26. The following is relevant to Equity, Inc. as of December 31, 2007 (beginning of 2008):
- Common stock, authorized, issued and outstanding shares are 1,000,000.
- Par value of common stock is $1/ share
- All of the issued stock originally sold for $10 per share ($1 par and $9 APIC/ share)
- Retained earnings is $800,000, and there are no other equity accounts.

SUBSEQUENTLY, the following activity took place during the year ended 12/31/08:

I. FOR EACH, INSERT THE JOURNAL ENTRY IN THE SPACE PROVIDED

   January 1, 2008
   Received authorization from the Board to issue an additional 500,000 shares.

   January 15, 2008
   Issued an additional 500,000 shares for $10 per share which cost $150,000 in legal and other costs which were paid directly from the proceeds from the stock sales.

   January 31, 2008
   Repurchase 200,000 shares at a price of $13 per share.

   February 28, 2008
   Sell 100,000 shares held in treasury for $15 per share.

   March 31, 2008
   Sell 60,000 shares held in treasury for $7 per share.

   April 1, 2008
   Retire 12,000 shares held in treasury.

   May 1, 2008
   Declare and pay a dividend to shareholders in the form of bonds held as an investment by the company. The bonds have a fair value on the date declared of $110,000 but are on the books as an investment at their historical cost of $100,000.

II. Assuming that net income for the year was $2 million, prepare the stockholders’ equity section of the balance sheet as of December 31, 2008

III. Show the equity section described above assuming that in addition to the facts above, the company completed a two for one stock split during the year.
I. Present the journal entry for each date noted above to record the transaction for that date.

<table>
<thead>
<tr>
<th>Date</th>
<th>Cash</th>
<th>Common stock</th>
<th>APIC</th>
<th>Retained earnings</th>
</tr>
</thead>
<tbody>
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<td>5,000,000</td>
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<td><strong>January 15, 2008</strong></td>
<td>4,850,000</td>
<td>500,000</td>
<td>4,350,000</td>
<td>200,000</td>
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<tr>
<td><strong>January 31, 2008</strong></td>
<td>2,600,000</td>
<td>1,300,000</td>
<td>200,000</td>
<td>364,000</td>
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<tr>
<td><strong>February 28, 2008</strong></td>
<td>1,500,000</td>
<td>200,000</td>
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<td><strong>March 31, 2008</strong></td>
<td>420,000</td>
<td>780,000</td>
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<td>12,000</td>
<td>108,000</td>
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<td><strong>May 1, 2008</strong></td>
<td>10,000</td>
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</tr>
</tbody>
</table>

II. Common stock, $1 par, 1,500,000 shares authorized, 1,488,000 issued and 1,460,000 outstanding

- **Common stock**: 1,488,000
- **Additional paid in capital**: 13,242,000
- **Retained earnings**: 2,494,000
- **Total paid in capital and retained earnings**: 17,224,000
- **Less: Cost of Treasury stock, 28,000 shares**: 364,000
- **Total stockholders equity**: 16,860,000

III. Common stock, $.50 par, 3,000,000 shares authorized, 2,976,000 issued and 2,920,000 outstanding

- **Common stock**: 1,488,000
- **Additional paid in capital**: 13,242,000
- **Retained earnings**: 2,494,000
- **Total paid in capital and retained earnings**: 17,224,000
- **Less: Cost of Treasury stock, 56,000 shares**: 364,000
- **Total stockholders equity**: 16,860,000
27. Darlene sells land to Scot on January 1, 2008. Scot will pay Darlene $100,000 in cash today and $250,000 more in five years (on December 31, 2012). The proper market rate for the financing would be 8%.

The present value of the future payment from Scot discounted at the market rate indicated above is: $170,146

Fill in the blanks in the following amortization schedule for Darlene please
(DON'T WORRY ABOUT ROUNding... IF YOU ARE OFF 1 OR 2 DOLLARS, IT'S OK)

<table>
<thead>
<tr>
<th>DATE</th>
<th>Payment</th>
<th>Interest</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/31/08</td>
<td></td>
<td></td>
<td>170,146</td>
</tr>
<tr>
<td>12/31/09</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>12/31/10</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12/31/11</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12/31/12</td>
<td>250,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Now report the journal entries required in the space provided, assume that the cost of the land on Darlene's books is $40,000:
27. Darlene sells land to Scot on January 1, 2008. Scot will pay Darlene $100,000 in cash today and $250,000 more in five years (on December 31, 2012). The proper market rate for the financing would be 8%.

The present value of the future payment from Scot discounted at the market rate indicated above is: 170,146

Fill in the blanks in the following amortization schedule for Darlene please
(DON'T WORRY ABOUT Rounding... IF YOU ARE OFF 1 OR 2 DOLLARS, ITS OK)

<table>
<thead>
<tr>
<th>DATE</th>
<th>Payment</th>
<th>Interest</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/31/08</td>
<td>-</td>
<td>13,612</td>
<td>170,146</td>
</tr>
<tr>
<td>12/31/09</td>
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<td>14,701</td>
<td>198,458</td>
</tr>
<tr>
<td>12/31/10</td>
<td>-</td>
<td>15,877</td>
<td>214,335</td>
</tr>
<tr>
<td>12/31/11</td>
<td>-</td>
<td>17,147</td>
<td>231,481</td>
</tr>
<tr>
<td>12/31/12</td>
<td>250,000</td>
<td>18,519</td>
<td>-</td>
</tr>
</tbody>
</table>

Now report the journal entries required in the space provided, assume that the cost of the land on Darlene's books is $40,000:

<table>
<thead>
<tr>
<th>Date</th>
<th>Cash 100,000</th>
<th>Note rec. 250,000</th>
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<tr>
<td>01/01/08</td>
<td>Cash 100,000</td>
<td>Note rec. 170,146</td>
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<tr>
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<td>Discount/ def financing 79,854</td>
<td>Gain 230,146</td>
</tr>
<tr>
<td>12/31/08</td>
<td>Accrued interest 13,612</td>
<td>Interest income 13,612</td>
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<tr>
<td>12/31/09</td>
<td>Accrued interest 14,701</td>
<td>Interest income 14,701</td>
</tr>
<tr>
<td>12/31/10</td>
<td>Accrued interest 15,877</td>
<td>Interest income 15,877</td>
</tr>
<tr>
<td>12/31/11</td>
<td>Accrued interest 17,147</td>
<td>Interest income 17,147</td>
</tr>
<tr>
<td>12/31/12</td>
<td>Accrued interest 18,519</td>
<td>Interest income 18,519</td>
</tr>
<tr>
<td></td>
<td>Cash 250,000</td>
<td>Note rec. 170,146</td>
</tr>
<tr>
<td></td>
<td>Accrued int. 79,854</td>
<td>Cash 250,000</td>
</tr>
</tbody>
</table>
Answer questions #1-25 on your green scantron. Complete the remaining questions in THE SPACE PROVIDED.

WRITE YOUR VERSION # ON YOUR SCANTRON... THIS IS VERSION # 1

1. An example of an item which is not a liability is
   a. advances from customers on contracts.
   b. dividends payable in stock.
   c. the portion of long-term debt due within one year.
   d. accrued estimated warranty costs.

2. A bond with a stated rate of 6%, selling in an 8% market:
   a. Would not be able to be sold.
   b. Would sell at a coupon.
   c. Would sell at a premium.
   d. Would sell at a discount.

3. You paid the face value for a bond which bears interest at 10%. One month later, the market rate for similar bonds is 6%.
   a. Darnit, my bonds are losing value
   b. Hooray, my bonds are going up in value
   c. Market rate fluctuations can only impair the value of a bond.
   d. Ho-Hum, my bonds still pay 10% regardless of what the market does.

4. The cumulative feature of preferred stock
   a. limits the amount of cumulative dividends to the par value of the preferred stock.
   b. means that the shareholder can accumulate preferred stock until it is equal to the par value of common stock at which time it can be converted into common stock.
   c. enables a preferred stockholder to accumulate dividends until they equal the par value of the stock and receive the stock in place of the cash dividends.
   d. requires that dividends not paid in any year must be made up in a later year before dividends are distributed to common shareholders.

5. The center of gravity for the state of California is:
   a. WTF
   b. Golden state balancing
   c. Tulare
6. A debenture bond typically:
   a. Is secured
   b. Are backed by a pledge of collateral
   c. Mature in one lump sum
   d. Is unsecured

7. Treasury stock is:
   a. An asset because it has future economic value.
   b. A liability due to its decreasing effect on equity.
   c. A contra-equity balance.
   d. A liability due to its credit balance.

8. The residual interest in a corporation belongs to the
   a. management.
   b. common stockholders.
   c. preferred stockholders.
   d. creditors.

9. The three primary forms of equity are:
   a. Contributed capital, retained capital and plug capital.
   b. Subscribed capital, earned capital and treasury stock.
   c. Stockholders equity, members equity and jones' equity.
   d. Contributed capital, earned capital and treasury stock.

10. Which of the following is a "deep discount" bond:
   a. A bond which pays interest and principal semi-annually.
   b. A bond which makes no payments of principal or interest over its entire life and pays all principal and accrued interest upon maturity.
   c. Bonds sold in a market where the market rate is significantly greater than the stated rate of the bonds.
   d. A bond which pays only interest annually, and principal upon maturity.

11. When computing the interest expense for a bond which sold at a discount, the interest rate and principal outstanding to be used should be:
   a. The stated rate of interest and the face value of the bonds, adjusted by the original discount recorded.
   b. The market rate of interest and the face value of the bonds.
   c. The market rate of interest and the net balance of the bonds face value adjusted for any unmortized discount.
   d. The stated rate of interest and the face value of the bonds.
12. If Thomas buys 10 shares of $1 par stock for $6, which of the following is true?
   a. Thomas can only lose the $6 invested.
   b. Thomas can not possibly buy stock for less than par value.
   c. Thomas does not have a preemptive right.
   d. Thomas has a contingent liability for $4.

13. We sell furniture and due to the "economic downturn" (aren't you sick of hearing that terminology!) have been forced to extend 0% financing to our customers. At the end of an accounting period, these facts indicate that:
   a. There will be no credit to interest income because the financing is at 0%.
   b. There will be a debit to interest income each accounting period.
   c. There will be no credit to interest income because we will be recognizing amortization of "deferred financing", or "accrued interest" depending upon which way we elect to account for it.
   d. There will be a credit to interest income each accounting period.

14. Points paid to a lender in order to secure long term financing:
   a. Should be expensed as incurred.
   b. Should be treated as a reduction to equity.
   c. Should be capitalized until the loan is executed, and then expensed.
   d. Should be reported as an intangible asset and amortized over the life of the associated loan.

15. At the date of the financial statements, common stock shares issued would exceed common stock shares outstanding as a result of the
   a. declaration of a stock split.
   b. purchase of treasury stock.
   c. payment in full of subscribed stock.
   d. declaration of a stock dividend.

16. "Gains" on sales of treasury stock (using the cost method) should be credited to
   a. capital stock.
   b. other income.
   c. retained earnings.
   d. paid-in capital from treasury stock.
17. Which statement most accurately represents the difference between term bonds and serial bonds?

a. None of these are accurate.
b. Term bonds are the same as deep discount bonds, whereas serial bonds are not.
c. Both pay interest periodically, but serial bonds also pay principal periodically whereas term bonds pay the principal entirely upon maturity.
d. Term bonds make no payments until maturity, whereas serial bonds pay interest periodically.
e.

18. When treasury stock is purchased for more than the par value of the stock and the cost method is used to account for treasury stock, what account(s) should be debited?

a. Treasury stock for the purchase price.
b. Treasury stock for the par value and paid-in capital in excess of par for the excess of the purchase price over the par value.
c. Paid-in capital in excess of par for the purchase price.
d. Treasury stock for the par value and retained earnings for the excess of the purchase price over the par value.

19. Which of the following is true of the straight line method for amortizing premiums and discounts on bonds:

a. It is never allowed.
b. It is the preferred method.
c. It is allowed if it produces a result materially consistent with the effective interest method.
d. It is allowed if the effective interest method can not be determined.

20. We owe $200,000 for a loan, however due to highly favorable market forces, we were able to repay it for $170,000. Which of the following is true:

a. There is no gain allowed.
b. We have a $30,000 extraordinary gain.
c. We have a $30,000 extraordinary gain, depending upon whether it is deemed unusual and infrequent.
d. Only losses are reported from the early extinguishment of long term debt.

21. Which is more similar to debt than equity:

a. Preferred stock which only pays dividends under certain circumstances.
b. Common stock
c. Non-voting, cumulative preferred stock
d. Preferred stock with certain voting rights.
22. Ignoring rare par value issues, a shareholder's exposure is limited to:
   a. Their investment.
   b. The degree of risk undertaken by management.
   c. The degree of risk approved by the Board.
   d. The retained earnings of the company.

23. Stockholders' equity is generally classified into two major categories:
   a. Contributed capital and appropriated capital, with treasury stock reported as a contra-equity account.
   b. Appropriated capital and retained earnings.
   c. Retained earnings and unappropriated capital.
   d. Earned capital and contributed capital, with treasury stock reported as a contra-equity account.

24. What is a preemptive right with respect to common stock?
   a. The right to strike first.
   b. The right of management to purchase new issues of stock before they are offered to the public.
   c. The right of an existing shareholder to purchase newly issued stock in an amount sufficient to maintain their percentage ownership in a company.
   d. The right of company A to buy out Company B in an attempt to hold off a takeover attempt by Company B.

25. Marge and Albert enter into a transaction where Albert purchases a rare coffee mug from Marge for $200. BUT the $200 is not payable to Marge for 20 years and there is no interest on the transaction. The present value of $200 in 20 years at a reasonable market rate of 8% is $42.91 and Marge's rare coffee mug could readily be sold today for $75.00. Which of the following statements is most accurate:
   a. Albert paid less than fair value for the mug.
   b. This is an example of how not understanding present values can cause you to make poor business decisions.
   c. All of these are true.
   d. Marge got screwed.
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<tr>
<th>Chapter</th>
<th>Ref</th>
<th>Question</th>
<th>Answer</th>
<th>Type</th>
<th>Cat</th>
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</table>

* Multiple Choice Foils are Jumbled
* Test Questions are Scrambled
Answer questions #1-25 on your green scantron. Complete the remaining questions in THE SPACE PROVIDED.

WRITE YOUR VERSION # ON YOUR SCANTRON... THIS IS VERSION # 2

1. Which statement most accurately represents the difference between term bonds and serial bonds?
   a. None of these are accurate.
   b. Term bonds are the same as deep discount bonds, whereas serial bonds are not.
   c. Both pay interest periodically, but serial bonds also pay principal periodically whereas term bonds pay the principal entirely upon maturity.
   d. Term bonds make no payments until maturity, whereas serial bonds pay interest periodically.
   e. 

2. The three primary forms of equity are:
   a. Stockholders equity, members equity and jones' equity.
   b. Subscribed capital, earned capital and treasury stock.
   c. Contributed capital, earned capital and treasury stock.
   d. Contributed capital, retained capital and plug capital.

3. An example of an item which is not a liability is
   a. the portion of long-term debt due within one year.
   b. accrued estimated warranty costs.
   c. advances from customers on contracts.
   d. dividends payable in stock.

4. If Thomas buys 10 shares of $1 par stock for $6, which of the following is true?
   a. Thomas does not have a preemptive right.
   b. Thomas can not possibly buy stock for less than par value.
   c. Thomas has a contingent liability for $4.
   d. Thomas can only loose the $6 invested.

5. A bond with a stated rate of 6%, selling in an 8% market:
   a. Would sell at a coupon.
   b. Would sell at a discount.
   c. Would sell at a premium.
   d. Would not be able to be sold.
6. We sell furniture and due to the "economic downturn" (aren't you sick of hearing that terminology!) have been forced to extend 0% financing to our customers. At the end of an accounting period, these facts indicate that:

   a. There will be a debit to interest income each accounting period.
   b. There will be no credit to interest income because we will be recognizing amortization of "deferred financing", or "accrued interest" depending upon which way we elect to account for it.
   c. There will be no credit to interest income because the financing is at 0%.
   d. There will be a credit to interest income each accounting period.

7. "Gains" on sales of treasury stock (using the cost method) should be credited to
   a. other income.
   b. retained earnings.
   c. paid-in capital from treasury stock.
   d. capital stock.

8. When computing the interest expense for a bond which sold at a discount, the interest rate and principal outstanding to be used should be:

   a. The market rate of interest and the net balance of the bonds face value adjusted for any unamortized discount.
   b. The market rate of interest and the face value of the bonds.
   c. The stated rate of interest and the face value of the bonds, adjusted by the original discount recorded.
   d. The stated rate of interest and the face value of the bonds.

9. Stockholders' equity is generally classified into two major categories:
   a. contributed capital and appropriated capital, with treasury stock reported as a contra-equity account.
   b. appropriated capital and retained earnings.
   c. retained earnings and unappropriated capital.
   d. earned capital and contributed capital, with treasury stock reported as a contra-equity account.

10. Ignoring rare par value issues, a shareholders exposure is limited to:

    a. The retained earnings of the company.
    b. Their investment.
    c. The degree of risk undertaken by management.
    d. The degree of risk approved by the Board.
11. Which of the following is true of the straight line method for amortizing premiums and discounts on bonds:
   a. It is allowed if it produces a result materially consistent with the effective interest method.
   b. It is the preferred method.
   c. It is never allowed.
   d. It is allowed if the effective interest method can not be determined.

12. The center of gravity for the state of California is:
   a. Tulare
   b. Golden state balancing
   c. WTF
   d. Fresno

13. At the date of the financial statements, common stock shares issued would exceed common stock shares outstanding as a result of the
   a. payment in full of subscribed stock.
   b. purchase of treasury stock.
   c. declaration of a stock split.
   d. declaration of a stock dividend.

14. Which is more similar to debt than equity:
   a. Preferred stock with certain voting rights.
   b. Preferred stock which only pays dividends under certain circumstances.
   c. Common stock
   d. Non-voting, cumulative preffered stock

15. A debenture bond typically:
   a. Mature in one lump sum
   b. Are backed by a pledge of collateral
   c. Is secured
   d. Is unsecured

16. The residual interest in a corporation belongs to the
   a. preferred stockholders.
   b. common stockholders.
   c. management.
   d. creditors.
17. Marge and Albert enter into a transaction where Albert purchases a rare coffee mug from Marge for $200. BUT the $200 is not payable to Marge for 20 years and there is no interest on the transaction. The present value of $200 in 20 years at a reasonable market rate of 8% is $42.91 and Marge's rare coffee mug could readily be sold today for $75.00. Which of the following statements is most accurate:

a. All of these are true.
b. This is an example of how not understanding present values can cause you to make poor business decisions.
c. Albert paid less than fair value for the mug
d. Marge got screwed

18. Which of the following is a "deep discount" bond:

a. Bonds sold in a market where the market rate is significantly greater than the stated rate of the bonds.
b. A bond which makes no payments of principal or interest over its entire life and pays all principal and accrued interest upon maturity.
c. A bond which pays interest and principal semi-annually.
d. A bond which pays only interest annually, and principal upon maturity.

19. Points paid to a lender in order to secure long term financing:

a. Should be treated as a reduction to equity.
b. Should be capitalized until the loan is executed, and then expensed.
c. Should be reported as an intangible asset and amortized over the life of the associated loan.
d. Should be expensed as incurred.

20. Treasury stock is:

a. A contra-equity balance.
b. A liability due to its decreasing effect on equity.
c. An asset because it has future economic value.
d. A liability due to its credit balance.

21. When treasury stock is purchased for more than the par value of the stock and the cost method is used to account for treasury stock, what account(s) should be debited?

a. Treasury stock for the par value and retained earnings for the excess of the purchase price over the par value.
b. Treasury stock for the purchase price.
c. Treasury stock for the par value and paid-in capital in excess of par for the excess of the purchase price over the par value.
d. Paid-in capital in excess of par for the purchase price.
22. We owe $200,000 for a loan, however due to highly favorable market forces, we were able to repay it for $170,000. Which of the following is true:

   a. Only losses are reported from the early extinguishment of long term debt.
   b. There is no gain allowed.
   c. We have a $30,000 extraordinary gain.
   d. We have a $30,000 extraordinary gain, depending upon whether it is deemed unusual and infrequent.

23. You paid the face value for a bond which bears interest at 10%. One month later, the market rate for similar bonds is 6%.

   a. Market rate fluctuations can only impair the value of a bond.
   b. Ho-Hum, my bonds still pay 10% regardless of what the market does.
   c. Hooray, my bonds are going up in value.
   d. Darnit, my bonds are losing value.

24. What is a preemptive right with respect to common stock?

   a. The right of an existing shareholder to purchase newly issue stock in an amount sufficient to maintain their percentage ownership in a company.
   b. The right of management to purchase new issues of stock before they are offered to the public.
   c. The right to strike first.
   d. The right of company A to buy out Company B in an attempt to hold off a takeover attempt by Company B.

25. The cumulative feature of preferred stock

   a. enables a preferred stockholder to accumulate dividends until they equal the par value of the stock and receive the stock in place of the cash dividends.
   b. means that the shareholder can accumulate preferred stock until it is equal to the par value of common stock at which time it can be converted into common stock.
   c. limits the amount of cumulative dividends to the par value of the preferred stock.
   d. requires that dividends not paid in any year must be made up in a later year before dividends are distributed to common shareholders.
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* Multiple Choice Foils are Jumbled
* Test Questions are Scrambled