Bill Wells ACCTG 215 FALL 2007 Quiz #5

ACCT 215 Fall 2007 Quiz #5 Questions

1) Which of the following is <u>not</u> a characteristic of a capital lease?
- a. The lease term is 80% of the asset's remaining estimated useful life
- b. The lease agreement contains a bargain purchase option
- c. The net present value of the lease payments equals 95% of the market value of the leased asset
- d. Title to the leased asset transfers to the lessee at the end of the lease term
- e. The net present value of the lease payments equals 70% of the market value of the leased asset

2) Interest expense will increase each period if a company uses the effective interest rate method (the method learned in this class) and a bond is issued at <u>a discount</u>.
- a. a discount
- b. par value
- c. a premium
- d. none of the above

3) The fact that a bond is issued at a premium:
- a. has no effect on the amount of periodic cash payments to bondholders
- ~~b.~~ has no effect on the amount of cash received by the issuer
- ~~c.~~ is an incentive for a corporation to issue the bond
- d. none of the above

4) Tully's Coffee repurchased several shares of its own stock in 2006 for $20/share. The stock had an original par value of $5/share. On 1/1/2007 Tully's reissues one share of this treasury stock. Tully's stock is selling at $22/share on 1/1/2007. What journal entry will Tully's record when it reissues this one share of treasury stock?

a. DR Cash	22	
CR Common Stock		5
CR APIC – C/S		15
CR APIC- T/S		2

b. DR Common Stock	20	
DR APIC – T/S	2	
CR Treasury Stock		22

c. DR Cash	22	
CR Treasury Stock		20
CR APIC- T/S		2

d. DR Cash	22	
CR Common Stock		20
CR APIC- C/S		2

5) Tully's Coffee is considering issuing a 5% <u>stock</u> dividend. Currently it has 100,000 shares of common stock outstanding. These shares have a $1 par value/share and a $10 market value/share. What is the journal entry Tully's Coffee records at the date of payment?

a. DR Stock Dividend	50,000	
CR Common Stock		45,000
CR APIC – C/S		5,000

b. DR Stock Dividend	50,000	
CR Common Stock		5,000
CR APIC – C/S		45,000

c. DR Stock Dividend	5,000	
DR APIC – C/S	45,000	
CR Common Stock		50,000

d. DR Stock Dividend	5,000	
CR Common Stock		500
CR APIC – C/S		4,500

CONTINUED ON BACK

Use the following information to answer questions 6-8.
Tully's Coffee is going to issue a 2-year $150,000, 14% bond on January 1, 2008. The bond will make payments to its bondholders every June 30 and December 31 and the principal will be repaid on December 31, 2009. The effective annual interest rate on the bond is 10%.

6) What amount of cash is Tully's Coffee going to pay its bondholders on June 30, 2008?
   a. 21,000
   b. 10,500
   c. 15,000
   d. 7,500

Payment = STATED RATE X Value of Bond

* Maybe semi-annually

7) How much should an investor be willing to pay for this bond?
   a. 135,736
   b. 162,499
   c. 160,638
   d. 119,406
   e. 150,000

8) What amount of interest expense will Tully's Coffee record on June 30, 2008?
   a. 11,245
   b. 10,500
   c. 7,500
   d. 8,032

Use the following information to answer questions 9-10.
Allison, Inc. began operations in 2005 and immediately issued 50,000 shares of cumulative, participating preferred stock. The preferred stock pays a $5 annual cash dividend per share. Allison, Inc. reported a $300,000 loss in 2005, a $100,000 loss in 2006, and a $200,000 profit in 2007.

9) What amount of cash dividends does Allison, Inc. owe to its preferred stockholders at the end of 2007?
   a. $250,000
   b. $0
   c. $200,000
   d. $750,000

5 x 50,000 = 250,000 x 3 = 750,000

10) What amount of cash dividends will Allison, Inc. pay to its preferred stockholders at the end of 2007?
   a. $250,000
   b. $0
   ~~c. $200,000~~
   d. $750,000