, but the bonds were priced to yield 4% to investors. The bonds sold for \$1,089,778.

Required:

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

Account	Debit	Credit
Cash	1,089,778	
Premium on bonds payable		89,778
Bonds payable		1,000,000

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

Period	Beginning carrying value	Interest expense 2%	Payment 3%	Premium amortization	Ending carrying value
1	1,089,778	21,796	30,000	8,204	1,081,574
2	1,081,574	21,631	30,000	8,369	1,073,205

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

Account	Debit	Credit
Interest Expense	21,613	
Premium on bonds payable	8,369	
Cash		30,000

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)?

Long-term liability on the balance sheet -

Bonds payable, net \$ 1,073,205

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