EXAM 3 REVIEW PACKET

Complete these sample exam problems/objective questions and check your answers with the solutions at the end of the review file and identify where you need additional study before the exam.

I. Property, Plant, and Equipment

Kleener Co. acquired a new delivery truck at the beginning of the current fiscal year (fiscal year ends on December 31). The truck cost $26,000 and had an estimated useful life of 5 years or 100,000 miles. The estimated salvage value is $1,000. The truck was actually driven 30,000 miles in year 1; 25,000 miles in year 2; 18,000 miles in year 3; 15,000 miles in year 4; and 12,000 miles in year 5.

Requirement 1: Calculate depreciation for each year of the truck's life using the following depreciation methods: (a) Straight-line, (b) Double-declining balance, and (c) Units-of-Activity.

(a) Straight-line

Year	Depreciation
1	
2	
3	
4	
5	

(b) Double-declining Balance

Year	Depreciation
1	
2	
3	
4	
5	

(c) Units-of-Activity

Year	Depreciation
1	
2	
3	
4	
5	

Requirement 2: Prepare the adjusting entry to record depreciation for year 3 using the units-of-activity method.

General Journal

Date	*Account Titles*	*Debit*	*Credit*

Requirement 3: Calculate the accumulated depreciation and book value of the delivery truck at the end of year 3 using the units-of-activity method.

Accumulated Depreciation (end of year 3)	
Book Value (end of year 3)	

Requirement 4: Assume that Kleener Co. had sold the delivery truck at the end of year 3 for $6,200. Prepare the journal entry to record the sale of the delivery truck assuming the units-of-activity method had been used for depreciation.

General Journal

Date	*Account Titles*	*Debit*	*Credit*

II. Time Value of Money

Refer to the time value tables in your textbook. Round your final answers to the nearest dollar.

1. Edcorp. purchased machinery by signing a $30,000 noninterest-bearing note due in 4 years. For how much should the machinery be recorded, assuming that the going rate for similar notes was 6%?

   Answer ____________________

2. Deborah Weber is making bank deposits of $3,000 at the end of each year for 5 years, for purposes of buying a car. Assuming an interest rate of 8%, how expensive a car will she be able to purchase?

   Answer ___________________

3. Assuming $1,000 is invested for 3½ years, with interest of 8%, compounded semiannually, how much will the investment be worth in 3½ years?

   Answer ___________________

4. Alexandra Kay would like to make a lump-sum deposit today so that she can withdraw $10,000 at the end of each year for the next 3 years. Assuming a 9% interest rate, what would be her investment today?

Answer ____________________

5. Cochran Co. establishes a bond sinking fund to accumulate $5,000,000 to pay the principal on bonds due in 5 years. Cochran wishes to make 5 equal annual payments into the fund starting one year from today. Assuming the fund can earn 10%, how much is each annual deposit?

Answer ____________________

6. You want to save $50,000 to purchase a new boat. If you can invest $4,000 each year and you can earn an interest rate of 8%, in how many years can you buy your boat?

Answer ____________________

III. Accounting for Bonds

On January 1, 2012, Mingus Company issued $1,000,000 of 5-year bonds, with a stated interest rate of 8%, payable semiannually on June 30 and December 31 each year.

Requirement 1: Assume the bonds are issued at face value. Prepare journal entries to record:

- The issuance of the bonds on January 1, 2012.
- The payment of interest on June 30, 2012.
- The retirement (i.e., repayment of principal) of the bonds on December 31, 2016.

General Journal

Date	***Account Titles***	***Debit***	***Credit***
1/1/12			
6/30/12			
12/31/16			

Requirement 2: Assume the market rate of interest on the date the bonds are issued is 10%. Calculate the issuance price of the bonds and prepare the journal entry to record the issuance of the bonds.

Issue Price Calculation:

General Journal

Date	***Account Titles***	***Debit***	***Credit***
1/1/12			

Requirement 3: Prepare the journal entry to record the issuance of the bonds if the bonds are issued at 102.

General Journal

Date	***Account Titles***	***Debit***	***Credit***
1/1/12			

IV. Accounting for Stockholders' Equity

At the beginning of the year, Rudd Corporation showed the following:

100,000 shares of its $10 par value, 6% cumulative preferred stock issued and outstanding
1,755,000 shares of its $2 par value common stock issued and outstanding (there was no treasury stock).

During the year, Rudd Corp. entered into the following transactions affecting stockholders' equity:

April 4 Issued 5,000 shares of its $10 par value preferred stock for $150 per share.

May 13 Repurchased 15,000 shares of its $2 par value common stock in the open market at $23 per share.

June 18 Issued 60,000 shares of its $2 par value common stock for $24 per share.

Nov. 22 Declared the required preferred stock cash dividend plus a cash dividend of $.20 per share on the common stock. For the common stock, there are 5,000,000 shares authorized, 1,815,000 shares issued, and 1,800,000 shares outstanding. The dividends will be paid on December 22 to stockholders of record on December 6.

Dec. 6 Record date for the dividends.

Dec. 22 Payment date for the dividends.

REQUIRED: Prepare journal entries to record the above transactions and events.

General Journal

Date	***Account Titles***	***Debit***	***Credit***

V. OBJECTIVE QUESTIONS

CHAPTER 9

Terminology Matching

For each statement, identify the correct descriptive word from the below list:

A. Depreciation
B. Intangible assets
C. Plant assets
D. Straight-line method
E. Trademark (trade name)
F. Units-of-activity method

Word	Statement
	1. A depreciation method in which useful life is expressed in terms of the total units of production or the use expected from the assets.
	2. The process of allocating to expense the cost of a plant asset over its useful life in a rational and systematic manner.
	3. A method in which an equal amount of depreciation is expensed each year of the asset's useful life.
	4. A word, phrase, jingle, or symbol that distinguishes or identifies a particular enterprise or product.
	5. Rights, privileges, and competitive advantages that result from ownership of long-lived assets that do not possess physical substance.
	6. Resources that have physical substance, are used in the operations of the business, and are not intended for sale to customers.

Multiple Choice

7. The cost of tearing down a building situated on land just purchased should be
   A. Debited to the Land account.
   B. Debited to the Buildings account.
   C. Debited to the Land Improvements account.
   D. Debited to Loss on Demolition of Building.

8. The cost of an asset less its salvage value is referred to as:
   A. Book value.
   B. Market value.
   C. Depreciable cost.
   D. Historical cost.

9. An exclusive right that enables the recipient to manufacture, sell, or otherwise control an invention for a period of 20 years from the date of the grant is a:
   A. Trademark.
   B. License.
   C. Goodwill.
   D. Patent.

10. The most widely used method of depreciation is the:
    A. Straight-line method.
    B. Declining balance method.
    C. Units-of-activity method.
    D. Average cost method.

Use the following information to answer the next three questions:

The Blooming Miracles Flower Shop bought a delivery van on January 1, 2012. The van cost $18,000 and had an expected salvage value of $3,000. The life of the van was estimated to be 5 years or 150,000 miles.

11. The depreciable cost of the van is:
    A. $18,000.
    B. $15,000.
    C. $5,000.
    D. $3,000.

12. The depreciation expense for 2013 (year 2) using the straight-line method of depreciation is:
    A. $6,000.
    B. $5,000.
    C. $3,600.
    D. $3,000.

13. Using the straight-line method of depreciation, the book value of the van at the end of 2013 (year 2) is:
    A. $18,000.
    B. $15,000.
    C. $12,000.
    D. $9,000.

14. All of the following are intangible assets <u>except</u>:
    A. Goodwill.
    B. Trademarks.
    C. Timberlands.
    D. Patents.

15. An exclusive right to reproduce and sell artistic or published work is a:
    A. Patent.
    B. Copyright.
    C. License.
    D. Franchise.

16. Which of the following statements is <u>not</u> true about goodwill?
    A. It is classified as an intangible asset.
    B. It should be expensed in the year acquired.
    C. It equals the excess of the purchase price for a business over the fair market value of the net assets purchased.
    D. An entity may recognize goodwill when its management determines that the entity has exceptional management, desirable location, good customer relations, etc.

17. An asset that costs $7,000 and has accumulated depreciation of $5,200 is sold for $1,000. The journal entry to record the sale would include a
    A. Debit to Loss on Sale of Asset for $800.
    B. Credit to Accumulated Depreciation for $5,200.
    C. Credit to the asset account for $1,800.
    D. Credit to Gain on Sale of Asset for $1,000.

APPENDIX D

Multiple Choice

1. Every factor is less than 1.0 in which time value of money table?
   A. Future value of a single amount.
   B. Present value of a single amount.
   C. Future value of an ordinary annuity.
   D. Present value of an ordinary annuity.

2. A new piece of equipment will save a company $25,000 per year over the present equipment. The value of the new machine is calculated by multiplying the $25,000 savings by
   A. The number of years the equipment will be used.
   B. The present value of an ordinary annuity factor.
   C. The present value of a single amount factor.
   D. The future value of an ordinary annuity factor.

3. Compound interest is computed semiannually on $500 in the bank for six years at 4% annual interest. To calculate the accumulated amount after six years, one would multiply the $500 by which future value factor?
   A. 6 periods at 2%.
   B. 12 periods at 4%.
   C. 6 periods at 4%.
   D. 12 periods at 2%.

CHAPTER 10

Terminology Matching

For each statement, identify the correct descriptive word from the below list:

A. Bond certificate
B. Contingencies
C. Contractual interest rate
D. Discount
E. Premium
F. Times interest earned ratio
G. Unsecured bonds

Word	Statement
	1. A legal document that indicates the name of the issuer, the face value of the bonds, and such other data as the contractual interest rate and maturity date of the bonds.
	2. The difference between the selling price and face value of bonds when a bond is sold for more than its face value.
	3. Rate used to determine the amount of interest the borrower pays and the investor receives.
	4. A measure of a company’s solvency, calculated by dividing income before interest expense and taxes by interest expense.
	5. Events with uncertain outcomes, such as a potential liability that may become an actual liability sometime in the future.
	6. The difference between the face value of a bond and its selling price when a bond is sold for less than its face value.
	7. Bonds issued against the general credit of the borrower.

Multiple Choice

8. Liabilities are:
    A. Creditors' claims on total assets.
    B. Existing debts and obligations.
    C. Obligations that must be settled or paid at some time in the future by the transfer of assets or services.
    D. All of the above.

9. All of the following are correct about notes payable <u>except</u>:
    A. There is written documentation of the obligation.
    B. Notes payable usually provide for the borrower to earn Interest revenue.
    C. Companies frequently issue notes payable to meet short-term financing needs.
    D. Notes payable due within one year of the balance sheet date are usually classified as current liabilities.

10. All of the following would likely have unearned revenue <u>except</u>:
    A. The publisher of the Rolling Stone magazine.
    B. Delta Airlines.
    C. Circle K.
    D. Diamondbacks baseball team.

11. When the market rate of interest is greater than the contractual rate of interest
    A. Bonds will be issued at a premium.
    B. The financial strength of the issuer is exceptional.
    C. Bonds will be issued at a discount.
    D. The financial strength of the issuer is weak.

12. The times interest earned ratio uses income before interest expense and taxes because
    A. Interest and taxes are important components in all ratio analyses.
    B. This number best represents the amount available to pay interest.
    C. Paying interest and taxes does not affect a company's solvency.
    D. The ratio is easier to compute without these items.

13. A bond issued at a premium
    A. Is used by a corporation with an excellent credit rating.
    B. Has a contractual rate of interest that exceeds the market rate.
    C. Sells at a price in excess of the face amount of the bond.
    D. Both B. and C. above.

14. Discount on Bonds Payable
    A. Is a contra liability.
    B. Is an expense.
    C. Is deducted from bonds payable on the balance sheet.
    D. Both A. and C. above.

15. Contingencies must be accrued as liabilities if
    A. The company can determine a reasonable estimate of the debt.
    B. The amount is over $10,000.
    C. It is probable the company will suffer a loss.
    D. Both A. and C. above.

CHAPTER 11

Terminology Matching

For each statement, identify the correct descriptive word from the below list:

A. Cumulative dividend
B. Legal capital
C. Outstanding shares of stock
D. Par value
E. Preferred stock
F. Publicly held corporation
G. Record date
H. Retained earnings
I. Stock split
J. Treasury stock

Word	Statement
	1. Net income that is retained in the business.
	2. The amount per share of stock that must be retained in the business for the protection of corporate creditors.
	3. Capital stock that has contractual preferences over common stock in certain areas.
	4. A corporation that may have thousands of stockholders and whose stock is regularly traded on a national securities market.
	5. Capital stock that has been issued and is being held by stockholders.
	6. A value per share assigned in the corporate charter.
	7. A corporation's own stock that has been issued, fully paid for, and reacquired by the corporation but not retired.
	8. The issuance of additional shares of stock to stockholders accompanied by a reduction in the par or stated value per share.
	9. The date when ownership of outstanding shares is determined for dividend purposes.
	10. A feature of preferred stock entitling the stockholder to receive current and unpaid prior-year dividends before common stockholders receive any dividends.

Multiple Choice

11. All of the following are advantages of corporations <u>except</u>:
    A. Limited liability of stockholders.
    B. Separate legal entity.
    C. Government regulations.
    D. Ability to acquire capital.

12. Proof of stock ownership is evidenced by a printed or engraved form known as :
    A. Stock dividend.
    B. Promissory note.
    C. Debenture.
    D. Stock certificate.

13. All of the following statements are generally true concerning treasury stock <u>except</u>:
    A. Is accounted for by the cost method.
    B. Does not change the number of shares issued.
    C. Does not change the number of shares outstanding.
    D. Reduces stockholder claims on corporate assets.

14. In order to pay a cash dividend:
    A. The corporation must have adequate retained earnings.
    B. The board of directors must declare a dividend.
    C. The corporation must have adequate cash.
    D. All of the above.

15. When issuing cash dividends, the board of directors commits the corporation to a binding legal obligation on:
    A. The declaration date.
    B. The date of record.
    C. The date of payment.
    D. The date the stock is originally issued.

16. A stock dividend results in:
    A. A decrease in retained earnings.
    B. An increase in paid-in capital.
    C. A decrease in stockholders' equity and total assets.
    D. Both A. and B. above.

17. Upon receiving a stock dividend:
    A. A stockholder owns more shares.
    B. A stockholder's ownership interest has increased.
    C. A stockholders' ownership interest has not changed.
    D. Both A. and C. above.

18. Corporations issue stock dividends
    A. To satisfy stockholders' dividend expectations without spending cash.
    B. To increase the marketability of its stock by increasing the number of shares outstanding and thereby decreasing the market price per share.
    C. To emphasize that a portion of stockholders' equity has been permanently reinvested in the business and therefore is unavailable for cash dividends.
    D. All of the above.

19. A small stock dividend
    A. Is less than 20%-25% of the corporation's issued shares of stock.
    B. Is recorded at market value per share.
    C. Is recorded at par or stated value per share.
    D. Both A. and B. above.

20. Which of the following classifications represents the <u>most</u> shares of stock?
    A. Authorized shares.
    B. Treasury shares.
    C. Issued shares.
    D. Outstanding shares.

21. Treasury stock is disclosed in the financial statements
    A. As an asset.
    B. Within stockholders' equity as an addition.
    C. With stockholders' equity as a deduction.
    D. As a contra-asset account.

22. Preferred stock is <u>least</u> likely to have which of the following characteristics?
    A. Preference as to dividends.
    B. The right of the holder to vote at stockholders' meetings.
    C. The right of the holder to convert to common stock.
    D. Preference as to assets upon liquidation of the corporation.

23. The paid-in capital portion of stockholders' equity does <u>not</u> include
    A. Preferred stock.
    B. Retained earnings.
    C. Common stock.
    D. Paid-in Capital in Excess of Par Value.

24. Which of the following has no effect on retained earnings?
    A. Stock split.
    B. Stock dividend.
    C. Cash dividend.
    D. Net loss.

25. A company with 10,000 shares of common stock outstanding distributed a 10% stock dividend and then split its stock 4 for 1. How many shares are now outstanding?
    A. 55,000
    B. 44,000
    C. 41,000
    D. 40,000

26. If retained earnings were $70,000 at the beginning of the year and $100,000 at the end of the year, and if cash dividends of $15,000 were declared and paid during the year, net income for the year must have been
    A. $30,000
    B. $45,000
    C. $55,000
    D. $85,000

27. Retained earnings
    A. Are the same as cash.
    B. Are the amount invested by stockholders in a corporation.
    C. Equal cumulative profits and losses, less dividends declared and transfers to paid-in capital.
    D. Are not affected by revenues and expenses.

28. Which of the following statements is <u>not</u> true about a 2-for-1 stock split?
    A. A stockholder with 100 shares before the split owns 200 shares after the split.
    B. Total paid-in capital increases.
    C. Par value is reduced to half of what it was before the split.
    D. The market price per share will probably decline.

EXAM 3 EXAM REVIEW PACKET SOLUTIONS

I. Property, Plant and Equipment

Requirement 1:

Year	(a) Straight-line Depreciation
1	$\frac{(\$26,000 - \$1,000)}{5 \text{ years}} = \$5,000$
2	$5,000
3	$5,000
4	$5,000
5	$5,000

Year	(b) Double-declining Balance Depreciation
1	($26,000 – $0) x 2/5 = $10,400
2	($26,000 – $10,400) x 2/5 = $6,240
3	($26,000 – $16,640) x 2/5 = $3,744
4	($26,000 – $20,384) x 2/5 = $2,246
5	($26,000 – $22,630) = $3,370 BV – $1,000 SV = $2,370

Year	(c) Units-of-Activity Depreciation
1	$\frac{(\$26,000 - \$1,000)}{100,000 \text{ miles}} = \$0.25$ per mile $0.25 x 30,000 = $7,500
2	$0.25 x 25,000 = $6,250
3	$0.25 x 18,000 = $4,500
4	$0.25 x 15,000 = $3,750
5	$0.25 x 12,000 = $3,000

Requirement 2: **General Journal**

Date	*Account Titles*	*Debit*	*Credit*
Year 3			
Dec 31	Depreciation Expense	4,500	
	Accumulated Depreciation, Delivery Truck		4,500

Requirement 3:

Accumulated Depreciation (EOY 3)	($7,500 + $6,250 + $4,500) = $18,250
Book Value (end of year 3)	$26,000 – $18,250 = $7,750

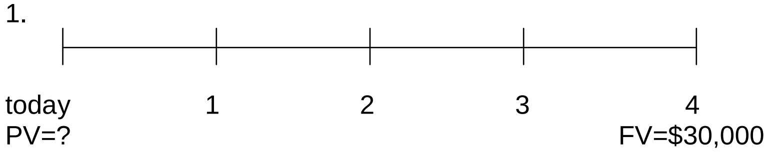
Requirement 4: ***Note: $6,200 cash vs. $7,750 BV = $1,550 LOSS***

General Journal

Date	*Account Titles*	*Debit*	*Credit*
Year 3			
Dec 31	Loss on Sale of Delivery Truck	1,550	
	Cash	6,200	
	Accumulated Depreciation, Delivery Truck	18,250	
	Delivery Truck		26,000

II. Time Value of Money

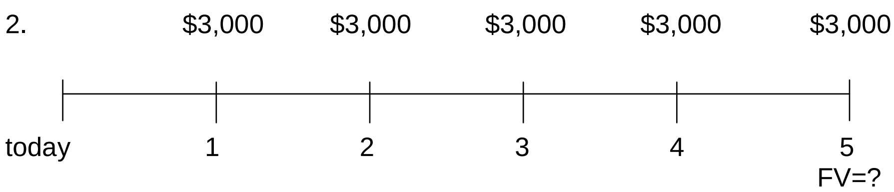
1.



classify: PV,SS
i = 6%
n = 4

PV = $30,000 x PVIFSS 6%,4 = $\boxed{\$23{,}763}$
FV (0.79209)

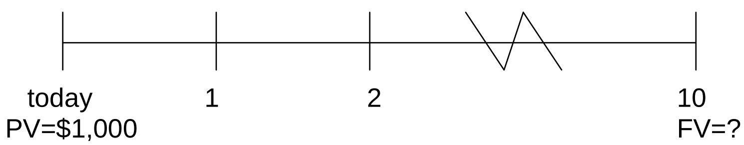
2.



classify: FV,A
i = 8%
n = 5

FV = $3,000 x FVIFA 8%,5 = $\boxed{\$17{,}600}$
A (5.86660)

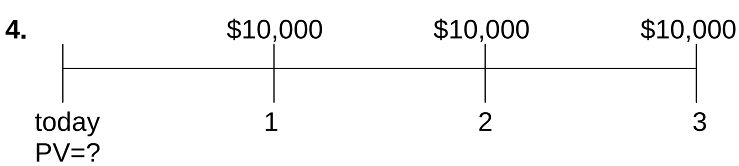
3.



classify: FV,SS
i = 8% ÷ 2 = 4%
n = 3 ½ x 2 = 7

FV = $1,000 x FVIFSS 4%,7 = $\boxed{\$1{,}316}$
PV (1.31593)

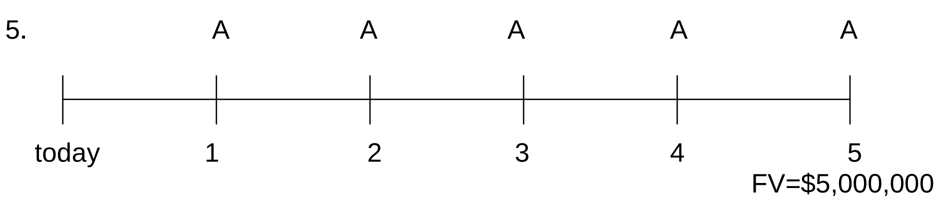
4.



classify: PV,A
i = 9%
n = 3

PV = $10,000 x PVIFA 9%,3 = $\boxed{\$25{,}313}$
A (2.53130)

5.

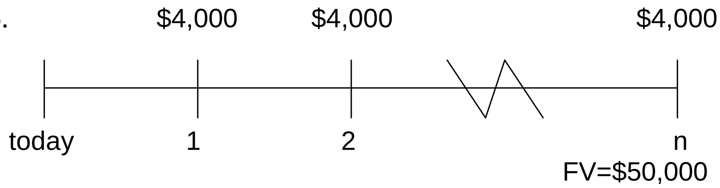


classify: FV,A
i = 10%
n = 5

$5,000,000 = A x FVIFA 10%,5
FV (6.10510)

A = $5,000,000 / 6.10510 = $\boxed{\$818{,}987}$

6.



classify: FV,A
i = 8%
n = ?

$50,000 = $4,000 x FVIFA 8%,n
FV A

FVIFA 8%,n = $50,000 / $4,000 = 12.5 factor in FVIFA table;
scan down i = 8% column & find factor closest to 12.5 ⇒ $\boxed{n \approx 9 \text{ years}}$

III. Accounting for Bonds

Requirement 1: **General Journal**

Date	*Account Titles*	*Debit*	*Credit*
1/1/12	Cash	1,000,000	
	Bonds Payable		1,000,000
6/30/12	Interest Expense	40,000	
	Cash		40,000
	($1,000,000 x 8% x 6/12)		
12/31/16	Bonds Payable	1,000,000	
	Cash		1,000,000

Requirement 2:

semiannual interest = $1,000,000 x 8% x 6/12 = $40,000

classify: PV,SS (principal) & PV,A (interest)
i = 10% ÷ 2 = 5% n = 5 x 2 = 10

PV (principal) =$1,000,000 x PVIFSS 5%,10 = $613,910
(0.61391)

PV (interest) = $40,000 x PVIFA 5%,10 = 308,869
(7.72173)
Issue Price **$922,779**

General Journal

Date	*Account Titles*	*Debit*	*Credit*
1/1/12	Cash	922,779	
	Discount on Bonds Payable	77,221	
	Bonds Payable		1,000,000

Requirement 3: **General Journal**

Date	*Account Titles*	*Debit*	*Credit*
1/1/12	Cash ($1,000,000 x 1.02)	1,020,000	
	Bonds Payable		1,000,000
	Premium on Bonds Payable		20,000

IV. Accounting for Stockholders' Equity

General Journal

Date	*Account Titles*	*Debit*	*Credit*
Apr 4	Cash (5,000 x $150)	750,000	
	Preferred Stock (5,000 x $10)		50,000
	Paid in Capital in Excess of Par Value, Preferred		700,000
May 13	Treasury Stock (15,000 x $23)	345,000	
	Cash		345,000
Jun 18	Cash (60,000 x $24)	1,440,000	
	Common Stock (60,000 x $2)		120,000
	Paid in Capital in Excess of Par Value, Common		1,320,000
Nov 22	Cash Dividends	423,000	
	Dividends Payable		423,000
	[($10 x 6% x 105,000 sh) + ($.20 x 1,800,000 sh)]		
Dec 6	*no journal entry required*		
Dec 22	Dividends Payable	423,000	
	Cash		423,000

V. Objective Questions

Chapter 9	Appendix D	Chapter 10	Chapter 11
1. F	1. B	1. A	1. H
2. A	2. B	2. E	2. B
3. D	3. D	3. C	3. E
4. E		4. F	4. F
5. B		5. B	5. C
6. C		6. D	6. D
7. A		7. G	7. J
8. C		8. D	8. I
9. D		9. B	9. G
10. A		10. C	10. A
11. B		11. C	11. C
12. D		12. B	12. D
13. C		13. D	13. C
14. C		14. D	14. D
15. B		15. D	15. A
16. B			16. D
17. A			17. D
			18. D
			19. D
			20. A
			21. C
			22. B
			23. B
			24. A
			25. B
			26. B
			27. C
			28. B