Name: Key Version C

ACCT 2101
Exam #3 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 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 – 24 @ 3 points each	72
Problems - 2	24
Total	128

   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

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Matching (2 points each) – Match the terms with the definition or description that best fits the term. Terms may be used only once.

~~A~~	Accrued liabilities	~~L~~	Depreciation
B	Amortization	~~M~~	Impairment
~~C~~	Annuity	~~N~~	Indenture
D	Bond discount	~~O~~	Intangible assets
E	Bond premium	~~P~~	Liquidity
F	Callable bond	Q	Operating lease
~~G~~	Capital lease	~~R~~	Ordinary repairs and maintenance
~~H~~	Convertible bond	S	Solvency
~~I~~	Coupon rate	~~T~~	Tangible assets
J	Current liabilities	~~U~~	Time value of money
~~K~~	Debenture	~~V~~	Working capital

V 1 The dollar difference between current assets and current liabilities.

D 2 The difference between the selling price and par when a bond is sold for less than par

U 3 The costs or benefits derived from holding or not holding money over time

A 4 Expenses that have been incurred but have not been paid at the end of the accounting period

T 5 Assets that have physical substance.

C 6 A series of equal, periodic payments or cash receipts

G 7 A lease that is in substance a purchase and results in the recording of an asset and liability

H 8 A bond that may be converted to common stock of the issuer

M 9 When events or changed circumstances cause the estimated future cash flows (future benefits) of assets to fall below their book value.

I 10 The stated rate of interest on bonds

L 11 The process of allocating the cost of buildings and equipment over their productive lives using a systematic and rational method.

P 12 The ability to pay current obligations

R 13 Expenditures that maintain the productive capacity of an asset during the current accounting period and do not increase the productive life or capacity of the asset.

O 14 Assets that have special rights, but not physical substance.

K 15 An unsecured bond - no assets are pledged as a guarantee of repayment at maturity

N 16 A written contract that specifies the legal provisions and terms of a bond issue

Multiple choice (3 points each) Answer each question on a Scantron form. Failure to complete the Scantron form causes a 4 point penalty.

C 1. If an expenditure related to a depreciable asset is incorrectly treated as a capital expenditure, instead of as repairs and maintenance expense, which of the following statements is true?

A. The current year's net income will be lower and future depreciation expense will be higher.
B. The current year's net income will be higher and future depreciation expense will be lower.
C. The current year's net income will be higher and future depreciation expense will be higher.
D. The current year's net income will be lower and future depreciation expense will be lower.

Entry is: DR Asset
CR Cash
– understated expense overstates asset, and thus future depreciation

Entry s/h/b: DR Exp
CR Cash

B 2. Which of the following is correct for Smith Company when Smith issues 10,000 shares of $10 par value common stock and pays $20,000 cash in exchange for a building? (The stock and cash are transferred in exchange for the building.) The market price of the Smith stock on the exchange date was $35 per share and the building's book value on the books of the seller was $250,000.

A. Total assets increase $330,000.
B. Total assets increase $350,000.
C. Stockholders' equity increases $250,000.
D. Stockholders' equity increases $330,000.

10,000 shs x FV $35 =	$ 350,000
Cash paid	20,000
Capital cost	$ 370,000

Entry: DR Asset 370,000
CR Cash 20,000
CR Stock 350,000

D 3. Salvia Company recently purchased a truck. The price negotiated with the dealer was $40,000. Salvia also paid sales tax of $2,000 on the purchase, shipping and preparation costs of $3,000, and insurance for the first year of operation of $4,000. At what amount should the truck be recorded on the balance sheet prior to recording depreciation expense?

A. $40,000
B. $42,000
C. $43,000
D. $45,000

Insurance is not an acquisition or preparation cost. It s/b expensed, not capitalized. Remaining costs are capital.

	40,000
	2,000
	3,000
Total Capital cost	45,000

B 4. On January 1, 2014, Woodstock, Inc. purchased a machine costing $41,000. The expected useful life of the machine is 6 years and the residual value is $5,000. How much is the annual depreciation expense assuming use of the straight-line depreciation method?

A. $6,100
B. $6,000
C. $5,950
D. $5,750

Cost	41.000
Residual	5.000
Depr. Cost	36.000
SL rate 1/6	.1667
Annual depr xp	6.000

C 5. Warren Company plans to depreciate new equipment using the double declining-balance depreciation method. The equipment cost $800,000. The estimated residual value of the equipment is $50,000 and it has an expected useful life of 25 years. Assuming the first year's depreciation expense was a full year and was recorded properly, what would be the amount of depreciation expense for the second year?

A. $30,720
B. $32,000
C. $58,880
D. $64,000

Yr 1 depr = 800,000 X 2/25 = 64.000

YR 2 depr = (800.000 − 64.000) X 2/25 = 58.880

A 6. Which of the following statements about asset impairment is false?

A. Asset impairment loss is the difference between an asset's net book value and its estimated future cash flows. False Fair value vs. NBV
B. If an asset is impaired, a loss would be recognized in the period it can be estimated. T
C. Impairment will lead to writing down the asset's net book value. T
D. Asset impairment occurs when the estimated future cash flows are less than the asset's net book value. True

B 7. Which of the following best describes the objective of depreciation?

A. To estimate the remaining useful life of the asset.
B. To allocate the cost of a tangible asset to the periods in which its use contributes to earning revenue.
C. To report the asset on the balance sheet at the estimated amount for which the asset could be sold on the balance sheet date.
D. To estimate the current market value of the asset.

B 8. Which of the following is incorrect?

A. Current liabilities are those that will be satisfied within one year or the operating cycle, whichever is longer. True
B. Liquidity is the ability of the company to meet its total obligations. False - Current obs.
C. Current liabilities impact a company's liquidity. T
D. Working capital is equal to current assets minus current liabilities. T

A 9. Which of the following statements is correct?

A. Employee compensation expense should be recognized when the employees earn the compensation and not when they are paid. T
B. Social Security tax is paid only by the employer. F
C. The pay period always ends on the same day as the company's fiscal year-end. F
D. Unemployment taxes are paid by the employee only. F

D 10. Amanda Company purchased a computer that cost $10,000. It had an estimated useful life of five years and a residual value of $1,000. The computer was depreciated by the straight-line method and was sold at the end of the third year of use for $5,000 cash. Assume a full year of depreciation expense each year. How much of a gain or loss should Amanda record?

A. A gain of $1,000
B. A loss of $5,000
C. A loss of $400
D. A gain of $400

Cost	$10.000
Residual	1.000
depr. Cost	9.000
SL rate 1/5	20%
Annual dep XP	1800
	x 3
Accum depr. EOY3	5400

SP		$ 5.000
Cost	10,000	
Accum dep	5400	
NBV	4600	4600
Gain		$ 400

A 11. Phipps Company borrowed $25,000 cash on September 1, 2014, and signed a nine-month, 8% interest-bearing note payable with interest payable at maturity. Assuming that adjusting entries have not been made during the year, the amount of accrued interest payable to be reported on the December 31, 2014 balance sheet is which of the following?

A. $667
B. $500
C. $2,000
D. -0-; Interest expense should be recorded when paid on the due date.

Sep - Dec = 4 months
$25,000 x 8% x 4/12 = $666.67

B 12. Purdue Farms borrowed $10 million by signing a five-year 9% note payable on December 31, 2013. Repayments of the principal are payable annually in installments of $2 million each. Purdue Farms makes the first payment on December 31, 2014 and then prepares its balance sheet. What amount will be reported as current and long-term liabilities, respectively, in connection with the note at December 31, 2014, after the first payment is made?

A. $2 million in current liabilities and $8 million in long-term liabilities
B. $2 million in current liabilities and $6 million in long-term liabilities
C. Zero in current liabilities and $8 million in long-term liabilities
D. Zero in current liabilities and $10 million in long-term liabilities

Face $10 M
payment (2)
Bal. ~~8M~~
Due in 1 yr. 2 M
Bal. 6 M
$ 8 M

C 13. Buzz Company is involved in a lawsuit. When would the lawsuit be recorded as a liability on the balance sheet?

A. When the loss is probable regardless of whether the loss can be reasonably estimated.
B. When the loss probability is remote and the amount can be reasonably estimated.
C. When the loss is probable and the amount can be reasonably estimated.
D. When the loss probability is reasonably possible and the amount can be reasonably estimated.

D 14. The following data was taken from Barstuck's Corporation 2014 financial statements. All amounts are U.S. dollars.

	9-30-2014	**9-30-2013**
Total current assets	4,168,700	5,471,400
Total assets	10,752,900	11,516,700
Accounts payable	533,700	491,700
Accrued liabilities	1,514,400	1,269,300
Total current liabilities	3,038,700	5,377,300
Total liabilities	5,479,200	7,034,400
Total stockholders' equity	5,273,700	4,482,300
Total net revenues	16,447,800	14,866,800
Cost of goods sold	6,858,800	6,382,300
Operating expenses	6,776,200	9,061,300
Operating income (loss)	3,081,100	(325,400)
Net income	2,068,100	8,300

Barstuck's accounts payable turnover ratio for its fiscal year ended 9-30-2014 is closest to:

A. 1.63
B. 4.37
C. 12.85
D. 13.38

AP turnover = Cost of goods sold / Average Acct payable

= 6,858,800 / ((533,700 + 491,700) / 2)

= 6,858,800 ÷ 512,700 = 13.3778

B 15. Which of the following statements is correct?
A. A bond trustee is appointed to represent the ~~issuing company~~ investor. F
(B.) A secured bond has specific assets pledged as collateral to secure it. T
C. An unsecured bond can be paid at the option of the issuer. F Callable bond
D. The bond indenture specifies the ~~market~~ stated rate of interest the investors will earn. F

D 16. SRJ Corporation entered into the following transactions:
- The accrual of interest expense on a six-month note payable Increase CL
- Collected cash for services to be provided within the next six months Increase CA + CL
- The reclassification of short-term debt to long-term debt Reduce CL

Which of the above transactions resulted in an increase in working capital?
A. The accrual of interest expense.
B. Collecting cash for services to be provided in the future.
C. Both the reclassification of short-term debt to long-term debt and the collection of cash for future services.
(D.) The reclassification of short-term debt to long-term debt.

B 17. Short Company purchased land by paying $10,000 cash on the purchase date and agreeing to pay $10,000 for each of the next five years beginning one-year from the purchase date. Short's incremental borrowing rate is 6%. The land reported on the balance sheet is closest to:
A. $60,000
(B.) $52,124
C. $47,365
D. $49,173

PV of down payment $10.000
PV of $10.000/yr for 5 yr
i = 6%
10.000 × 4.2124 = 42.124
PV of total obl. $ 52.124

A 18. Straight Industries purchased a large piece of equipment from Curvy Company on January 1, 2014. Straight Industries signed a note, agreeing to pay Curvy Company $400,000 for the equipment on December 31, 2016. The market rate of interest for similar notes was 8%. The present value of $400,000 discounted at 8% for three years was $317,520. On January 1, 2014, Straight Industries recorded the purchase with a debit to equipment for $317,520 and a credit to notes payable for $317,520. On December 31, 2014, Straight recorded an adjusting entry to account for interest that had accrued on the note. Assuming no adjusting entries have been made during the year, the interest expense accrued at December 31, 2014 is closest to:

(A.) $25,402
B. $32,000
C. $29,693
D. $27,493

Int XP = Mkt rate × beg. CV
= 8% × 317.520
= $25.402

B 19. Which of the following statements correctly describes the accounting for bonds that were issued at a discount?

A. The market rate of interest is less than the stated interest rate. F
B. The book value of the bond liability increases when interest payments are made on the due dates. T
C. The interest expense over the life of the bonds will be less than the cash interest payments. False
D. The present value of the bonds' future cash flows is greater than the bonds' maturity value. False

C 20. Kathleen Company purchased a truck at the beginning of its fiscal year (1/01/2014) and agreed to pay $165,000 one year later (12/31/2014). Based on the market rate of interest, Kathleen recorded the truck and note payable on its books at $152,774. Assume that the only entry that has been made with respect to this transaction was the original purchase on January 1. What journal entry is necessary to record Kathleen's payment at 12/31/2014 of the amount due under the note?

A.	Note payable	152,774	
	Cash		152,774
B.	Note Payable	165,000	
	Cash		165,000
C.	Note Payable	152,774	
	Interest expense	12,226	
	Cash		165,000
D.	Note payable	165,000	
	Interest expense	12,226	
	Cash		165,000
	Interest payable		12,226

C 21. On January 1, 2014, Tonika Corporation issued a four-year, $10,000, 7% bond. The interest is payable annually each December 31. The issue price was $9,668 based on an 8% effective interest rate. Assuming effective-interest amortization is used, the interest expense on the income statement for the year ended December 31, 2014 is closest to:

A. $677
B. $883
C. $773
D. $700

Int = Mkt rate × beg. CV
= 8% × 9668
= $773.44

B 22. Assuming no adjusting journal entries have been made, the journal entry to record the cash interest payment on the due date for bonds issued at a discount results in which of the following?

A. An increase in expenses and a decrease in liabilities
B. An increase in expenses and an increase in liabilities
C. A decrease in both liabilities and stockholders' equity
D. A decrease in both assets and liabilities

DR Int XP E+, SHE −
CR DISC. on BP L+
CR Cash A −

A 23. On November 1, 2013, Davis Company issued $30,000, ten-year, 7% bonds for $29,100. The bonds were dated November 1, 2013, and interest is payable semiannually each November 1 and May 1. How much is the book value of the bonds after the November 1, 2014 interest payment was recorded, assuming the straight-line method of amortization is utilized?

A. $29,190
B. $29,010
C. $29,100
D. $29,280

~~payment~~ total discount $900
payments ÷ 20
Amort /period $45
× 2
Amort at 11/1/2014 90
CV @ 11/1/2013 29,100
CV 11/1/014 29,190

B 24. Barstool Inc. reported the following on its income statements for the two years ended December 31, 2014. All amounts are in U.S. dollars.

	12/31/2014	12/31/2013
Depreciation expense	709,600	621,400
Total operating expenses	13,635,000	15,443,600
Operating income (loss)	3,081,100	(325,400)
Interest and other investment income	142,700	123,600
Interest expense	(64,100)	(28,100)
Earnings (loss) before income tax	3,159,700	(229,900)
Income tax expense (benefit)	1,092,000	(238,700)
Net income	2,067,700	8,300

The times interest owed ratio for 2014 is closest to:

A. 61.4
B. 50.3
C. 41.0
D. 32.3

$$\frac{\text{net income} + \text{int. exp} + \text{inc. tax exp}}{\text{Interest exp.}}$$

$$= \frac{2{,}067{,}700 + 64{,}100 + 1{,}092{,}000}{64{,}100}$$

$$= 50.2933$$

Problem 1 (8 points) – You must have a correct answer and show your work to receive full credit. Without supporting computations, a correct answer will not receive full credit.

Zane Company issued $400,000 face value bonds. The bonds have a stated interest rate of 8%, pay interest semiannually, and mature 3 years after the issue date. When taken to market the bonds were sold at a price to yield 6% to the investors.

Required:

1. Determine the price of the bonds. Enter your answer in the space below.
2. Prepare the journal entry in the template below needed on Zane Company's books to record the bond issuance.

1. Bond price: $421,675

2. Journal entry to record bond issue at issue date:

Date	Account	Debit	Credit
	Cash	421,675	
	Premium on bond payable		21,675
	Bond payable		400,000

Face 400,000
× 8%
Annual Int 32,000
÷ 2
Semi annual pmt 16,000

	Interest	Principal	Total
Amt	16,000	400,000	
PV Multiplier i = 3% n = 6	5.4172	.8375	
PV	86,675.20	335,000	421,675.20

Problem 2 (16 points) – You must have a correct answer and show your work to receive full credit. Without supporting computations, a correct answer will not receive full credit.

On June 30, 2015 Rodgers Company issued $600,000 face value bonds with a coupon rate of 2%. Interest is paid semi-annually. The bonds mature 3 years after the issue date. The bonds were sold to yield 4% to investors, resulting in a discount of $33,592.

Required:

1. Complete the table below to show the carrying values and interest expense that should be recognized by Rodgers for the first payment period using the straight-line method.
2. Prepare the journal entry needed to record the first payment on December 31, 2015 based on your answer to question 1 above.

	Amortization Schedule – **Straight-line Method**			
Date	Interest Paid	Interest Expense	Amortization of Discount	Carrying value
6/30/2015	**NA**	**NA**	**NA**	566,408
12/31/2015	6,000	11,599	5599	572,007

Journal Entry to record first payment on December 31, 2015

Date	**Account**	**Debit**	**Credit**
12/31/2015	Interest expense	11,599	
	Discount on bond payable		5599
	Cash		6,000

Interest per period

Face	600,000
annual rate	2%
Annual pmt	12,000
	÷2
Semi annual pmt	6,000

Amt of discount	33 592
# payment periods 3 X 2	÷6
Amort/period	5598.66

CV: Face	600,000
less disc.	33,592
Net CV @ 6/30/15	566,408

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

Present value 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