NAME:________________________

Code number:______________
   A four digit code that does NOT begin with a zero.

(This should be the code that you have used in the past — I will use it to email you your grade.)

Accounting 6301
December 12, 1996

On my honor, I have neither given nor received aid on this test.

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   Signature
1. Page 425-6 of your text provides you with the financial statements for Kellogg Company and Subsidiaries. Using these numbers, what is:

a. Their receipts from sales to customers?

b. What payments did they make to IRS?

c. What is their inventory turnover in 1993, using year-end figures?

d. What is their return on invested capital in 1993, using year-end figures. Assume a tax rate of 40%.

e. What are their days receivable in 1993, using year-end figures?
f. Compute the cash provided by operating activities using the indirect method and show on your answer sheet the difference between your number and theirs.

2. Given the cash flow statement on page 387 of your text book, what is:

   a. The revenue earned by the Beta Corporation in 1990 and 1991.

   b. What was their cost of goods sold in 1991? Make any assumptions you deem necessary to answer this question but spell your assumptions out carefully on your answer sheet i.e., your answer should look something like this:

         Cogs = XXX + YYY - ZZZ
3. On January 2, 1994, Ross Co. purchased a machine for $70,000. This machine has a 5-year useful life, a residual value of $10,000, and is depreciated using the straight-line method for financial statement purposes. For tax purposes, depreciation expense was $25,000 for 1994 and $20,000 for 1995. Ross’ 1994 and 1995 income, before income taxes and depreciation expense, was $100,000 and its tax rate was 30%. If Ross had made no estimated tax payments during 1995, what amount of current income tax liability would Ross report in its December 31, 1995 balance sheet?

4. What would its deferred tax liability be at the end of 1995?

5. A temporary difference between financial and tax accounting that would lead to a deferred tax liability is

a. Interest revenue on municipal bonds.
b. Accrual of warranty expense.
c. Excess of tax depreciation over financial accounting depreciation.
d. Subscriptions received in advance.
6. In 1993, Fogg, Inc. issued $10 par value common stock for $25 per share. No other common stock transactions occurred until March 31, 1995, when Fogg acquired some of the issued shares for $20 per share and retired them. Which of the following statements correctly states an effect of this acquisition and retirement?

a. 1995 net income is decreased
b. 1995 net income is increased
c. Capital is decreased
d. Retained earnings is decreased

7. At December 31, 1995 and 1994, Gow Corp. had 100,000 shares of common stock outstanding and 10,000 shares of 5%, $100 par value cumulative preferred stock outstanding. No dividends were declared on either the preferred or common stock in 1995 or 1994. Net income for 1994 was $1,000,000. What did earnings per common share amount to in 1995?
8. In determining primary earnings per share, dividends on nonconvertible cumulative preferred stock should be

a. Disregarded
b. Added back to net income whether declared or not.
c. Deducted from net income only if declared.
d. Deducted from net income whether declared or not.

9. Burns & Sanders Inc. plan to issue a stock dividend of $60,000 and a preferred dividend of $50,000. Net income is expected to be $220,000. Common stock capital at the end of the last year stood at one million dollars. Preferred stock capital was $400,000. Retained earnings at that time are $800,000. There is no debt in the firm.

a. What is the return on equity before the planned dividends?

b. What will the capital account stand at after the stock dividend?

c. What will the return on equity be after the planned dividends?
10. King Syndicates is planning to issue $1,000,000 of 4% preferred stock. Net income is currently standing at $120,000. There are 16,000 common shares authorized; 12,000 shares issued; and 8,000 share outstanding. The market rate on preferred stock is 7%.

a. What is the EPS before the preferred stock issue?

b. What is the EPS after the preferred stock issue?

11. Lazaroni, Byrd & Co. have issued $1,000,000 of 4% convertible preferred stock. The preferred stock is convertible into 10,000 common shares. Net income is currently standing at $100,000. There are 8,000 common shares outstanding. The market rate on preferred stock is 7%. The tax rate is 30%.

a. What is the primary EPS?

b. What is the fully-diluted EPS?
12. Pratt & Overy Inc. have $1,000,000 of 4% convertible bonds on their books. These bonds are convertible into 10,000 common shares. Net income is currently standing at $100,000. There are 8,000 common shares outstanding. The market rate on bonds is 7%. The tax rate is 30%.

a. What is their primary EPS?

b. What is their fully-diluted EPS?

13. Hart Company purchased 5,000 shares of the 12,500 common stock shares of Cosmo Corporation on June 1, 1994 at $35 per share. It is now December 31, 1994, end of the accounting period, and the records of Cosmo Corporation reflect the following:

Net income ................................... $80,000
Dividends declared and paid during December 1994 ...... 12,500
Market price per share .............................. 33

What would Hart report in their investment account on 12/31/1994, if anything?

a. $165,000
b. $170,000
c. $175,000
d. $202,000
e. $207,000
f. $None of the above — show your answer.
For the questions that follow use the following facts:

On January 1, 1995, Company P purchased 80 percent of the outstanding shares of Company S in the open market for $72,000 cash. On that date, prior to the acquisition, the separate balance sheets of the two companies were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Company P</th>
<th>Company S</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$80,000</td>
<td>$16,000</td>
</tr>
<tr>
<td>Receivable from Company P</td>
<td>80,000</td>
<td>60,000</td>
</tr>
<tr>
<td>Total</td>
<td>$160,000</td>
<td>$80,000</td>
</tr>
<tr>
<td>Liabilities</td>
<td>$26,000</td>
<td>$20,000</td>
</tr>
<tr>
<td>Payable to Company S</td>
<td>4,000</td>
<td>48,000</td>
</tr>
<tr>
<td>Common stock:</td>
<td>100,000</td>
<td>48,000</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>30,000</td>
<td>12,000</td>
</tr>
<tr>
<td>Total</td>
<td>$160,000</td>
<td>$80,000</td>
</tr>
</tbody>
</table>

It was determined that on the date of acquisition the fair-market value of the fixed assets of Company S was $8,000 in excess of their book value as reflected on the books of Company S.

14. How much cash will the consolidated company show?

15. What account, if any, is debited by Company P at the date of acquisition?
   a. Cash
   b. Investment account
   c. Common stock
   d. None
16. What account, if any, is debited by Company S at the date of acquisition?

a. Cash  
b. Investment account  
c. Common stock  
d. None

17. What goodwill will the consolidated company show in its books? (There are two possible answers here — show either and your working.)

18. At what value will total assets be shown on the consolidated balance sheet?
CODE:

1a. 1b. 1c.

1d. 1e. 1f.

2a. 2b.

3 4.

5 6.

7 8

9a 9b 9c.

10a 10b

11a 11b

12a 12b

13 14 15.

16 17 18

Code:__________________