A215

2009 Practice Exam III

--KEY--

*Note: This was Exam III last year. We used a different text last year so I had to modify some problems and delete others. I did not include present value tables with this practice exam, but will on the actual exam.

- You have **one hour and fifty minutes** to complete this exam.
- For problems that require calculations show your work.
- Provide your answers in the space provided (not on a separate sheet).
- Please check to see that you have X pages (they are numbered).

1. An existing uncertain situation that might result in a loss is called a:

    ______________________________ [contingent liability]

2. When a bond's face value is greater than the amount of cash the company receives when it issues the bond the bond was issued at: (circle the correct answer)

    A premium
    A discount [CORRECT]
    Par

3. When a bond's face value is less than the amount of cash the company receives when it issues the bond the bond was issued at: (circle the correct answer)

    A premium [CORRECT]
    A discount
    Par

4. Cougar Company is trying to decide whether to lease a piece of equipment from Beaver Company using an operating lease or a capital lease. Cougar would like to use the type of lease with the simplest accounting. What type of lease do you recommend that Cougar use?

    ______________________ [An operating lease]

5. What is the interest rate if the present value of a single sum is $50,000, its future value is $100,000, and there are 8 periods?

    ______________ [50,000/100,000 = .50. A PV factor of .50 and 8 periods results in an interest rate of approximately 9% (calculator = 9.05%)]

6. Bear Company went public on January 1, 2007, by issuing 200,000 shares of common stock. On June 1, Bear repurchased 20,000 shares. On September 1, Bear reissues 10,000 of those shares. No other stock transactions occurred during the year. How many shares of common stock does Bear have issued and outstanding at the end of the year?

   Issued shares = ____________ [200,000]
   Outstanding shares = ____________ [190,000]

7. List two potential differences between common stock and preferred stock.

   [Lots of options...
   Right to receive dividends before common shareholders
   Right to assets ahead of common shareholders
   Right to cumulative dividends
   Right to convert to common stock
   ...and others]

8. There are three key dates associated with the declaration and paying of dividends. Which two dates require journal entries?

   ________________ [Date of declaration and date of payment]

9. Bruin Company declares a cash dividend on March 15. The date of record for the dividend is March 20. Bruin pays the dividend on March 25. On March 21, Cardinal Company purchases shares of Bruin. Will Cardinal receive the dividend? (circle one)

   YES NO [NO]

10. On January 1, Sun Devil Company purchases a government bond. When Sun Devil receives an interest payment from the government it debits cash and credits interest revenue. How will Sun Devil calculate interest revenue on the bond each period?

    Interest revenue = ______________ rate x ______________ value

    [Interest revenue = market rate x carrying value]

11. What are the three sections of the cash flow statement?

    [Operating, investing and financing]

12. On January 1, 2007, Wildcat Company signs an operating lease to rent a stadium for 2 years. Rent of $100,000 is paid at the end of each year. Record any required journal entries associated with this lease on the following dates:

    Date lease is signed
    [--No entry required--]

    End of the first year

[Rent expense	100,000	
Cash		100,000]

13. (Homework problem) Husky Company bought 10,000 of its own shares for $10 per share. The shares were held as treasury stock. This was the only time Husky had ever purchased treasury stock.

    Prepare the journal entry if Husky resells 5,000 of the treasury shares for $12 per share.

[Cash	60,000 (5,000 x $12)	
Treasury stock		50,000 (5,000 x $10)
APIC		10,000 (remainder)]

    Prepare the journal entry if Husky resells the remaining 5,000 shares of treasury stock for $9 per share.

[Cash	45,000 (5,000 x $9)	
APIC	5,000 (remainder)	
Treasury stock		50,000 (5,000 x $10)]

14. On January 1, 2007, Cougar Company borrows $100,000 by signing a two-year note. The note requires Cougar to make semi-annual cash payments of $26,902.70. The first payment is due on June 30. The annual market rate of interest on January 1, 2007 is 12%.
**Round your journal entries to the nearest dollar. In grading your exam, I will be careful to NOT penalize you for rounding errors.*

Provide the journal entry that Cougar will record on January 1, 2007.

January 1, 2007

[Cash	100,000	
Note payable		100,000]

Provide the journal entry that Cougar will record June 30, 2007.

June 30, 2007

[Interest expense	6,000.00 (100,000 x 12% x 1/2)	
Note payable	20,902.70 (remainder)	
Cash		26,902.70 (payment)]

What is the carrying value of the note at the end of June 30?

[Carrying value = $79,097.30 (100,000 – 20,902.70)]

16. On January 1, 2007, Bruin Corporation has the following balances in the owners' equity section of its balance sheet.

Preferred stock (100 issued and outstanding, no par)	\$ 2,500
Common stock (1,000 issued and outstanding, \$1 par value)	\$ 1,000
Additional Paid in Capital	\$20,000
Retained earnings	\$44,000

On January 15, 2007, Bruin declares and distributes a 2:1 common stock split. This split does not affect Bruin's preferred shares.

Prepare the journal entry that Bruin would enter on January 15 to record this transaction. If no entry is needed state "No entry needed."

[No journal entry needed]

How many shares of Bruin's common stock are outstanding after the split and what is the par value of the shares?

[2,000 shares are outstanding with a par value of \$0.50]

17. This 5-minute question was on a topic (stock options) that we did not cover this year.

15. On January 1, 2007, Beaver Corporation issues a twenty-year bond that pays interest annually. The first interest payment is due on December 31, 2007. The face value of the bond is $1,000 and its stated interest rate is 10%. The market interest rate at the time of issuance is 8%.
**Round your journal entries to the nearest dollar. In grading your exam, I will be careful to NOT penalize you for rounding errors.*

Provide the journal entry that Beaver will record on January 1, 2007.

[PRESENT VALUE =	$1,000 x .21455 =	214.55
	$100 x 9.81815 =	<u>981.82</u>
	TOTAL =	1,196.37]

January 1, 2007

[Cash	1,196.37	
Bond payable		1,196.37]

Provide the journal entry that Beaver will record on December 31, 2007.

December 31, 2007
[Carryingvalue at the beginning of the period = 1,196.37

Interest expense	95.71		(.08 x 1,196.37)
Bond payable	4.29		
Cash		100.00 (.10 x 1,000)]	

What is the carrying value of the bond at the end of December 31, 2007?

[Carrying value = 1,192.08 (1,196.37 – 4.29)]

18. Below is income statement and balance sheet information for Ducks Company (there are no other accounts). Create the operating section of Ducks' cash flow statement using the direct and the indirect method of presentation.

	2008	2007
Sales	$120,000	$100,000
Cost of goods sold	80,000	60,000
Depreciation expense	10,000	10,000
Wage expense	18,000	20,000
Net income	12,000	10,000
Accounts receivable	15,000	11,000
Inventory	8,000	6,000
Accounts payable	15,000	18,000
Wages payable	11,000	10,000

DIRECT METHOD

Cash collected from customers ____________

Payments to suppliers ____________

Payments for wages ____________

Cash flows from operations ____________

[ANSWER

Cash collected from customers	116,000
Payments to suppliers	-85,000
Payments for wages	-17,000
Cash flows from operations	14,000

Cash collected from customers: 116,000 = 120,000 (sales) - 4,000 (A/R change)

Payments to suppliers:

Inventory: 8,000 (EB) = 6,000 (BB) + purchases – 80,000 (COGS)
purchases = 82,000

Accts payable: 15,000 (EB) = 18,000 (BB) + 82,000 (purchases) – payments
payments = 85,000

Payment for wages: 11,000 (EB) = 10,000 (BB) + 18,000 (exp) – payments
payments = 17,000]

INDIRECT METHOD

Net income	12,000
Adjustments (you need to fill in all needed adjustments)	
Cash flow from operations	______

[ANSWER

Net income	12,000
Add back depreciation	10,000
Subtract increase in accounts receivable	-4,000
Subtract decrease in inventory	-2,000
Subtract decrease in accounts payable	-3,000
Add increase in wages payable	1,000
Cash flow from operations	14,000]

19. On December 10, 2008, Trojan Company bought Bruin Company common stock as an investment for $100,000. The stock is being held for immediate resale. At the end of the year, Bruin's sock is worth $98,000. Record any required journal entries for Trojan on December 10 and December 31 (the end of the accounting period).

December 10, 2008

[Equity investment - Bruin	100,000	
Cash		100,000]

December 31, 2008

[Unrealized holding loss	2,000	
Equity investment - Bruin		2,000]

Will Trojan report the unrealized holding loss on its income statement or in comprehensive income?

[Income statement]