I. Multiple-Choice Questions: Select the best answer for each of the following questions.(3% for each question) (39%)

1. A corporation issued $900,000, 10%, 5-year bonds on January 1, 2005 for $972,999, which reflects an effective-interest rate of 8%. Interest is paid semiannually on January 1 and July 1. If the corporation uses the effective-interest method of amortization of bond premium, the amount of bond interest expense to be recognized on July 1, 2005, is
   a. $45,000.
   b. $36,000.
   c. $48,650.
   d. $38,920.

2. Lopez, Inc. has 2,000 shares of 5%, $50 par value, cumulative preferred stock and 50,000 shares of $1 par value common stock outstanding at December 31, 2004, and December 31, 2005. The board of directors declared and paid a $4,000 dividend in 2004. In 2005, $20,000 of dividends are declared and paid. What are the dividends received by the preferred and common shareholders in 2005?

	Preferred	Common
a.	$14,000	$6,000
b.	$10,000	$10,000
c.	$6,000	$14,000
d.	$5,000	$15,000

3. Jennifer Company reports the following amounts for 2005:

Net income	$100,000
Average stockholders' equity	500,000
Preferred dividends	28,000
Par value preferred stock	100,000

The 2005 rate of return on common stockholders' equity is
   a. 14.4%.
   b. 18.0%.
   c. 20.0%.
   d. 25.0%.

4. Roberson Corporation was organized on January 1, 2005, with authorized capital of 500,000 shares of $10 par value common stock. During 2005, Roberson issued 20,000 shares at $12 per share, purchased 2,000 shares of treasury stock at $13 per share, and sold 2,000 shares of treasury stock at $14 per share. What is the amount of additional paid-in capital at December 31, 2005?
   a. $2,000.
   b. $36,000.
   c. $40,000.
   d. $42,000.

5. Gomez Industries sold exercise equipment costing $210,000 on the installment basis for $300,000. Collections from customers were $60,000 in 2004, $150,000 in 2005, and $90,000 in 2006. The amount of gross profit that should be recognized in 2005 using the installment method is
   a. $150,000.
   b. $105,000.
   c. $45,000.
   d. zero.

6. Young Builders uses the percentage-of-completion method of accounting for its construction contracts. They estimated the total cost of completing job #129 as being $1,000,000, and actually incurred costs of $200,000 in 2005 and $600,000 in 2006. The total contract price for the job was $1,400,000. Young's 2005 income statement should show a gross profit from this job of
   a. $120,000.
   b. $80,000.
   c. $100,000.
   d. $400,000.

7. Jill, Ann, and Mary formed a partnership with income-sharing ratios of 50%, 30%, and 20%, respectively. Cash of $180,000 was available after the partnership's assets were liquidated. Prior to the final distribution of cash, Jill's capital balance was $120,000, Ann's capital balance was $90,000, and Mary had a capital deficiency of $30,000. Based upon a safe cash payments schedule, Jill should receive
   a. $105,000.
   b. $101,250.
   c. $78,750.
   d. $120,000.

8. Carter Electric began operations in 2005 and provides a one year warranty on the curling irons it sells. They estimate that 10,000 of the 200,000 curling irons sold in 2005 will be returned for repairs and that these repairs will cost $4 per unit. The cost of repairing 8,000 curling irons presented for service in 2005 was $32,000. Carter should report
   a. warranty expense of $32,000 for 2005.
   b. warranty expense of $40,000 for 2005.
   c. estimated warranty liability of $40,000 on December 31, 2005.
   d. no warranty obligation on December 31, 2005, since this is only a contingent liability.

9. Quayle Company bought real estate, on which there was an old office building, for $800,000. It paid $80,000 in cash as a down payment and signed a 10% mortgage for the remainder. It immediately had the old building razed at a net cost of $70,000. Attorneys were paid $12,000 in connection with the land purchase and an additional $6,000 in connection with permits and zoning variances necessary for Quayle's new office building. $40,000 was paid for excavation for the basement of the new building, $2,800,000 was paid for construction of the new building, and $150,000 was paid for a parking lot and necessary walkways and driveways. The new office building should be recorded at
   a. $2,800,000.
   b. $2,846,000.
   c. $2,840,000.
   d. $2,916,000.

10. The ending inventory of Larkin Company, which uses a periodic inventory system, was understated $7,000 on December 31, 2004, and overstated $4,000 on December 31, 2005. Because of these errors, 2005 net income was
   a. overstated $4,000.
   b. overstated $11,000.
   c. understated $3,000.
   d. understated $11,000.

11. A company exchanges its old office equipment and $20,000 for similar new office equipment. The old office equipment has a book value of $14,000 and a fair market value of $10,000 on the date of the exchange. The cost of the new office equipment would be recorded at
   a. $34,000.
   b. $30,000.
   c. $24,000.
   d. cannot be determined.

12. Pearson Company's records indicate the following information for the year:

Merchandise inventory, 1/1	$ 440,000
Purchases	1,800,000
Net Sales	2,400,000

On December 31, a physical inventory determined that ending inventory of $480,000 was in the warehouse. Pearson's gross profit on sales has remained constant at 30%. Pearson suspects some of the inventory may have been taken by some new employees. At December 31, what is the estimated cost of missing inventory?
   a. $80,000.
   b. $160,000.
   c. $240,000.
   d. $560,000.

13. A company decides to exchange its old machine and $55,000 for a new machine. The old machine has a book value of $45,000 and a fair market value of $50,000 on the date of the exchange. The cost of the new machine would be recorded at
   a. $100,000.
   b. $105,000.
   c. $95,000.
   d. cannot be determined.

II. (14%)

Silver, Inc. has poor internal control over its cash transactions. Tom Welker, the owner, suspects Greg Wu, the cashier, of stealing. Here are some details of the business's cash position at June 30.

a. The Cash account shows a balance of $6,248. This amount includes a June 30 cash in transit of $3,500 .
b. The June 30 bank statement shows a balance of $3,008.
c. Bank collection of a note receivable, $200.
d. Bank service charge, $10.
e. NSF check from L. Rivers, $50.
f. EFT payment of insurance expense, $100.
g. At June 30, the following checks are outstanding:

Check No.	Amount
103	$150
115	213
241	327
256	280
335	250

The cashier handles all incoming cash and makes bank deposits. He also reconciles the monthly bank statement. Here is his June 30 reconciliation:

Balance per books, June 30		$ 17,248
Add: Outstanding checks		220
Bank collection		200
		$ 17,668
Less: Deposit in transit	$3,500	
Service charge	10	
EFT payment	100	
NSF check	50	3,660
Balance per bank, June 30		$ 14,008

Required:

Greg asks you to determine whether the cashier has stolen cash from the business and, if so, how much. He also asks how the cashier concealed the theft. Perform your own bank reconciliation by providing correct book and bank balance. There are no bank or book errors. Greg also wants your suggestion on changes that will improvement Silver's internal control.

III. (16%)

ABC Company is preparing the comparative financial statements to be included in the annual report to stockholders. ABC Company employs a fiscal year ending May 31. Income from operations before income taxes for ABC Company was $1,400,000 and $1,000,000, respectively, for fiscal year ended May 31, 2005 and 2004. ABC Company experienced an extraordinary loss of $400,000 because of a fire on March 3, 2005. A 40% combined income tax rate pertains to any and all of ABC Company's profits, gains, and losses.

The company issued 20,000 shares of $100 par value, 6% convertible, cumulative preferred stock in 2001. Each share is convertible into 5 shares of common stock. All of this stock is outstanding, and no preferred dividends are in arrears.

There were 150,000 shares of $1 par common stock outstanding on June 1, 2003. On September 1, 2003 ABC Company sold additional 4,000 shares of the common stock at $17 per share. ABC Company distributed 20% stock dividend on the common shares outstanding on December 1, 2004.

ABC company also issued $1,000,000 ($100 per bond), 6% convertible bonds at par in 2001. Each bond is convertible into 4 shares of common stock. All of these bonds are outstanding during the years 2005 and 2004. On June1 , 2004, ABC Company granted 50,000 common stock options to employees to purchase 50,000 shares of common stock at $20 per share. The average market price of common stock is $25 per share. None of the stock options is exercised during the year 2005.

Required:

(a) What kind of EPS (earnings per share) presentation is required? Explain.

(b) Based on net income (after extraordinary loss), calculate the required EPS amount for the years 2004 and 2005.

IV. (17%)

The 20X6 comparative income statement and the 20X6 comparative balance sheet of Scott Inc. have just been distributed at meeting of the company's board of directors. The members of the board of directors raise a fundamental question: Why is the cash balance so low? This question is especially troublesome to the board members because 20X6 showed record profits. As the controller of the company, you must answer the question.

Scott Inc.
Comparative Income Statement
Years Ended December 31, 20X6 and 20X5

	20X6	20X5
Revenue and Gains:		
Sales revenue	$450,000	$320,000
Gain on sale of equipment(sale price, $33,000)	0	18,000
Total revenues and gains	$450,000	$338,000
Expenses and losses:		
Cost of goods sold	$230,000	$160,000
Salary expense	48,000	28,000
Depreciation expense	46,000	22,000
Interest expense	13,000	20,000
Amortization expense on patent	11,000	11,000
Loss on sale of land (sale price, $61,000)	0	35,000
Total expenses and losses	$348,000	$276,000
Net income	$102,000	$ 62,000

Scott Inc.
Comparative Balance Sheet
December 31, 20X6 and 20X5

	20X6	20X5
Assetss:		
Cash	$34,000	$75,000
Accounts receivable, net	72,000	61,000
Inventories	194,000	181,000
Long-term investments	31,000	0
Property, plant, and equipment	369,000	259,000
Accumulated depreciation	(244,000)	(198,000)
Patents	177,000	188,000
Totals	$633,000	$566,000

（背面仍有題目,請繼續作答）

Liabilities and Owners' Equity:

Accounts payable	$ 63,000	$ 56,000
Accrued liabilities	12,000	17,000
Notes payable, long-term	179,000	264,000
Common stock	149,000	61,000
Retained earnings	230,000	168,000
Totals	$633,000	$566,000

Required:

(a) Prepare a statement of cash flows for 20X6 in the format that best shows the relationship between net income and operating cash flow. The company sold no plant assets or long-term investments and issued no notes payable during 20X6. There were no noncash investing and financing transactions during the year.

(b) Answer the board members' question: Why is the cash balance so low? In explaining the business's cash flows, identify two significant cash receipts that occurred during 20X5 but not in 20X6. Also point out the two largest cash payments during 20X6.

(c) Considering net income and the company's cash flows during 20X6, was it a good year or a bad year? Give your reasons.

V. (14%)

During the year of 20X6 Lake Co. completed the following investment transactions:

June 5 Purchased 4,500 shares of Park common stock as a long term available-for-sale investment, paying $10.25 per share.

July 3 Received cash dividend of $0.75 per share on Park investment.

July 9 Received cash dividend of $29,000 from equity-method investments.

Dec.31. Received annual reports from equity-method investee companies. Their total net income for the year was $720,00. Of this amount, Lake's proportion is 30%.

On Dec.31 the market value of long term available-for-sale investment is $45,000.

Required:

(a) Record the transactions in the journal of Lake Co..

(b) Show how to report all of the related accounts of all kinds of the investments on Lake's balance sheet and income statement.