Multiple Choice: (42%)

1. The charter of a corporation provides for the issuance of 100,000 shares of common stock. Assume that 60,000 shares were originally issued and 5,000 were subsequently reacquired. What is the amount of cash dividends to be paid if a $1 per share dividend is declared?
   A. $100,000  B. $60,000  C. $55,000  D. $5,000

2. A company with 100,000 authorized shares of $5 par common stock issued 40,000 shares at $7. Subsequently, the company declared a 2% stock dividend on a date when the market price was $9 a share. What is the amount transferred from the retained earnings account to paid-in capital accounts as a result of the stock dividend?
   A. $7,200  B. $6,000  C. $5,600  D. $3,200

3. The liability for a dividend is recorded on which of the following dates?
   A. the date of record  B. the date of payment  C. the date of announcement  D. the date of declaration

4. Based on the following information, calculate the dividend yield on common stock:
   Market price per share $50.00
   Earnings per share 4.00
   Dividends per share 0.80
   Investor's cost per share 40.00
   A. 0.016  B. 0.02  C. 0.08  D. 0.1

5. On June 5, Apple Co. issued an $80,000, 8%, 120-day note payable to Healy Co. Assume that the fiscal year of Apple Co. ends June 30. What is the amount of interest expense recognized by Apple in the current fiscal year? (Use 360 days for one year in your calculation)
   A. $2133.33  B. $622.67  C. $533.33  D. $444.44

6. The outstanding stock is composed of 10,000 shares of $100 par, cumulative, nonparticipating preferred $8 stock, and 50,000 shares of no-par common stock. Preferred dividends have been paid every year except for the preceding year and the current year. If $380,000 is to be distributed as a dividend for the current year, what total amount will be distributed to the preferred stockholders?
   A. $380,000  B. $160,000  C. $80,000  D. $0

7. A loss on disposal of a segment would be reported in the income statement as a(n):
   A. administrative expense  B. other expense  C. deduction from income from continuing operations  D. selling expense

8. Jimmy Co. issued a $50,000, 60-day, discounted note to City Bank. The discount rate is 9%. The cash proceeds to Jimmy Co. are: (Use 360 days for one year in your calculation)
   A. $50,750  B. $49,250  C. $49,750  D. $50,250

9. A cumulative effect of a change in accounting principle would be reported in the:
   A. income statement  B. statement of stockholders' equity  C. statement of retained earnings  D. balance sheet

10. Based on the following information, what is earnings per share?
   Common shares outstanding at the beginning of the accounting period $200,000
   Common shares outstanding at the end of the accounting period $240,000
   Weighted-average common shares outstanding during the period $230,000
   Preferred stock dividend declared and paid $80,000
   Preferred stock dividend in arrears $20,000
   Net income $600,000
   A. $3.00  B. $2.608  C. $2.2608  D. $2.1667

11. A corporation issues for cash $6,000,000 of 14%, 30-year bonds, interest payable annually, at a time when the market rate of interest is 13%. The straight-line method is adopted for the amortization of bond discount or premium. Which of the following statements is true?
   A. The amount of the annual interest expense is computed at 14% of the bond carrying amount at the beginning of the year.
   B. The amount of the annual interest expense gradually decreases over the life of the bonds.
   C. The amount of unamortized discount decreases from its balance at issuance date to a zero balance at maturity.
   D. The amount of unamortized premium decreases from its balance at issuance date to a zero balance at maturity.
12. The journal entry a company records for the issuance of bonds when the contract rate is less than the market rate would be:
   A. debit Bonds Payable, credit Cash
   B. debit Cash and Discount on Bonds Payable, credit Bonds Payable
   C. debit Cash, credit Premium on Bonds Payable and Bonds Payable
   D. debit Cash, credit Bonds Payable

13. Cash flows from operating activities, as reported on the statement of cash flows using the indirect method, would include:
   A. receipts from the sale of investments
   B. payments for dividends
   C. net income
   D. receipts from the issuance of capital stock

14. A business issues 20-year bonds payable in exchange for preferred stock. This transaction would be reported on the statement of cash flows in:
   A. the cash flows from investing activities section
   B. the cash flows from operating activities section
   C. a separate schedule
   D. the cash flows from financing activities section

B. Problem: (58%)
1. The comparative balance sheet of Nance Company, for the current year and the preceding year ended December 31, 2005, appears below in condensed form: (24%)

<table>
<thead>
<tr>
<th>Account</th>
<th>Current Year</th>
<th>Preceding Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$68,000</td>
<td>$42,500</td>
</tr>
<tr>
<td>Accounts receivable (net)</td>
<td>61,000</td>
<td>70,200</td>
</tr>
<tr>
<td>Inventories</td>
<td>121,000</td>
<td>105,000</td>
</tr>
<tr>
<td>Investments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>515,000</td>
<td>425,000</td>
</tr>
<tr>
<td>Accumulated depreciation-equipment</td>
<td>($153,000)</td>
<td>($175,000)</td>
</tr>
<tr>
<td></td>
<td>$612,000</td>
<td>$567,700</td>
</tr>
<tr>
<td>Accounts payable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds payable, due 2000</td>
<td>$59,750</td>
<td>$47,250</td>
</tr>
<tr>
<td>Common stock, $20 par</td>
<td>375,000</td>
<td>325,000</td>
</tr>
<tr>
<td>Premium on common stock</td>
<td>50,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>122,250</td>
<td>95,450</td>
</tr>
<tr>
<td></td>
<td>$612,000</td>
<td>$567,700</td>
</tr>
</tbody>
</table>

Additional data for the current year are as follows:
(a) Net income, $71,800.
(b) Depreciation reported on income statement, $38,000.
(c) Fully depreciated equipment costing $60,000 was scrapped, no salvage, and equipment was purchased for $150,000.
(d) Bonds payable for $75,000 were retired by payment at their face amount.
(e) 2,500 shares of common stock were issued at 30 for cash.
(f) Cash dividends declared and paid $40,000.
(g) Investments of $100,000 were sold for $125,000.

Prepare a statement of cash flows using the indirect method.

2. From the following data, determine for the current year the (a) return on total assets, (b) return on common stockholders' equity, (c) earnings per share on common stock, (d) price-earnings ratio on common stock. Assume that the current market price per share of common stock is $27. (Present key figures used in your computations.) (16%)
Current assets
Property, plant, and equipment
Current liabilities (non-interest-bearing)
Long-term liabilities, 12%
Preferred 10% stock
Common stock, $25 par
Retained earnings:
Beginning of year
Net income for year
Preferred dividends declared
Common dividends declared

Current Year                  Preceding Year
$ 735,000                    $ 820,000
1,500,000                    1,400,000
150,000                      140,000
400,000                      400,000
250,000                      250,000
1,200,000                    1,200,000
230,000                      160,000
90,000                       155,000
25,000                       25,000
60,000                       60,000

3. On June 30, 2006, Sedams Company issued $2,000,000 of 10-year, 10% bonds, dated June 30, for $2,050,000. The bonds were purchased by Pums Co. on the issue date at the issue price. Present entries to record the following transactions: (12%)
(a) Sedams Company: (1) Issuance of bonds. (2) Payment of first semiannual interest, including amortization by straight-line method of bond premium on December 31, 2006.
(b) Pums Company: (1) Purchase of bonds. (2) Receipt of first semiannual interest, including amortization by straight-line method of bond premium on December 31, 2006.

4. Machinery acquired at a cost of $100,000 and on which there is accumulated depreciation of $60,000 (including depreciation for the current year to date) is exchanged for similar machinery. For financial reporting purposes, present entries to record the disposition of the old machinery and the acquisition of new machinery under each of the following assumptions: (6%)
(a) Price of new, $120,000; trade-in allowance on old, $4,000; balance paid in cash.
(b) Price of new, $120,000; trade-in allowance on old, $44,000; balance paid in cash.