

Accounting 101- Exam #3

- Peterson Company billed its customers a total of \$840,000 for the month of November. The total includes a 5% state sales tax.

**Instructions**

- Determine the proper amount of revenue to report for the month.
  - Prepare the general journal entry to record the revenue and related liabilities for the month.
- a.)  $840,000 \div 1.05 = \$800,000$  total revenue  
 b)

November	Accounts Receivables	\$840,000
	Sales Revenue	\$800,000
	Sales Taxes Payable	\$40,000

(10 points)

- On January 1, 2017, Hauke Corporation issued \$900,000, 6%, 10-year bonds at face value. Interest is payable annually on January 1. Hauke Corporation has a calendar year end.

**Instructions**

Prepare all entries related to the bond issue for 2017.

January 1, 2014	Cash	\$900,000	
	Bonds Payable		\$900,000
December 31, 2014	Interest Expense	\$54,000	
	Interest Payable		\$54,000

(10 points)

- McDonald's financial statements contain the following selected data (in millions).

Current assets	\$ 3,881.9
Total assets	29,391.7
Current liabilities	4,498.5
Total liabilities	13,611.9
Interest expense	\$ 410.1
Income taxes	1,237.1
Net income	2,395.1

**Instructions**

Compute the following values and provide a brief interpretation of each.

- Working capital.
  - Current ratio.
  - Debt to assets ratio.
  - Times interest earned.
- 1) Working Capital:  $\$3,881.9 - 4,498.5 = \$616.6$   
 2) Current Ratio:  $3,881.5 / 4,498.5 = 86.1$

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3) Debt to Asset Ratio:  $\$1,611.9 / 29,391.70 = 46\%$

4) Times Interest Earned:  $\$2,395.1 + \$1,237.1 + \$410.1 \div \$410.1 = 9.86$  times

(10 points)

4. A. Name at least three advantages of a corporation.  
B. Corporations acquire treasury stock for a variety of purposes. Name three reasons why a corporation may acquire treasury stock.
- a) 1. No personal liability. 2, Ownership transfers easily. 3. Easier to raise money for capital.  
b) 1. So they can re-issue shares to officers and employees for bonuses.  
2. To increase trading of the company's stock to increase market value.  
3. To prevent a hostile takeover.

(10 points)

5. Identify (by letter) each of the following characteristics as being an advantage or a disadvantage of the corporate form of business or not applicable to the corporate form of business organization.  
A = Advantage  
D = Disadvantage  
N = Not Applicable

Characteristics

- A\_\_1. Separate legal entity  
D\_\_2. Taxable entity resulting in additional taxes  
A\_\_3. Continuous life  
N\_\_4. Unlimited liability of owners  
D\_\_5. Government regulation  
A\_\_6. Separation of ownership and management  
A\_\_7. Ability to acquire capital  
A\_\_8. Ease of transfer of ownership

(10 Points)

6. On November 1, 2017, Kalen Corporation's stockholders' equity section is as follows:
- |   |                  |
|---|------------------|
| Common stock, \$10 par value                        | \$600,000        |
| Paid-in capital in excess of par value—Common Stock | 180,000          |
| Retained earnings                                   | <u>200,000</u>   |
| Total stockholders' equity                          | <u>\$980,000</u> |

On November 1, Kalen declares and distributes a 15% stock dividend when the fair value of the stock is \$16 per share.

**Instructions**

Indicate the balances in the stockholders' equity accounts after the stock dividend has been distributed.

Common Stock; 690,000

Paid in Capital: 294,000

(15 points)

7. The corporate charter of Torres Corporation allows the issuance of a maximum of 4,000,000 shares of \$1 par value common stock. During its first three years of operation, Torres issued 2,080,000 shares at \$15 per share. It later acquired 80,000 of these shares as treasury stock for \$25 per share.

**Instructions**

Based on the above information, answer the following questions:

- (a) How many shares were authorized?
  - (b) How many shares were issued?
  - (c) How many shares are outstanding?
  - (d) What is the balance of the Common Stock account?
  - (e) What is the balance of the Treasury Stock account?
- A) 4million shares were authorized
  - B) 2,080,000 were issued.
  - C) 2million shares are outstanding
  - D 2,080,000
  - E) 2million

(15 points)

8. Selected transactions of the Carolina Company are listed below.
- 1. Common stock is sold for cash above par value.
  - 2. Bonds payable are issued for cash at a discount.
  - 3. Interest on a short-term note receivable is collected.
  - 4. Merchandise is sold to customers for cash.
  - 5. Cash is paid to purchase inventory.
  - 6. Equipment is purchased by signing a 3-year, 10% note payable.
  - 7. Cash dividends on common stock are declared and paid.
  - 8. One hundred shares of Amazon.com common stock are purchased for cash.
  - 9. Land is sold for cash at book value.
  - 10. Bonds payable are converted into common stock.

**Instructions**

Classify each transaction as either (a) an operating activity, (b) an investing activity, (c) a financing activity, or (d) a noncash investing and financing activity.

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- |                       |                       |
|-----------------------|-----------------------|
| 1) Financing Activity | 6) Non Cash Activity  |
| 2) Financing Activity | 7) Financing Activity |
| 3) Operating Activity | 8) Financing Activity |
| 4) Operating Activity | 9) Investing Activity |
| 5) Operating Activity | 10) Non Cash Activity |

(10 points)

9. Annapolis Company reported net income of \$365,000 for the current year. Depreciation recorded on buildings and equipment amounted to \$73,000 for the year. Balances of the current asset and current liability accounts at the beginning and end of the year are as follows:

	<u>End of Year</u>	<u>Beginning of Year</u>
Cash	\$22,000	\$15,000
Accounts receivable	17,000	32,000
Inventory	55,000	65,000
Prepaid insurance	7,500	5,000
Accounts payable	11,000	18,000
Income taxes payable	600	1,200

**Instructions**

Prepare the cash flows from the operating activities section of the statement of cash flows using the indirect method.

$$365000 + 73000 = 438,000$$

(10 points)