■ *Achievement Exam*

Select the single best answer for each question or statement, then go online to www.myashworth.com and enter your answers.

1. Treasury Stock is considered to be a/an _________ account.

_____ a. asset

_____ b. contra-equity

_____ c. liability

_____ d. revenue

QUESTIONS 2 THROUGH 4 ARE BASED ON EXHIBIT 4-1.

Exhibit 4-1

The Unicoi Company was formed on January 2, Year 1.
The company sold 10,000 shares of $2 par value stock for $5 per share. On July 1, Year 1, Unicoi bought back 2,000 shares of stock for $6 per share. The Treasury Stock was resold on September 1, Year 1, for $8 per share.

2. Refer to Exhibit 4-1. Which one of the following is the entry to record the original sale of the stock?

_____ a.

DR Cash	50,000	
CR Common stock		20,000
CR Paid-in capital in excess of par		30,000

_____ b.

DR Cash	50,000	
CR Common stock		30,000
CR Paid-in capital in excess of par		20,000

_____ c.

DR Common stock	30,000	
DR Paid-in capital in excess of par	20,000	
CR Cash		50,000

_____ d.

DR Common stock	20,000	
DR Paid-in capital in excess of par	30,000	
CR Cash		50,000

3. Refer to Exhibit 4-1. Which one of the following is the correct entry to record the purchase of Treasury Stock?

_____ a.

DR Treasury stock	12,000	
CR Cash		12,000

_____ b.

DR Cash	12,000	
CR Treasury stock		12,000

_____ c.

DR Common stock	12,000	
CR Cash		12,000

_____ d.

DR Cash	12,000	
CR Common stock		12,000

QUESTIONS 6 AND 7 ARE BASED ON EXHIBIT 4-2.

Exhibit 4-2

The Vogel Corporation reported net income for Year 6 of $355,000. Vogel began the year with 200,000 shares of $5 par value common shares outstanding and 5,000 shares of $100 par value 8% preferred shares outstanding. On July 1, Vogel sold (issued) 20,000 shares of common stock for $12 per share. Vogel paid dividends to both the common and preferred shareholders in December.

6. Refer to Exhibit 4-2. What is he basic earnings per share for Year 6?

_____ a. $1.43 per share

_____ b. $1.50 per share

_____ c. $1.58 per share

_____ d. $1.61 per share

7. Refer to Exhibit 4-2. If each share of preferred stock is convertible into 8 shares of common stock, what is the diluted earnings per share for Year 6?

_____ a. $1.26 per share

_____ b. $1.42 per share

_____ c. $1.58 per share

_____ d. $1.61 per share

QUESTIONS 11 THROUGH 13 ARE BASED ON EXHIBIT 4-3.

Exhibit 4-3

Bowers Investments bought 1,000 shares of IDA, Inc. common stock on January 1, Year 1, for $5,000 and 1,000 shares of JOE, Inc. common stock on July 1, Year 1, for $6,000. IDA declared $500 in dividends, and JOE declared $600 in dividends on December 31, Year 1. At the end of Year 1, the market value of the IDA stock was $4,500 and the market value of the JOE stock was $7,000. The stock was purchased for short-term speculation. Bowers owns 10% of each company.

11. Refer to Exhibit 4-3. The entry to record the purchase of IDA, Inc. common stock would be which one of the following?

_____	a.	DR Trading securities—IDA common	5,000	
		CR Cash		5,000
_____	b.	DR Available-for-sale securities—IDA common	5,000	
		CR Cash		5,000
_____	c.	DR Cash	5,000	
		CR Trading securities—IDA common		5,000
_____	d.	DR Cash	5,000	
		CR Available-for-sale securities—IDA common		5,000

14. Harter Investments bought 2,000 shares of Lee Company common stock on January 1, Year 4, for $10,000 and 2,000 shares of Olivia Company common stock on July 1, Year 4, for $12,000. At the end of Year 4, the market value of the Lee stock was $14,000 and the market value of the Olivia stock was $15,000. The stocks were held for their long-term investment potential. Harter owns 8% of Lee and 12% of Olivia. The year end mark to market adjustment made by Harter should include which one of the following?

_____ a. A debit to an income account for an unrealized holding loss

_____ b. A debit to an equity account for an unrealized holding loss

_____ c. A credit to an income account for an unrealized holding gain

_____ d. A credit to an equity account for an unrealized holding gain

QUESTIONS 15 AND 16 ARE BASED ON EXHIBIT 4-4.

Exhibit 4-4

On January 1, Year 7, Daniel Company purchased 35% of the outstanding common stock of the Matthew Company for $17,500 when the net assets of Matthew were $50,000. During Year 7, Matthew Company earned $20,000 and declared a dividend of $10,000 for the year. (Reminder: The net assets of a company equal assets minus liabilities; therefore, net assets also equal owners' equity. Assets = Liabilities + Owners' equity. Assets – Liabilities = Owners' equity.)

17. An investor would be willing to pay more than book value for an interest in a company as a result of:

_____ a. fair market value being lower than cost.

_____ b. goodwill.

_____ c. historical cost being higher than fair market value.

_____ d. negative goodwill.

18. Consolidation adjustments that are made to prepare consolidated financial statements of the parent and subsidiary are required in order to:

_____ a. avoid double counting.

_____ b. eliminate transactions with third parties.

_____ c. follow tax laws.

_____ d. obey the state laws.

19. For consolidation purposes, goodwill is:

_____ a. reported under the pooling of interests method only.

_____ b. reported under the purchase method only.

_____ c. reported under the pooling of interests method and the purchase method.

_____ d. never reported in a consolidation.