

Financial Accounting Summer 2014: ACCT
610 Summer 2014 Prof. Rich

Chuma Odiegwu

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1.

The unadjusted trial balance of the Manufacturing Equitable at December 31, 2013, the end of its fiscal year, included the following account balances. Manufacturing's 2013 financial statements were issued on April 1, 2014.

Accounts receivable	\$ 100,000
Accounts payable	48,400
Bank notes payable	628,000
Mortgage note payable	1,230,000

Other information:

- The bank notes, issued August 1, 2013, are due on July 31, 2014, and pay interest at a rate of 12%, payable at maturity.
- The mortgage note is due on March 1, 2014. Interest at 11% has been paid up to December 31 (assume 11% is a realistic rate). Manufacturing intended at December 31, 2013, to refinance the note on its due date with a new 10-year mortgage note. In fact, on March 1, Manufacturing paid \$260,000 in cash on the principal balance and refinanced the remaining \$970,000.
- Included in the accounts receivable balance at December 31, 2013, were two subsidiary accounts that had been overpaid and had credit balances totaling \$21,650. The accounts were of two major customers who were expected to order more merchandise from Manufacturing and apply the overpayments to those future purchases.
- On November 1, 2013, Manufacturing rented a portion of its factory to a tenant for \$37,200 per year, payable in advance. The payment for the 12 months ended October 31, 2014, was received as required and was credited to rent revenue.

Required:

- Prepare any necessary adjusting journal entries at December 31, 2013, pertaining to each item of other information (a–d). (If no entry is required for a particular transaction, select "No journal entry required" in the first account field.)

[view transaction list](#)[view general journal](#)

Journal Entry Worksheet

1 2 3 4

The bank notes, issued August 1, 2013, are due on July 31, 2014, and pay interest at a rate of 12%, payable at maturity.



Transaction	General Journal	Debit	Credit
a.			

*Enter debits before credits

[done](#)[clear transaction](#)[record transaction](#)

- Prepare the current and long-term liability sections of the December 31, 2013, balance sheet.

- 1.

The bank notes, issued August 1, 2013, are due on July 31, 2014, and pay interest at a rate of 12%, payable at maturity.

- 2.

The mortgage note is due on March 1, 2014. Interest at 11% has been paid up to December 31 (assume 11% is a realistic rate). Manufacturing intended at December 31, 2013, to refinance the note on its due date with a new 10-year mortgage note. In fact, on March 1, Manufacturing paid \$260,000 in cash on the principal balance and refinanced the remaining \$970,000.

- 3.

Included in the accounts receivable balance at December 31, 2013, were two subsidiary accounts that had been overpaid and had credit balances totaling \$21,650. The accounts were of two major customers who were expected to order more merchandise from Manufacturing and apply the overpayments to those future purchases.

- 4.

On November 1, 2013, Manufacturing rented a portion of its factory to a tenant for \$37,200 per year, payable in advance. The payment for the 12 months ended October 31, 2014, was received as required and was credited to rent revenue.

Balance Sheet
At December 31, 2013

Current liabilities:

Total current liabilities

Long-term liabilities:

=====

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On January 1, 2013, Baddour, Inc., issued 10% bonds with a face amount of \$160 million. The bonds were priced at \$140 million to yield 12%. Interest is paid semiannually on June 30 and December 31. Baddour's fiscal year ends September 30.

Required:

1. What amount(s) related to the bonds would Baddour report in its balance sheet at September 30, 2013? (Enter your answers in whole dollars.)

Net bonds payable

Interest payable

2. What amount related to the bonds would Baddour report in its income statement for the year ended September 30, 2013? (Enter your answer in whole dollars.)

Interest expense for fiscal 2013

3. What amount(s) related to the bonds would Baddour report in its statement of cash flows for the year ended September 30, 2013? In which section(s) should the amount(s) appear? (Enter your answers in whole dollars.)

Sale of bonds

Cash interest paid

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3.

The following transactions relate to bond investments of Livermore Laboratories. The company's fiscal year ends on December 31. Livermore uses the straight-line method to determine interest.

2013

- | | | |
|------|----|--|
| July | 1 | Purchased \$16 million of Bracecourt Corporation 10% debentures, due in 20 years (June 30, 2033), for \$15.7 million. Interest is payable on January 1 and July 1 of each year. |
| Oct. | 1 | Purchased \$30 million of 12% Framm Pharmaceuticals debentures, due May 31, 2023, for \$31,160,000 plus accrued interest. Interest is payable on June 1 and December 1 of each year. |
| Dec. | 1 | Received interest on the Framm bonds. |
| Dec. | 31 | Accrued interest. |

2014

- | | | |
|-------|----|--|
| Jan. | 1 | Received interest on the Bracecourt bonds. |
| June | 1 | Received interest on the Framm bonds. |
| July | 1 | Received interest on the Bracecourt bonds. |
| Sept. | 1 | Sold \$15 million of the Framm bonds at 101 plus accrued interest. |
| Dec. | 1 | Received interest on the remaining Framm bonds. |
| Dec. | 31 | Accrued interest. |

2015

- | | | |
|------|----|---|
| Jan. | 1 | Received interest on the Bracecourt bonds. |
| Feb. | 28 | Sold the remainder of the Framm bonds at 102 plus accrued interest. |
| Dec. | 31 | Accrued interest. |

Required:

1. Prepare the appropriate journal entries for these long-term bond investments. (Enter your answers in whole dollars. If no journal entry is required for a transaction, select "No journal entry required" in the first account field.)
2. By how much will Livermore Labs' earnings increase in each of the three years as a result of these investments? (Ignore income taxes.) (Enter your answers in whole dollars.)

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The following transactions relate to bond investments of Livermore Laboratories. The company's fiscal year ends on December 31. Livermore uses the straight-line method to determine interest.

2013

- July 1 Purchased \$16 million of Bracecourt Corporation 10% debentures, due in 20 years (June 30, 2033), for \$15.7 million. Interest is payable on January 1 and July 1 of each year.
- Oct. 1 Purchased \$30 million of 12% Framm Pharmaceuticals debentures, due May 31, 2023, for \$31,160,000 plus accrued interest. Interest is payable on June 1 and December 1 of each year.
- Dec. 1 Received interest on the Framm bonds.
- Dec. 31 Accrued interest.

2014

- Jan. 1 Received interest on the Bracecourt bonds.
- June 1 Received interest on the Framm bonds.
- July 1 Received interest on the Bracecourt bonds.
- Sept. 1 Sold \$15 million of the Framm bonds at 101 plus accrued interest.
- Dec. 1 Received interest on the remaining Framm bonds.
- Dec. 31 Accrued interest.

2015

- Jan. 1 Received interest on the Bracecourt bonds.
- Feb. 28 Sold the remainder of the Framm bonds at 102 plus accrued interest.
- Dec. 31 Accrued interest.

Required:

- Prepare the appropriate journal entries for these long-term bond investments. (Enter your answers in whole dollars. If no journal entry is required for a transaction, select "No journal entry required" in the first account field.)

[view transaction list](#) [view general journal](#)

Journal Entry Worksheet

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17

Record the purchase of \$16 million Bracecourt Corporation 10% debentures, due in 20 years (June 30, 2033), for \$15.7 million. Interest is payable on January 1 and July 1 of each year.

Date	General Journal	Debit	Credit
July 01, 2013			

*Enter debits before credits

done

clear transaction

record transaction

- By how much will Livermore Labs' earnings increase in each of the three years as a result of these investments? (Ignore income taxes.) (Enter your answers in whole dollars.)

1. Record the purchase of \$16 million Bracecourt Corporation 10% debentures, due in 20 years (June 30, 2033), for \$15.7 million. Interest is payable on January 1 and July 1 of each year.
2. Record the purchase of \$30 million 12% Framm Pharmaceuticals debentures, due May 31, 2023, for \$31,160,000 plus accrued interest. Interest is payable on June 1 and December 1 of each year.
3. Record the receipt of interest on the Framm bonds.
4. Record the accrued interest on the Bracecourt bonds.
5. Record the accrued interest on the Framm bonds.
6. Record the receipt of interest on the Bracecourt bonds.
7. Record the receipt of interest on the Framm bonds.
8. Record the receipt of interest on the Bracecourt bonds.
9. Record the accrued interest on the Framm bonds.
10. Record the sale of \$15 million of the Framm bonds at 101 plus accrued interest.
11. Record the receipt of interest on the remaining Framm bonds.
12. Record the accrued interest on the Bracecourt bonds.
13. Record the accrued interest on the Framm bonds.
14. Record the receipt of interest on the Bracecourt bonds.
15. Record the accrued interest on the Framm bonds.
16. Record the sale of the remainder of the Framm bonds at 102 plus accrued interest.
17. Record the accrued interest.

Increase earnings

2013
2014
2015

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4.

Rand Medical manufactures lithotripters. Lithotripsy uses shock waves instead of surgery to eliminate kidney stones. Physicians' Leasing purchased a lithotripter from Rand for \$2,590,000 and leased it to Mid-South Urologists Group, Inc., on January 1, 2013.

Lease Description:	
Quarterly lease payments	\$ 169,018 — beginning of each period
Lease term	5 years (20 quarters)
No residual value; no BPO	
Economic life of lithotripter	5 years
Implicit interest rate and lessee's incremental borrowing rate	12 %
Fair value of asset	\$2,590,000

Collectibility of the lease payments is reasonably assured, and there are no lessor costs yet to be incurred.

Required:

1. How should this lease be classified by Mid-South Urologists Group and by Physicians' Leasing?

Mid-South Urologists Group

Physicians' Leasing

2. Prepare appropriate entries for both Mid-South Urologists Group and Physicians' Leasing from the inception of the lease through the second rental payment on April 1, 2013. Depreciation is recorded at the end of each fiscal year (December 31). (If no entry is required for a particular transaction, select "No journal entry required" in the first account field. Enter your answers in whole dollars.)

Mid-South Urologists Group (Lessee):

[view transaction list](#)[view general journal](#)**Journal Entry Worksheet**

1 | 2 | 3

Record lease.

Date	General Journal	Debit	Credit
January 01, 2013			
*Enter debits before credits			
done	clear transaction	record transaction	

Physicians' Leasing (Lessor):

[view transaction list](#)[view general journal](#)**Journal Entry Worksheet**

1 | 2 | 3

Record lease.

Date	General Journal	Debit	Credit
January 01, 2013			
*Enter debits before credits			
done	clear transaction	record transaction	

3. Assume Mid-South Urologists Group leased the lithotripter directly from the manufacturer, Rand Medical, which produced the machine at a cost of \$2.2 million. Prepare appropriate entries for Rand Medical from the inception of the lease through the second lease payment on April 1, 2013. (If no

[view transaction list](#) [view general journal](#)

1 2 3

Date	General Journal	Debit	Credit
January 01, 2013			

done clear transaction record transaction

8/7/2014

QUESTION 2:

Mid South Urologists Group (Lessee):

1. Record lease.
2. Record cash payment.
3. Record cash payment

Physicians' Leasing (Lessor):

1. Record lease.
2. Record cash received.
3. Record cash received.

QUESTION 3:

1. Record lease.
2. Record cash received.
3. Record cash received.

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Alsup Consulting sometimes performs services for which it receives payment at the conclusion of the engagement, up to six months after services commence. Alsup recognizes service revenue for financial reporting purposes when the services are performed. For tax purposes, revenue is reported when fees are collected. Service revenue, collections, and pretax accounting income for 2012–2015 are as follows:

	Service Revenue	Collections	Pretax Accounting Income
2012	\$660,000	\$ 635,000	\$ 200,000
2013	760,000	770,000	265,000
2014	725,000	700,000	235,000
2015	710,000	735,000	215,000

There are no differences between accounting income and taxable income other than the temporary difference described above. The enacted tax rate for each year is 40%.

(Hint: You may find it helpful to prepare a schedule that shows the balances in service revenue receivable at December 31, 2012–2015.)

Required:

1. Prepare the appropriate journal entry to record Alsup's 2013 income taxes. (If no entry is required for an event, select "No journal entry required" in the first account field.)

[view transaction list](#)[view general journal](#)**Journal Entry Worksheet**

Record 2013 income taxes.

Event	General Journal	Debit	Credit
1			

*Enter debits before credits

done

clear transaction

record transaction

2. Prepare the appropriate journal entry to record Alsup's 2014 income taxes. (If no entry is required for an event, select "No journal entry required" in the first account field.)

[view transaction list](#)[view general journal](#)**Journal Entry Worksheet**

1.

Record 2014 income taxes.

Event	General Journal	Debit	Credit
1			

*Enter debits before credits

[done](#)[clear transaction](#)[record transaction](#)

3. Prepare the appropriate journal entry to record Alsup's 2015 income taxes. (If no entry is required for an event, select "No journal entry required" in the first account field.)

[view transaction list](#)[view general journal](#)**Journal Entry Worksheet**

1.

Record 2015 income taxes.

Event	General Journal	Debit	Credit
1			

*Enter debits before credits

[done](#)[clear transaction](#)[record transaction](#)

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6.

Sachs Brands' defined benefit pension plan specifies annual retirement benefits equal to: $1.2\% \times \text{service years} \times \text{final year's salary}$, payable at the end of each year. Angela Davenport was hired by Sachs at the beginning of 1999 and is expected to retire at the end of 2033 after 35 years' service. Her retirement is expected to span 18 years. Davenport's salary is \$90,000 at the end of 2013 and the company's actuary projects her salary to be \$280,000 at retirement. The actuary's discount rate is 8%. (FV of \$1, PV of \$1, FVA of \$1, PVA of \$1, FVAD of \$1 and PVAD of \$1) (Use appropriate factor(s) from the tables provided.)

Required:

2. Estimate by the accumulated benefits approach the amount of Davenport's annual retirement payments earned as of the end of 2013.

Annual retirement payments

3. What is the company's accumulated benefit obligation at the end of 2013 with respect to Davenport?

Accumulated benefit obligation

4. If no estimates are changed in the meantime, what will be the accumulated benefit obligation at the end of 2016 (three years later) when Davenport's salary is \$115,000?

Accumulated benefit obligation

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7.

Listed below are the transactions that affected the shareholders' equity of Branch-Rickie Corporation during the period 2013–2015. At December 31, 2012, the corporation's accounts included:

	(\$ in 000s)
Common stock, 101 million shares at \$1 par	\$101,000
Paid-in capital—excess of par	600,000
Retained earnings	800,000

- a. November 1, 2013, the board of directors declared a cash dividend of \$0.60 per share on its common shares, payable to shareholders of record November 15, to be paid December 1.
- b. On March 1, 2014, the board of directors declared a property dividend consisting of corporate bonds of Warner Corporation that Branch-Rickie was holding as an investment. The bonds had a fair value of \$1.4 million, but were purchased two years previously for \$1.2 million. Because they were intended to be held to maturity, the bonds had not been previously written up. The property dividend was payable to shareholders of record March 13, to be distributed April 5.
- c. On July 12, 2014, the corporation declared and distributed a 6% common stock dividend (when the market value of the common stock was \$18 per share). Cash was paid in lieu of fractional shares representing 60,000 equivalent whole shares.
- d. On November 1, 2014, the board of directors declared a cash dividend of \$0.60 per share on its common shares, payable to shareholders of record November 15, to be paid December 1.
- e. On January 15, 2015, the board of directors declared and distributed a 3-for-2 stock split effected in the form of a 50% stock dividend when the market value of the common stock was \$19 per share.
- f. On November 1, 2015, the board of directors declared a cash dividend of \$0.45 per share on its common shares, payable to shareholders of record November 15, to be paid December 1.

Required:

1. Prepare the journal entries that Branch-Rickie recorded during the three-year period for these transactions. (If no entry is required for a particular transaction, select "No journal entry required" in the first account field. Enter your answers in whole dollars.)

2. Prepare comparative statements of shareholders' equity for Branch-Rickie for the three-year period (\$ in 000s). Net income was \$335 million, \$400 million, and \$460 million for 2013, 2014, and 2015, respectively.

1. Record declaration of cash dividend.
2. Record the entry on date of record.
3. Record payment of cash dividend.
4. Record appreciation of investment.
5. Record declaration of property dividends.
6. Record the entry on date of record.
7. Record distribution of property dividends.
8. Record declaration and distribution of stock dividend and settlement of fractional shares.
9. Record declaration of cash dividend.
10. Record the entry on date of record.
11. Record payment of cash dividend.
12. Record declaration and distribution of stock split.
13. Record declaration of cash dividend.
14. Record the entry on the date of record.
15. Record payment of cash dividend.

Branch-Rickie Corporation
Statement of Shareholders' Equity
For the Years Ended Dec. 31, 2013, 2014, and 2015

	Common	Additional	Retained	Total
	Stock	Paid-in Capital	Earnings	Shareholders' Equity
Jan. 1, 2013				
Net income				
Cash dividends				
Dec. 31, 2013	0	0	0	0
Property dividends				
Common stock dividend				
Net income				
Cash dividends				
Dec. 31, 2014	0	0	0	0
3-for-2 split effected in the form of a stock dividend				
Net income				
Cash dividends				
Dec. 31, 2015	\$ 0	\$ 0	\$ 0	\$ 0

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8.

Pastner Brands is a calendar-year firm with operations in several countries. As part of its executive compensation plan, at January 1, 2013, the company issued 260,000 executive stock options permitting executives to buy 260,000 shares of Pastner stock for \$24 per share. One-fourth of the options vest in each of the next four years beginning at December 31, 2013 (graded vesting). Pastner elects to separate the total award into four groups (or tranches) according to the year in which they vest and measures the compensation cost for each vesting date as a separate award. The fair value of each tranche is estimated at January 1, 2013, as follows:

Vesting Date	Amount Vesting	Fair Value per Option
Dec. 31, 2013	25%	\$4.60
Dec. 31, 2014	25%	\$5.10
Dec. 31, 2015	25%	\$5.40
Dec. 31, 2016	25%	\$6.40

Required:

1. Determine the compensation expense related to the options to be recorded each year 2013–2016, assuming Pastner allocates the compensation cost for each of the four groups (tranches) separately.

Shares Vesting at:	Compensation Expense Recorded in:			
	2013	2014	2015	2016
Dec. 31, 2013				
Dec. 31, 2014				
Dec. 31, 2015				
Dec. 31, 2016				
Total				

2. Determine the compensation expense related to the options to be recorded each year 2013–2016, assuming Pastner uses the straight-line method to allocate the total compensation cost.

	2013	2014	2015	2016	Total
Compensation expense					

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9.

Comparative Statements of Retained Earnings for Renn-Dever Corporation were reported as follows for the fiscal years ending December 31, 2011, 2012, and 2013.

RENN-DEVER CORPORATION Statements of Retained Earnings			
For the Years Ended December 31	2013	2012	2011
Balance at beginning of year	\$7,001,092	\$5,574,852	\$5,744,552
Net income (loss)	3,320,700	2,360,900	(169,700)
Deductions:			
Stock dividend (39,200 shares)	254,000		
Common shares retired, September 30 (110,000 shares)		224,660	
Common stock cash dividends	901,950	710,000	0
Balance at end of year	<u>\$9,165,842</u>	<u>\$7,001,092</u>	<u>\$5,574,852</u>

At December 31, 2010, paid-in capital consisted of the following:

Common stock, 2,070,000 shares at \$1 par,	\$2,070,000
Paid in capital—excess of par	7,540,000

No preferred stock or potential common shares were outstanding during any of the periods shown.

Required:

Compute Renn-Dever's earnings per share as it would have appeared in income statements for the years ended December 31, 2011, 2012, and 2013. (Do not round intermediate calculations and round your final answers to 2 decimal places.)

	Amount
per share for the year ended Dec. 31, 2011	
per share for the year ended Dec. 31, 2012	
per share for the year ended Dec. 31, 2013	

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10.

Portions of the financial statements for Parnell Company are provided below.

PARNELL COMPANY
Income Statement
For the Year Ended December 31, 2013
(\$ in 000s)

Sales		\$ 890
Cost of goods sold		(345)
Gross margin		545
Salaries expense	\$129	
Insurance expense	53	
Depreciation expense	132	
Interest expense	59	(373)
Gains and losses:		
Gain on sale of buildings		11
Loss on sale of machinery		(13)
Income before tax		170
Income tax expense		(85)
Net income		\$ 85

PARNELL COMPANY
Selected Accounts from Comparative Balance Sheets
December 31, 2013 and 2012
(\$ in 000s)

	2013	2012	Change
Cash	\$152	\$91	\$61
Accounts receivable	342	207	135
Inventory	312	443	(131)
Prepaid insurance	57	106	(49)
Accounts payable	228	108	120
Salaries payable	120	84	36
Deferred income tax liability	78	61	17
Bond discount	181	218	(37)

Required:

1. Prepare the cash flows from operating activities section of the statement of cash flows for Parnell Company using the direct method. (Enter your answers in millions rounded to 2 decimal places (i.e., 400,000 should be entered as 400).). Amounts to be deducted should be indicated with a minus sign.)
2. Prepare the cash flows from operating activities section of the statement of cash flows for Parnell Company using the indirect method. (Enter your answers in millions rounded to 2 decimal places (i.e., 400,000 should be entered as 400).). Amounts to be deducted should be indicated with a minus sign.)