

**John Molson School of Business
Department of Accountancy
ACCO 320 – Financial Reporting II
Dr. Kelly F. Gheyara
Midterm Examination, Winter 2013
Thursday, July 25, 2013**

Student Name: _____ **Student ID:** _____ **Section:** _____

	Estimated time	Marks
Question I-SI Multiple Choice - Concepts	20 minutes	20 Marks
Question I-SII Multiple Choice - Problems	61 minutes	27 Marks
Question II Transactional Situations	<u>99 minutes</u>	<u>73 Marks</u>
TOTAL	<u>180 minutes</u>	<u>120 Marks</u>

Instructions:

1. Make sure you put your name, student ID, and section above on this exam booklet as well as on each answer booklet you use. **There are 2 Questions and 13 Pages.**
2. **ANSWER QUESTION I IN THIS QUESTION BOOKLET. ALL OTHER ANSWERS** must be written on the **ANSWER BOOKLET** and **their number clearly stated**. **Answers written elsewhere or unmarked answers will not be marked.**
3. There is partial credit available on **ALL** Questions and so please make sure you **show ALL your work and computations**.
4. Allocate your time wisely... You have **3** hours to complete this exam. **You MUST STOP all your work** and turn in the exam when the invigilator declares the examination ended.
5. **You MUST return (1) this exam booklet document, and (2) your answer booklet/s. Failure to do so will invoke penalty.**
6. You are permitted to use a non-programmable financial calculator, language dictionaries and one 8.5 x 11" sheet, both sides, containing your notes transcribed in any manner of your choice.

**READ EACH PROBLEM AND THINK CAREFULLY.
GOOD LUCK!! WE WISH YOU ALL WELL!**

QUESTION I - Multiple Choice - 47 Marks

INSTRUCTIONS: Write your answers to **THIS QUESTION** on **THIS BOOKLET ONLY**. Answers written anywhere else **WILL NOT BE GRADED**. Attempt **ALL Questions**.

SECTION I - CONCEPTS: Attempt ALL QUESTIONS. BEST TEN will Be Graded.
(10 x 2 Marks)

Circle the alphabet corresponding to the one single statement which **best** answers each question. Multiple markings on any question will be marked as an incorrect response. **Your answers must be based on IFRS unless otherwise indicated or stated.**

1. Which of the following statements is NOT true about recognition and subsequent accounting for financial liabilities?
 - a. They are initially recognized at their fair value.
 - b. After acquisition, they continue to be accounted for at fair value.
 - c. After acquisition, they are generally accounted for at amortized cost.**
 - d. Short term liabilities, such as accounts payable, are usually recorded at their maturity value.
 - e. The entity has little or no discretion to avoid them.

2. Among Oslo Corp.'s short-term obligations, on its most recent statement of financial position date, are notes payable totalling \$250,000 with the Provincial Bank. These are 90-day notes, renewable for another 90-day period. These notes should be classified on Oslo's statement of financial position as
 - a. current liabilities.
 - b. shareholders' equity.
 - c. deferred charges.
 - d. long-term liabilities.**
 - e. none of the above classifications.

3. At the time of recognition of an asset retirement obligation, the present value should be
 - a. recorded as a separate long-term asset and as an asset retirement obligation.
 - b. expensed and recorded as an asset retirement obligation.
 - c. expensed to "Asset Retirement Expense" in the period actually paid.
 - d. recorded when an asset is impaired and is available for sale.
 - e. added to the related asset cost and recorded as an asset retirement obligation.**

4. Using the revenue approach of accounting for product guarantees and warranty obligations
 - a. the liability is measured at the estimated cost of meeting the obligation.**
 - b. there is no effect on future income.
 - c. the liability is measured at the value of the future services to be provided.
 - d. the liability is measured at the value of the future services to be provided, but there is no effect on future income.

5. Using the effective interest method of bond discount or premium amortization, the periodic interest expense is equal to the
 - a. stated rate multiplied by the face value of the bonds.
 - b. market rate multiplied by the beginning-of-period carrying value of the bonds.**
 - c. stated rate multiplied by the beginning-of-period carrying value of the bonds.
 - d. market rate multiplied by the face value of the bonds.

6. Harriet Ltd. has a likely loss that can only be reasonably estimated within a range of outcomes. No single amount within the range is a better estimate than any other amount. Under ASPE, the loss accrual should be
- a. zero.
 - b. the maximum of the range.
 - c. the mean of the range.
 - d. the minimum of the range.**
 - e. any of the above options is permissible.
7. A put option is a right to
- a. force another party to buy the underlying security.
 - b. repurchase a previously sold underlying security.
 - c. sell the underlying security.**
 - d. buy the underlying security
 - e. do none of the above but is an obligation to put aside a sum of money each period in order to pay off one's liability when it comes due.
8. An advantage of issuing debt instead of equity is that
- a. interest must be paid, regardless of earnings.
 - b. the interest is tax deductible.**
 - c. it increases solvency or liquidity risks.
 - d. no leverage is possible.
9. Dividends on cumulative preferred shares
- a. must be declared and paid each year.
 - b. accumulate over the life of the shares and are paid when the shares are sold.
 - c. must be declared before dividends may be declared on common shares.**
 - d. if in arrears, must be calculated like compound interest.
 - e. if in arrears, must be reported on the balance sheet as long term liabilities.
10. Subscriptions Receivable are reported as
- a. a noncurrent asset.
 - b. a current asset.
 - c. a deduction from retained earnings.
 - d. a deduction from shareholders' equity.**
 - e. revenue from sale of shares.
11. When outstanding preferred shares are purchased and retired by the issuing corporation for less than the original issue price, accounting for the retirement increases
- a. the amount of dividends available to common shareholders.
 - b. the contributed capital of the common shareholders.**
 - c. the asset retirement obligation balance.
 - d. reported income for the period.
 - e. Accumulated Other Comprehensive Income.

3. Using the book value method, IDok should record as a result of this conversion
- no gain or loss.**
 - a loss of \$9,000.
 - other comprehensive income of \$9,000.
 - a gain of \$18,000.
 - none of the above but a Gain/Loss: \$ _____ .
4. Using the book value method, IDok should record as a result of this conversion
- a credit of \$135,000 to Contributed Surplus—Conversion Rights.
 - a debit of \$135,000 to Contributed Surplus—Conversion Rights.**
 - a credit of \$63,000 to Bonds Payable.
 - a debit of \$210,000 to Bonds Payable.
5. JBond Company, a building materials supplier, has \$18,000,000 of notes payable due April 12, 2013. At December 1, 2012, JBond signed an agreement with First Bank to borrow up to \$18,000,000 to refinance the notes on a long-term basis. The agreement specified that borrowings would not exceed 75% of the value of the collateral that JBond provided. At the date of issue of the December 31, 2012, financial statements, the value of JBond's collateral offered to the bank was \$20,000,000. **JBond follows PE GAAP.** On its December 31, 2012, balance sheet, JBond should classify the notes as follows:
- \$15,000,000 long term and \$3,000,000 current liabilities.**
 - \$4,500,000 short term and \$13,500,000 current liabilities.
 - \$18,000,000 of current liabilities.
 - \$18,000,000 of long term liabilities.
 - \$20,000,000 of long term liabilities.
6. Kanz Co., receives non-refundable advance payments with special orders for containers constructed to customer specifications. Related information for 2012 is as follows (\$ in millions):
- | | |
|---|-----|
| Customer advances balances | 110 |
| Advances received with 2012 orders | 195 |
| Advances applicable to orders shipped in 2012 | 180 |
| Advances from orders cancelled in 2012 | 45 |
- What amount should Lake report as a current liability for advances from customers on its Dec. 31, 2012, balance sheet?
- \$0.
 - \$120 .
 - \$125.
 - \$170.
 - none of the above \$ 80 .**
7. On July 1, 2012, Solidz Industries Ltd. issued \$2,000,000, 8% bonds and received cash proceeds of \$1,774,526. The bonds pay interest semi-annually on January 1 and July 1. The maturity date on these bonds is December 31, 2024. Solidz uses the effective interest method of amortizing bond discounts and premiums. The bonds were sold to yield an effective interest rate of 10%. The company will report the bonds payable on its balance sheet as at December 31, 2014 as
- Long term Liability: \$1,783,252 .
 - Only Current Liability: \$88,683 .
 - Current Liability: \$88,683; and Long term Liability: \$1,764,971 .
 - Current Liability: \$13,167; and Long term Liability: 1,721,877 .
 - None of the above options but Current Liability: \$ 0 and Long term Liability: \$ 1,802,036 .**

8. At December 31, 2014, the 14% bonds payable by Orange Corp. had a net carrying value of \$632,000. The bonds, which had a face value of \$600,000, had been issued at a premium to yield 10%. Orange uses the effective interest method of amortization of bond premium. Interest is paid on June 30 and December 31. On June 30, 2015, Orange retired the bonds at 103 plus accrued interest. The gain or loss on retirement, ignoring taxes, is
- a. Gain: \$ 14,000.
 - b. Loss: \$ 240.
 - c. Loss: \$ 786.
 - d. Loss: \$32,000.
 - e. none of the above but a Gain/Loss: \$ 3,600 Gain .**
9. On January 1, 2007, Kilrey Corporation issued \$200,000 of 8% bonds due in 15 years. The bonds were issued to yield an effective rate of 10%. Interest payment dates are June 30 and December 31. The bonds were callable at 103 at any date two years after issue. Kilrey uses the effective interest method to account for its bonds. The issue price of the bonds on January 1, 2007 would be
- a. \$169,256.**
 - b. \$206,000.
 - c. \$200,000.
 - d. \$169,575
 - e. none of the above: \$ _____ .

SECTION II - PROBLEMS

1.	A		$\$182,000 + 1,820,000 - 1,750,000$	\$252,000
2.	E	Bonds/P	$\$600,000 \times 0.95$	\$ 570,000
		Warrants	$600 \times 10 \times \$3$	18,000
		Conversion	$\$624,000 - 570,000 - 18,000$	36,000
3.	A			
4.	B	C/S-Conv	$(900/3,000) \times 450,000$	\$135,000
5.	A	Long-term	$20,000,000 \times 0.75$	$\$15,000,000$
		Current	$18,000,000 - 15,000,000$	$3,000,000$
6.	E	Current	$110 + 195 - 180 - 45$	\$80M
7.	E	Current		\$0
		Long-term		\$1,822,745

Balance			\$1,774,526
Jan. 13	80,000	88,726	1,783,252
July 13	80,000	89,163	1,792,415
Jan 14	80,000	89,621	1,802,036
July 14	80,000	90,102	1,812,138
Jan 15	80,000	90,607	1,822,745

8.	E	$632,000 + (31,600 - 42,000)$		
		$= 621,600 - 618,000$	3,600 Gain	

9.	A			
		Cashflow \$8,000 P30/0.05	$8,000 \times 15.37245$	122,980
		Cashflow \$200,000 P30/0.05	$200,000 \times 0.23138$	<u>46,276</u>
				<u>169,256</u>

Question II - Transactional Situations (73 MARKS)

Stated below are *four separate* situations which were encountered during 2012. You are required to prepare appropriate journal entries, *where required and in proper format*, to record ALL transaction effects. Where entries are not required, specifically state so and give any alternative treatment. **Follow IFRS unless otherwise specifically stated and a December 31 year end.**

Situation 1 - [15 Marks]

Silvarado, Inc., installed and placed into production on January 1, 2012, equipment costing \$48 million for a new metal refinery. The equipment has a useful life of 20 years and the company expects to recover \$7 million from the sale of scrap at the end of its useful life. The company, at the time of securing a business permit, had contracted to dismantle the plant and to clean up the premises as part of the legal agreement. It estimates the total dismantling and removal costs to amount to \$16 million at the end of the asset's useful life.

In addition to these costs, the company also incurred additional restoration costs, related to a special production process, for the first two years only. These costs, amounted to \$1.5 million annually (to be accrued at the beginning of the year), and will also be paid in total (\$3.0 million) when the equipment is dismantled. Silvarado considers an annual discount rate of 3% to be appropriate.

On January 1, 2032, the company commissions Rapid Restorators, Inc., to dismantle and remove the equipment, and to clean up the site for a total payment of \$19.4 million.

Required:

Prepare all appropriate entries (under IFRS unless specifically mentioned otherwise), to record the following:

- a] The dismantling costs and the asset retirement obligation on January 1, 2012.
- b] The additional restoration costs during production for the year, ending December 31, 2012.
- c] The depreciation expense for 2012 to be recorded on December 31, 2012.
- d] The accretion costs for the period ended December 31 2012.
- e] The additional restoration costs during production for the year, ending December 31, 2013.
- f] Now assume PE GAAP. The additional restoration costs during production for the year, ending December 31, 2012.
- g] The payment for the dismantling and cleanup contract on January 1, 2032.

Situation 2: [8 Marks]

As of December 31, 2012, the liabilities outstanding of Planet Corporation included the following:

1. Cash dividends on the common shares, \$55,000, payable on February 15, 2013.
2. Note payable to Alberta Bank, \$470,000, due February 20, 2013.
3. Serial bonds, \$2,000,000, of which \$500,000 matures during 2013.
4. Note payable to Third Toronto Bank, \$400,000, due February 27, 2013. Planet has the intent and the ability to refinance the note payable to Third Toronto Bank with the issuance of common shares.

The following transactions occurred early in 2013:

February 15: The cash dividends on the common shares were paid.

February 20: The note payable to Alberta Bank was paid.

February 26: 40,000 common shares were issued for \$500,000. \$400,000 of the proceeds were used to liquidate the note payable to Third Toronto Bank.

March 1: The financial statements for 2012 were issued.

Required : (SHOW ALL WORK)

- a. How should the above liabilities be presented at December 31, 2012? The liabilities should be properly classified between current and long-term, and a partial balance sheet should be presented.
(8 Marks)
-

Situation 3: [9 Marks]

US district judge Alvin K. Hellerstein who has been presiding over most of the litigation stemming from the Sept. 11, 2001, terrorist attacks, will decide whether the owners of the World Trade Center can try to make aviation companies pay billions of dollars in damages.

The trial judge will decide whether World Trade Center Properties and its affiliates can receive more than the \$4.9 billion in insurance proceeds they have already recovered since the Sept. 11 attacks by terrorists who hijacked commercial airliners and flew them into the 110-story twin towers. The attacks led to the destruction of the towers as well as a third trade center building.

Hellerstein has already stated earlier that the maximum the trade center owners could recover from aviation defendants would be \$3.5 billion. The trade center owners argue it has cost more than \$7 billion to replace the twin towers and more than \$1 billion to replace the third trade center building that fell.

The aviation defendants, (including American Airlines Inc, AMR Corp, United Airlines Inc, US Airways Inc, Colgan Air Inc, Boeing Co and the Massachusetts Port Authority, among others), say Hellerstein should conclude that the trade center owners are entitled to no award because they've already been reimbursed by insurance companies for the same damage they are trying to force aviation defendants to pay for as well. They also note that the replacement buildings are more modern and fancy than the original buildings. In their court papers, the trade center's owners insist that recovering money from aviation defendants would not result in a "double recovery" because of the billions they've already received from insurers. And they note that their rebuilding costs "far exceed" what they've received from insurers.

The aviation defendants estimate the probability of paying damages amounting to \$8 billion at 20%. They are more expect to pay 6.5 billion with a probability of 35%. Further they assess that the probability of paying 5 billion would be 30% and that of paying just 3.5 billion, as earlier indicated by the trial judge, would be 10%. For the extreme position of the trial judge awarding no damages, the probability assessed was 5%.

- a. You are **required** to explain the criteria for recognizing and reporting of such liabilities both under the new IFRS rules and under PE GAAP.
- b. You are **required** to estimate the liability judgment, under the new IFRS rules and to record the expected liability. You are also **required** to explain, in reasonable detail, what other reporting procedures are required for this situation.

Situation 4: [20 Marks]

On January 1, 2011, I-World Corporation issued 8% bonds due on December 31, 2025 years. The bonds, with a maturity value of \$100,000 were issued to yield an effective rate of 10%. Interest payment dates are June 30 and December 31. The bonds were callable at 105 at any date two years after issue.

Along with the bonds, the company also issued 4 warrants with each \$1,000 bond. Each warrant entitled its holder to purchase one share in I-World for \$152. The market value of the warrants was \$34 each and of the bonds without the warrants and conversion rights, was \$84,628. I-World uses the effective interest method to account for its bonds. Two transaction occurred in subsequent years following the year of issue.

Firstly, on March 31, 2014, 70% of the warrant holders exercised their option when the strike price of I-World's shares reached \$250. Secondly, because of a lower interest rate and a significant change in the corporation's credit rating, I-World decided to call 40% of the bonds outstanding on December 31, 2019. The following amortization schedule (for the entire \$100,000 bond issue) is extracted from I-World's accounting information system:

Period	Cash	Interest Expense	Amortization	Total Unamortized Premium/Discount	Carrying Value
June 30, 2019	x,xxx	x,xxx	xxx	9,394	xxx,xxx
Dec. 31, 2019	x,xxx	x,xxx	xxx	8,863	xxx,xxx
June 30, 2020	x,xxx	x,xxx	xxx	8,306	xxx,xxx

Required: (SHOW ALL WORK)

- a. Prepare the appropriate journal entry to record the issue of the bonds on January 1, 2011. **(3 marks)**
- b. Prepare the appropriate journal entry to record all effects related to the bonds on June 30, 2011. **(3 marks)**
- c. Determine the amount of the interest expense for 2011. **(3 marks)**
- d. Show how the bonds will be reported on December 31, 2011. **(3 marks)**
- e. Prepare the appropriate journal entry to record the transaction on March 31, 2014. **(4 marks)**
- f. Prepare the appropriate journal entry to record the transaction on December 31, 2019. **(4 marks)**

Situation 5: [21 Marks]

On January 1, 2012, the Canon Company presents account balances for some of its accounts in the ledger, as follows:

Common Shares - authorized to issue 2,000,000 shares :	\$ 840,000
Preferred Shares - authorized to issue 250,000 shares :	100,000
(\$2 dividend per \$10 share, cumulative and fully participating)	
Contributed Surplus - Common:	60,000
Contributed Surplus - Preferred:	250,000
Retained Earnings	2,000,000

The average cost of its common share is \$28 per share. During the year, the company entered into the following equity related transactions:

- Jan. 30: Issued to the public 20,000 shares of common stock for cash at \$30 per share.
- Mar. 17: Issued 1,000 shares of common and 2,000 shares of preferred stock in exchange for furniture and fixtures. The fair market value of common stock as of that date was \$39 per share and the furniture and fixtures were appraised at \$59,000. The fair market value of preferred stock was unknown.
- April 1: Declared a 4-for-1 split on the common shares.
- May 4: Purchased and cancelled 4,000 common shares with market price at \$8.90 per share.
- Dec. 1: Declared and distributed a 10% stock dividend on common shares. The fair market value of the stock was \$8.50
- Dec. 31: Declared dividends of \$534,600. Dividends on preferred stock have not been declared for the past 3 years. All preferred shareholders are entitled to dividend arrears.

Required: (SHOW ALL WORK IN NEAT SCHEDULES)

- Prepare the appropriate journal entries to record each of the transactions stated above. Make sure to show computational work in detail.
- Determine how much cash dividends were declared for each share holder group.

SITUATION 1

- a] **To record the dismantling costs related to the equipment and the asset retirement obligation:**
[The present value of \$16 million due in 20 years at 3% per year discount rate]
 $16,000,000 \times 0.55368 = \$8,858,880$

Equipment	8,858,880	
Asset Retirement Obligations		8,858,880

- b] **To record the additional restoration costs related to the production process and the asset retirement obligation at December 31, 2012:**
[Present value of estimated clean up costs of \$1,500,000 at 3% per year in 20 periods]
 $\$1,500,000 \times 0.55368 \text{ months} = \$830,530.$

Production Overhead Costs	830,530	
Asset Retirement Obligations		830,530

- c] **The depreciation expense for 2012 on the total equipment to be recorded on December 31, 2012.**
[$\$41\text{M} + \$8,858,880$]/20 Periods = $\$2,492.944$

Depreciation Expense	2,492.944	
Accumulated Depreciation – Equipment		2,492.944

- d] **The accretion (interest) costs for 2012 on December 31.**

Interest Expense	290,682	
Asset Retirement Obligations		290,682

[$0.03 \times (8,858,880 + 830,530)$]

- e] The additional restoration costs during production for the year, ending December 31, 2013.
[Present value of estimated clean up costs of \$1,500,000 at 3% per year in 20 periods]
 $\$1,500,000 \times 0.57029 \text{ months} = \$855,435$

Production Overhead Costs	855,435	
Asset Retirement Obligations		855,435

- f] **Now assume PE GAAP. The additional restoration costs during production for the year, ending December 31, 2012.**

Equipment	830,530	
Asset Retirement Obligations		830,530

- g] **The payment for the dismantling and cleanup contract on July 1, 2021.**

Asset Retirement Obligations	19,000,000	
Loss on Settlement of ARO	400,000	
Cash		19,400,000

Situation 2 [8 Marks]

***Current liabilities:**

Dividends payable on common shares	\$ 55,000*	
Notes payable—Alberta Bank	470,000*	
Currently maturing portion of serial bonds	<u>500,000*</u>	
Total current liabilities		\$1,025,000

***Long-term debt:**

Note payable—Third Toronto Bank, refinanced in January, 2007	\$ 400,000**	
Serial bonds not maturing currently	<u>1,500,000*</u>	
Total long-term debt		<u>1,900,000</u>

Total Liabilities **\$2,925,000**

Situation 3 [9 Marks]

- a. The *CICA Handbook for Private Enterprises section 3290* [or PEGAAP] requires that, when some amount within the range of liability appears at the time to be a better estimate than any other amount within the range, that amount be accrued*. When no amount within the range is a better estimate than any other amount, the dollar amount at the low end of the range is accrued (or recorded)* and the dollar amount of the high end of the range is disclosed in the footnotes.*

Under IFRS, the term “contingent liabilities” is eliminated.* Either a situation results in a liability or it does not;* a contingency relates to a future event, not whether the obligation exists at the reporting date.* Liabilities can arise only from unconditional (or non-contingent) obligations.* IFRS requirements would be similar to the PE GAAP except that IFRS uses the criterion of “probable”* to determine the chance of occurrence of a confirming future event and which is interpreted to mean “more likely than not.”* This is a somewhat lower standard than the “likely” required under private enterprise standards.* If the amount cannot be measured reliably, no liability is recognized under IFRS.* However, the standard indicates that it is only in very rare circumstances that such a situation would be the case.* If recognized, IAS 37 requires the **best estimate** and an “**expected value**” method to be used to measure the liability.* This approach assigned weights to the possible outcomes according to their associated probabilities* when measuring the amount of the provision to make if a range of possible amounts is available.

- b. Expected value of the liability:

Expected Loss	Probability	Amount
\$8 billion	20%	\$1.600 billion
6.5 billion	35%	2.275 billion
5 billion	30%	1.500 billion
3.5 billion	10%	0.350 billion
no damages	5%	<u>0.0</u>
Expected Loss		<u>\$5.725</u>

\$5.725 billion should be accrued and recorded as a loss* (a journal entry must be passed by the companies in their books of account]. Also the maximum liability of \$8 billion* along with other details* of the names of the parties involved in the lawsuit and other pertinent details about the lawsuit* must be disclosed in the footnotes*.

Situation 4 [20 Marks]

a. Cash	98,228	
Bonds Payable		84,628
Contributed Surplus - Warrants [100 x 34 x 4]		13,600
b. Interest Xp [84,628 x .05]	4,231	
Cash [.04 x 100,000]		4,000
Bonds Payable		231
c. 4,231 (as above) + (.05 x(84,628 + 231)) 4,231 + 4,243 = 8,474		
d. 84,628 + 231 + 243 = \$85,102		
Longterm Liabilities		
Bonds Payable	\$85,102	
e. Cash [4 x 100 x 152 x 0.7]	42,560	
Contributed Surplus Warrants [0.7 x 13,600]	9,520	
Common shares		52,080
f. Bonds Payable	36,455	
[(100,000 - 8,863) x 0.4]		
Loss on Retirement of Bonds	5,545	
Cash (100,000 x 0.4 x 1.05]		42,000

Situation 5 [21 Marks]

Jan. 30	Cash	600,000	
	Common Shares		600,000
Mar. 17	Furniture and Fixtures	59,000	
	Common Shares		39,000
	Preferred Shares		20,000
Apr. 1	Memorandum Entry: Issued 4:1 stock split resulting in 51,000 shares converted to 204,000 shares. $[(840,000/28) + 20,000 + 1,000]$		
May 4	Common Shares	29,000	
	[[$(840,000 + 600,000 + 39,000)/(204,000)$] x 4,000]		
	Contribution Surplus-Common	6,600	
	Cash (4,000 x 8.90)		35,600
Dec.1	Retained Earnings [20,000 x 8.50]	170,000	
	Common Shares		170,000
Dec. 31	Retained earnings	534,000	
	Dividends Payable-Preferred		103,903
	Dividends-Common		430,697

Common Shares	Number	Amount
Beginning	30,000	840,000
Issued	20,000	600,000
Furniture	<u>1,000</u>	<u>39,000</u>
Total	<u>51,000</u>	<u>1,479,000</u>
4:1 Stock Split	204,000	
Cancelled	(4,000)	(29,000)
Stock Dividends	<u>20,000</u>	<u>170,000</u>
Ending	<u>220,000</u>	<u>1,620,000</u>

Preferred Shares		
Beginning	10,000	100,000
Furniture	<u>2,000</u>	<u>20,000</u>
Ending	<u>12,000</u>	<u>120,000</u>

Dividends	Preferred	Common	Total
Declared			<u>534,600</u>
Arrears	72,000		(72,000)
Current	<u>31,903</u>	<u>430,697</u>	<u>462,600</u>
Total	<u>103,903</u>	<u>430,697</u>	<u>534,600</u>