

Practice Exercises

Example
Exercises

EE 13-1 p. 587

PE 13-1A Dividends per share

Hays-Smith Company has 18,000 shares of 4% cumulative preferred stock of \$125 par and 50,000 shares of \$40 par common stock. The following amounts were distributed as dividends:

Year 1	\$ 72,000
Year 2	125,000
Year 3	160,000

Determine the dividends per share for preferred and common stock for each year.

EE 13-1 p. 587

PE 13-1B Dividends per share

Lasers4U Company has 10,000 shares of 2% cumulative preferred stock of \$50 par and 25,000 shares of \$100 par common stock. The following amounts were distributed as dividends:

Year 1	\$18,000
Year 2	7,500
Year 3	35,000

Determine the dividends per share for preferred and common stock for each year.

EE 13-2 p. 589

PE 13-2A Entries for issuing stock

On February 23, Muir Corporation issued for cash 75,000 shares of no-par common stock (with a stated value of \$80) at \$125. On October 6, Muir issued 20,000 shares of 1%, \$50 preferred stock at par for cash. On November 4, Muir issued for cash 12,000 shares of 1%, \$50 par preferred stock at \$59.

Journalize the entries to record the February 23, October 6, and November 4 transactions.

EE 13-2 p. 589

PE 13-2B Entries for issuing stock

On August 7, Asian Artifacts Corporation issued for cash 300,000 shares of no-par common stock at \$1.75. On September 1, Asian Artifacts issued 25,000 shares of 2%, \$40 preferred stock at par for cash. On November 2, Asian Artifacts issued for cash 10,000 shares of 2%, \$40 par preferred stock at \$52.

Journalize the entries to record the August 7, September 1, and November 2 transactions.

EE 13-3 p. 591

PE 13-3A Entries for cash dividends

The declaration, record, and payment dates in connection with a cash dividend of \$115,000 on a corporation's common stock are October 15, November 14, and December 14. Journalize the entries required on each date.

EE 13-3 p. 591

PE 13-3B Entries for cash dividends

The declaration, record, and payment dates in connection with a cash dividend of \$275,000 on a corporation's common stock are March 3, April 2, and May 2. Journalize the entries required on each date.

EE 13-4 p. 593

PE 13-4A Entries for stock dividends

Arroyo Corporation has 100,000 shares of \$60 par common stock outstanding. On February 8, Arroyo Corporation declared a 6% stock dividend to be issued April 11 to stockholders of record on March 10. The market price of the stock was \$94 per share on February 8.

Journalize the entries required on February 8, March 10, and April 11.

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OBJ. 4 EE 13-4 p. 593

PE 13-4B Entries for stock dividends

U-Store Corporation has 250,000 shares of \$15 par common stock outstanding. On July 20, U-Store Corporation declared a 3% stock dividend to be issued September 18 to stockholders of record on August 19. The market price of the stock was \$54 per share on July 20. Journalize the entries required on July 20, August 19, and September 18.

OBJ. 5 EE 13-5 p. 594

PE 13-5A Entries for treasury stock

On March 8, Golf Resorts Inc. reacquired 13,000 shares of its common stock at \$42 per share. On May 16, Golf Resorts sold 9,500 of the reacquired shares at \$50 per share. On August 30, Golf Resorts sold the remaining shares at \$40 per share. Journalize the transactions of March 8, May 16, and August 30.

OBJ. 5 EE 13-5 p. 594

PE 13-5B Entries for treasury stock

On September 9, Palin Clothing Inc. reacquired 9,000 shares of its common stock at \$24 per share. On October 7, Palin Clothing sold 4,800 of the reacquired shares at \$29 per share. On December 20, Palin Clothing sold the remaining shares at \$22 per share. Journalize the transactions of September 9, October 7, and December 20.

OBJ. 6 EE 13-6 p. 596

PE 13-6A Reporting stockholders' equity

Using the following accounts and balances, prepare the Stockholders' Equity section of the balance sheet. Fifty thousand shares of common stock are authorized, and 2,500 shares have been reacquired.

Common Stock, \$120 par	\$4,800,000
Paid-In Capital in Excess of Par	600,000
Paid-In Capital from Sale of Treasury Stock	59,000
Retained Earnings	7,138,500
Treasury Stock	287,500

OBJ. 6 EE 13-6 p. 596

PE 13-6B Reporting stockholders' equity

Using the following accounts and balances, prepare the Stockholders' Equity section of the balance sheet. Two-hundred thousand shares of common stock are authorized, and 24,000 shares have been reacquired.

Common Stock, \$15 par	\$2,400,000
Paid-In Capital in Excess of Par	480,000
Paid-In Capital from Sale of Treasury Stock	100,000
Retained Earnings	5,275,000
Treasury Stock	336,000

OBJ. 6 EE 13-7 p. 597

PE 13-7A Retained earnings statement

Emmy Leaders Inc. reported the following results for the year ending August 31, 2012:

Retained earnings, September 1, 2011	\$740,000
Net income	145,000
Cash dividends declared	5,000
Stock dividends declared	30,000

Prepare a retained earnings statement for the fiscal year ended August 31, 2012.

OBJ. 6 EE 13-7 p. 597

PE 13-7B Retained earnings statement

Auckland Cruises Inc. reported the following results for the year ending April 30, 2012:

Retained earnings, May 1, 2011	\$3,180,000
Net income	515,000
Cash dividends declared	100,000
Stock dividends declared	125,000

Prepare a retained earnings statement for the fiscal year ended April 30, 2012.

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OBJ. 1 EE 14-1 p. 628

PE 14-1A Alternative financing plans

Baker Co. is considering the following alternative financing plans:

	Plan 1	Plan 2
Issue 5% bonds (at face value)	\$3,000,000	\$1,500,000
Issue preferred \$4 stock, \$25 par	—	2,500,000
Issue common stock, \$40 par	3,000,000	2,000,000

Income tax is estimated at 40% of income.

Determine the earnings per share of common stock, assuming income before bond interest and income tax is \$1,000,000.

OBJ. 1 EE 14-1 p. 628

PE 14-1B Alternative financing plans

Fly Co. is considering the following alternative financing plans:

	Plan 1	Plan 2
Issue 12% bonds (at face value)	\$10,000,000	\$5,000,000
Issue preferred \$1.75 stock, \$20 par	—	8,000,000
Issue common stock, \$20 par	10,000,000	7,000,000

Income tax is estimated at 40% of income.

Determine the earnings per share of common stock, assuming income before bond interest and income tax is \$2,000,000.

OBJ. 3 EE 14-2 p. 631

PE 14-2A Issuing bonds at a discount

On the first day of the fiscal year, a company issues a \$4,000,000, 10%, 10-year bond that pays semiannual interest of \$200,000 ($\$4,000,000 \times 10\% \times \frac{1}{2}$), receiving cash of \$3,760,992. Journalize the bond issuance.

OBJ. 3 EE 14-2 p. 631

PE 14-2B Issuing bonds at a discount

On the first day of the fiscal year, a company issues a \$1,500,000, 9%, five-year bond that pays semiannual interest of \$67,500 ($\$1,500,000 \times 9\% \times \frac{1}{2}$), receiving cash of \$1,334,398. Journalize the bond issuance.

OBJ. 3 EE 14-3 p. 632

PE 14-3A Discount amortization

Using the bond from Practice Exercise 14-2A, journalize the first interest payment and the amortization of the related bond discount. Round to the nearest dollar.

OBJ. 3 EE 14-3 p. 632

PE 14-3B Discount amortization

Using the bond from Practice Exercise 14-2B, journalize the first interest payment and the amortization of the related bond discount. Round to the nearest dollar.

OBJ. 3 EE 14-4 p. 633

PE 14-4A Issuing bonds at a premium

A company issues a \$2,000,000, 9%, five-year bond that pays semiannual interest of \$90,000 ($\$2,000,000 \times 9\% \times \frac{1}{2}$), receiving cash of \$2,166,332. Journalize the bond issuance.

OBJ. 3 EE 14-4 p. 633

PE 14-4B Issuing bonds at a premium

A company issues a \$6,000,000, 12%, five-year bond that pays semiannual interest of \$360,000 ($\$6,000,000 \times 12\% \times \frac{1}{2}$), receiving cash of \$6,463,304. Journalize the bond issuance.

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OBJ. 3 EE 14-5 p. 634

PE 14-5A Premium amortization

Using the bond from Practice Exercise 14-4A, journalize the first interest payment and the amortization of the related bond premium. Round to the nearest dollar.

OBJ. 3 EE 14-5 p. 634

PE 14-5B Premium amortization

Using the bond from Practice Exercise 14-4B, journalize the first interest payment and the amortization of the related bond premium. Round to the nearest dollar.

OBJ. 3 EE 14-6 p. 635

PE 14-6A Redemption of bonds payable

An \$800,000 bond issue on which there is an unamortized discount of \$60,000 is redeemed for \$760,000. Journalize the redemption of the bonds.

OBJ. 3 EE 14-6 p. 635

PE 14-6B Redemption of bonds payable

A \$450,000 bond issue on which there is an unamortized premium of \$25,000 is redeemed for \$441,000. Journalize the redemption of the bonds.

OBJ. 4 EE 14-7 p. 638

PE 14-7A Journalizing installment notes

On the first day of the fiscal year, a company issues \$100,000, 8%, six-year installment notes that have annual payments of \$21,632. The first note payment consists of \$8,000 of interest and \$13,632 of principal repayment.

- Journalize the entry to record the issuance of the installment notes.
- Journalize the first annual note payment.

OBJ. 4 EE 14-7 p. 638

PE 14-7B Journalizing installment notes

On the first day of the fiscal year, a company issues \$55,000, 9%, five-year installment notes that have annual payments of \$14,140. The first note payment consists of \$4,950 of interest and \$9,190 of principal repayment.

- Journalize the entry to record the issuance of the installment notes.
- Journalize the first annual note payment.

OBJ. 6 EE 14-8 p. 640

PE 14-8A Number of times interest charges are earned

Katula Company reported the following on the company's income statement in 2012 and 2011:

F·A·I

	2012	2011
Interest expense	\$ 250,000	\$ 275,000
Income before income tax expense	3,100,000	4,400,000

- Determine the number of times interest charges were earned for 2011 and 2012. Round to one decimal place.
- Is the number of times interest charges are earned improving or declining?

OBJ. 6 EE 14-8 p. 640

PE 14-8B Number of times interest charges are earned

Marsh Products, Inc., reported the following on the company's income statement in 2012 and 2011:

F·A·I

	2012	2011
Interest expense	\$ 420,000	\$ 375,000
Income before income tax expense	4,200,000	3,000,000

- Determine the number of times interest charges were earned for 2011 and 2012. Round to one decimal place.
- Is the number of times interest charges are earned improving or declining?

Exercises

OBJ. 1

✓ a. \$1.30



EX 14-1 Effect of financing on earnings per share

Kelton Co., which produces and sells skiing equipment, is financed as follows:

Bonds payable, 8% (issued at face amount)	\$20,000,000
Preferred \$2 stock, \$10 par	20,000,000
Common stock, \$25 par	20,000,000

Income tax is estimated at 40% of income.

Determine the earnings per share of common stock, assuming that the income before bond interest and income tax is (a) \$10,000,000, (b) \$12,000,000, and (c) \$14,000,000.

OBJ. 1

EX 14-2 Evaluate alternative financing plans

Based on the data in Exercise 14-1, what factors other than earnings per share should be considered in evaluating these alternative financing plans?

OBJ. 1



EX 14-3 Corporate financing

The financial statements for Nike, Inc., are presented in Appendix C at the end of the text. What is the major source of financing for Nike?

OBJ. 3



EX 14-4 Bond price

Procter and Gamble's 4.7% bonds due in 2019 were reported as selling for 104.797.

Were the bonds selling at a premium or at a discount? Why is Procter & Gamble able to sell its bonds at this price?

OBJ. 3

EX 14-5 Entries for issuing bonds

Austin Co. produces and distributes semiconductors for use by computer manufacturers. Austin Co. issued \$15,000,000 of 12-year, 12% bonds on May 1 of the current year, with interest payable on May 1 and November 1. The fiscal year of the company is the calendar year. Journalize the entries to record the following selected transactions for the current year:

- May 1. Issued the bonds for cash at their face amount.
- Nov. 1. Paid the interest on the bonds.
- Dec. 31. Recorded accrued interest for two months.

OBJ. 3

✓ b. \$2,867,977

EX 14-6 Entries for issuing bonds and amortizing discount by straight-line method

On the first day of its fiscal year, Keller Company issued \$25,000,000 of five-year, 10% bonds to finance its operations of producing and selling home improvement products. Interest is payable semiannually. The bonds were issued at a market (effective) interest rate of 12%, resulting in Keller Company receiving cash of \$23,160,113.

- a. Journalize the entries to record the following:
 - 1. Sale of the bonds.
 - 2. First semiannual interest payment. (Amortization of discount is to be recorded annually.)
 - 3. Second semiannual interest payment.
 - 4. Amortization of discount at the end of the first year, using the straight-line method. (Round to the nearest dollar.)
- b. Determine the amount of the bond interest expense for the first year.
- c. Explain why the company was able to issue the bonds for only \$23,160,113 rather than for the face amount of \$25,000,000.

BJ.4 EE 15-4 p. 678

PE 15-4A Valuing trading securities at fair value

On January 1, 2012, Valuation Allowance for Trading Investments had a zero balance. On December 31, 2012, the cost of the trading securities portfolio was \$105,800 and the fair value was \$101,600. Prepare the December 31, 2012, adjusting journal entry to record the unrealized gain or loss on trading investments.

BJ.4 EE 15-4 p. 678

PE 15-4B Valuing trading securities at fair value

On January 1, 2012, Valuation Allowance for Trading Investments had a zero balance. On December 31, 2012, the cost of the trading securities portfolio was \$33,200, and the fair value was \$39,500. Prepare the December 31, 2012, adjusting journal entry to record the unrealized gain or loss on trading investments.

BJ.4 EE 15-5 p. 681

PE 15-5A Valuing available-for-sale securities at fair value

On January 1, 2012, Valuation Allowance for Available-for-Sale Securities had a zero balance. On December 31, 2012, the cost of the available-for-sale securities was \$62,400, and the fair value was \$56,900. Prepare the adjusting entry to record the unrealized gain or loss for available-for-sale securities on December 31, 2012.

BJ.4 EE 15-5 p. 681

PE 15-5B Valuing available-for-sale securities at fair value

On January 1, 2012, Valuation Allowance for Available-for-Sale Securities had a zero balance. On December 31, 2012, the cost of the available-for-sale securities was \$7,600, and the fair value was \$9,500. Prepare the adjusting entry to record the unrealized gain or loss for available-for-sale securities on December 31, 2012.

I.6 EE 15-6 p. 686

PE 15-6A Dividend yield

On September 25, 2012, Lucas Corporation had a market price per share of common stock of \$8. For the previous year, Lucas paid an annual dividend of \$0.16. Compute the dividend yield for Lucas Corporation.

I.6 EE 15-6 p. 686

PE 15-6B Dividend yield

On June 12, 2012, Mid State Power and Electric Company had a market price per share of common stock of \$48. For the previous year, Mid State paid an annual dividend of \$2.88. Compute the dividend yield for Mid State Power and Electric Company.

Exercises

BJ.2

EX 15-1 Entries for investment in bonds, interest, and sale of bonds

Dristol Company acquired \$56,000 Reynolds Company, 4.5% bonds on April 1, 2012, at par value. Interest is paid semiannually on April 1 and October 1. On October 1, 2012, Dristol sold \$20,000 of the bonds for 99.

Journalize entries to record the following:

- The initial acquisition of the bonds on April 1.
- The semiannual interest received on October 1.
- The sale of the bonds on October 1.
- The accrual of \$637 interest on December 31, 2012.