

**John Molson School of Business
Department of Accountancy
ACCO 320 – Financial Reporting II
Dr. Kelly F. Gheyara
Midterm Examination, Summer 2014
Friday, May 30, 2014**

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

		Estimated time	Marks
Question I	Multiple Choice	80 minutes	60 Marks
Question II	Liabilities	55 minutes	34 Marks
Question III	Shareholders' Equity	<u>45 minutes</u>	<u>26 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 5 Questions and 14 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.**

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

QUESTION I - Multiple Choice - 35 Marks

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

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.**

Use the information stated below to answer Questions 1 to 3. Each Question is independent of the other.

Diaz Corp., is in financial difficulty and cannot pay a \$900,000 note plus \$90,000 accrued interest payable to Cameron Ltd, which is now due on December 31, 2010. Cameron agrees to accept from Diaz, equipment that has a fair value of \$435,000, an original cost of \$720,000 and accumulated depreciation of \$345,000. Cameron also forgives the accrued interest, extends the maturity date to December 31, 2013, reduces the face amount of the note to \$375,000, and reduces the interest rate to 6%, which is also the current market rate, with interest payable at the end of each year.

1. Diaz should recognize a gain or loss on the transfer of the equipment of
 - a. \$0.
 - b. **\$60,000 gain.**
 - c. \$90,000 gain.
 - d. \$285,000 loss.
 - e. none of the above but \$ _____ .

2. Diaz should recognize a gain or loss on the partial settlement and restructure of the debt of
 - a. \$0.
 - b. \$22,500 gain.
 - c. \$112,500 loss.
 - d. **\$180,000 gain.**
 - e. none of the above but \$ _____ .

3. Diaz should record interest expense for 2013 of
 - a. \$0.
 - b. **\$22,500.**
 - c. \$45,000.
 - d. \$67,500.
 - e. none of the above but \$ _____ .

4. At January 1, 2011, Ball Corp., owned a machine that had cost \$100,000. The accumulated depreciation to date was \$60,000, estimated residual value was \$6,000, and fair value was \$160,000. On January 4, 2011, this machine suffered major damage due to Snow Corp's actions and was written off as worthless. In October 2011, a court awarded damages of \$160,000 against Snow in favour of Ball. At December 31, 2011, the final outcome of this case was awaiting appeal and was, therefore, uncertain. The company uses ASPE. At December 31, 2011, what amount should Ball accrue for this gain contingency?
 - a. \$160,000.
 - b. \$130,000.
 - c. \$100,000.
 - d. **\$0.**
 - e. none of the above but \$ _____ .

5. William Corp uses the expense approach to account for warranties. They sell a used car for \$15,000 on Oct 25, 2011, with a one year warranty covering parts and labour. Warranty expense is estimated at 2% of the selling price, and the appropriate adjusting entry is recorded at Dec 31, 2011. On March 12, 2012, the car is returned for warranty repairs. This cost William \$100 in parts and \$60 in labour. When recording the March 12, 2012 transaction, William would debit Warranty Expense with
- Zero.**
 - \$ 60.
 - \$100.
 - \$160.
 - none of the above but \$_____.
6. Windy Chemicals, Inc., using ASPE, is being sued for illness caused to local residents as a result of negligence on the company's part in permitting the local residents to be exposed to highly toxic chemicals. Wendy's lawyer states (**in S1**) that it is likely that Wendy will lose the suit and be found liable for a judgement costing Wendy anywhere from \$600,000 to \$3,000,000. Alternatively, in a separate scenario, consider that the lawyer states (**in S2**) that the most likely cost will be \$1,900,000. As a result of both the above independent facts, Wendy should accrue in the two cases
- S1:** record a loss contingency of \$600,000 and disclose an additional contingency of up to \$2,400,000;
S2: record a no loss contingency but disclose a contingency of \$1,900,000.
 - S1:** record a a loss contingency of \$3,000,000 and disclose the dollar amount of the lower possibility;
S2: record a a loss contingency of up to \$1,900,000 and disclose an additional contingency of up to \$1,100,000.
 - S1:** record an average loss contingency of \$1,800,000 and disclose an additional contingency of up to \$1,200,000;
S2: record a no loss contingency but disclose a contingency of \$600,000 to \$3,000,000.
 - S1:** record a loss contingency of \$600,000 and disclose an additional contingency of up to \$2,400,000;
S2: record a loss contingency of up to \$1,900,000 and disclose an additional contingency of up to \$1,100,000.

Use the information stated below to answer Questions 7 and 8. Each Question is independent of the other.

Arabella Inc., acquired a new gold mine for a sum of \$23,000,000 and began operating it on January 1, 2010. It is required by provincial law to reclaim the site once mining operations are completed. The company estimates that the mine will close in 20 years and that the future mine reclamation will cost \$5,000,000. Arabella uses a 6% discount rate.

7. The entry to record the asset retirement obligation is
- | | | |
|------------------------------------|------------------|------------------|
| a. Reclamation Expense | 93,541 | |
| Asset Retirement Obligation | | 93,541 |
| b. Reclamation Expense | 250,000 | |
| Asset Retirement Obligation | | 250,000 |
| c. Gold Mine | 5,000,000 | |
| Asset Retirement Obligation | | 5,000,000 |
| d. Gold Mine | 1,559,000 | |
| Asset Retirement Obligation | | 1,559,000 |
| e. none of the above but _____. | | |

8. What will be the amount of the increase at the end of 2010 and to what account will it be charged?
- \$250,000 debited to Reclamation Expense/Gold Mine/ Accretion Expense/Interest Expense
[Circle the correct one].
 - \$93540 debited** to Reclamation Expense/Gold Mine/ **Accretion Expense/Interest** Expense
[Circle the correct one].
 - \$300,000 debited to Reclamation Expense/Gold Mine/ Accretion Expense/Interest Expense
[Circle the correct one].
 - \$1,150,000 debited to Reclamation Expense/Gold Mine/ Accretion Expense/Interest Expense
[Circle the correct one].
 - none of the above but \$ _____ .

Use the information stated below to answer Questions 9 to 11. Each Question is independent of the other.

K-Nine Kuzeens Corp., includes one coupon in each bag of dog food it sells. In return for four coupons, customers receive a dog chew bone that the company purchases for \$3.00 each. Given K-Nine's past experience, it appears that 60% of the coupons issued will be redeemed by customers. There were 7,000 bones at the beginning of 2012 as inventory. During 2012, 200,000 bags of dog food were sold, 24,000 bones were purchased, and 90,000 coupons were redeemed. During 2013, 240,000 bags of dog food were sold, 25,000 bones were purchased, and 120,000 coupons were redeemed.

9. Determine the amount of the premium expense to be reported in the Income Statement of the years 2012 and 2013.
- \$67,500 and \$90,000 respectively.
 - \$72,000 and \$75,000 respectively.
 - \$360,000 and \$432,000 respectively.
 - \$67,500 and \$90,000 respectively.
 - none of the above but \$ 90,000 and \$108,000** .
10. Determine the amount of the premium liability to be reported on the Balance Sheet as at December, 31 for the years 2012 and 2013.
- \$22,500 and \$40,500 respectively.**
 - \$22,500 and \$zero respectively.
 - \$82,500 and \$90,000 respectively.
 - \$82,500 and \$18,000 respectively.
 - none of the above but \$ _____ .
11. Determine the number of units and the dollar amount remaining as inventory of the bones as at December 31, 2013.
- 3,500 bones and debit balance of \$10,500 respectively.**
 - 5,000 bones and credit balance of \$15,000 respectively.
 - 8,500 bones and debit balance of \$25,500 respectively.
 - 25,000 and debit balance of \$75,000 respectively.
 - none of the above but _____ .

Use the information stated below to answer Questions 12 and 13. Each Question is independent of the other.

On January 1, 2011, Habs, Inc., issued eight-year 6% bonds with a face value of \$500,000, with interest payable semi-annually on June 30 and December 31. The bonds were sold to yield 8%.

12. The issue price of the bonds on January 1, 2011 would be
- \$500,000
 - \$356,335
 - \$444,780
 - \$499,800
 - none of the above but \$ 441,740** .

13. On December 31, 2012, Habs repurchased all the bonds on the open market at 102 and cancelled them. Determine the gain or loss on the retirement of the bonds.
- Loss on Retirement of bonds, \$56,924.**
 - Gain on Retirement of bonds, \$56,924.
 - Loss on Retirement of bonds, \$10,000.
 - Gain on Retirement of bonds, \$10,000.
 - none of the above but \$ _____ .
14. A call option is a right to
- force another party to buy the underlying security.
 - repurchase a previously sold underlying security.
 - sell the underlying security.
 - buy the underlying security.**
 - convert the underlying security into another security.
15. A convertible debt security is recorded as a debt instrument
- with the equity feature ignored.
 - with the equity feature described in a note.
 - and an equity component.**
 - with the conversion component credited to the Common Shares account.
 - which is always issued at a premium.

Use the information stated below to answer Questions 12 and 13. Each Question is independent of the other.

Harriet Ltd follows ASPE and records both debt and equity components. It issued \$6,000,000 (par value), 9%, ten-year convertible bonds on July 1, 2012 at 98 **plus accrued interest**. The bonds were dated April 1, 2012 with interest payable on April 1 and October 1. If the bonds had not been convertible, they would have sold for 96.1 plus accrued interest. The bond discount is amortized on a straight-line basis.

16. The effective interest rate on the bonds when they were issued would be
- 9%.
 - Above 9%.**
 - Below 9%.
 - Cannot be determined from the given data.
17. The total cash received upon issue would be
- \$6,000,000
 - \$5,766,000
 - \$6,540,000
 - \$5,880,000
 - none of the above but \$ 6,015,000** _____ .
18. If Interest Payable were credited when the bonds were issued, what is the amount of the net debit to Interest Expense on October 1, 2012?
- \$129,000.
 - \$135,000.
 - \$141,000.**
 - \$143,923.
 - none of the above but \$ _____ .

19. The board of directors of Hawkee, Ltd., issued 100,000 new common shares on January 1, 2014. On that date, the company already had 500,000 common shares issued and outstanding. Konzerve Investments, Inc., were holding 40,000 common shares of Hawkee and insisted upon being offered to purchase 8,000 shares of the new issue based on the clauses contained in the charter of Hawkee. The reason for this would be that
- Hawkee, Inc., did not have the right of limited liability.
 - Konzerve had the right to receive preferential treatment over other shareholders.
 - Konzerve had treasury share rights.
 - The shareholders of Hawkee, including Konzerve, had pre-emptive rights.**
 - None of the above reasons apply.

20. On June 30, 2011, when Forte Inc's shares were selling at \$65 per share, the company reported its capital accounts as follows:

Common Shares, no par, 40,000 shares issued and outstanding	\$1,600,000
Retained Earnings	<u>3,200,000</u>

If a 10% stock dividend were declared and distributed, the **balances** of the Common Shares account and the Retained Earnings, after the distribution, would be reported as

- Common Shares \$260,000; Retained Earnings \$260,000.
 - Common Shares \$1,600,000; Retained Earnings \$3,200,000.
 - Common Shares \$1,860,000; Retained Earnings \$2,940,000.**
 - Common Shares \$1,760,000; Retained Earnings \$3,040,000.
 - Common Shares \$1,760,000; Retained Earnings \$3,300,000.
21. Sackville Ltd. has outstanding 100,000 no par common shares and 20,000 no par, \$0.40, preferred shares issued at \$5 each. The preferred shares are cumulative and non-participating. Dividends have been paid every year except the past two years and the current year. Assuming that \$21,000 will be distributed as a dividend in the current year, how much will the *preferred* and *common* shareholders receive respectively?
- Preferred \$21,000 and Common \$0 respectively.**
 - Preferred \$ 0 and Common \$21,000 respectively.
 - Preferred \$16,000 and Common \$5,000 respectively.
 - Preferred \$8,000 and Common \$13,000 respectively.
 - none of the above but Preferred \$ _____ and Common \$ _____ respectively

SOLUTION I - 30 Marks

1. b $\$435,000 - (\$720,000 - \$345,000) = \$60,000.$
2. d $(\$900,000 + \$90,000) - (\$435,000 + \$375,000) = \$180,000.$
3. b $\$375,000 \times .06 = \$22,500.$
4. d Gain contingencies never recognized.
5. a Expense was recognized in the previous year
6. d
7. d $0.3118 \times \$5,000,000$
8. b $0.06 \times 1,5590,000$ Debit Accretion Expense
9. e $(\$3 \times 30,000)$ and $(\$3 \times 36,000) = 108,000$
10. a $\$3 \times 7,500 = \$22,500;$ and $(\$3 \times 13,500) = \$40,500$
11. a $[7,000 + 24,000 - 22,000 + 25,000 - 30,000] = 3,500$ Bones @ $\$3 = \$10,500$

12. e. none of the above but \$ 441,740
- | | |
|--|-----------------------|
| PV of \$500,000 (0.04, 16) = 0.53391 x 500,000 | 266,955 |
| PVA of \$15,000 (0.04, 16) = 11.6523 x 15,000 | <u>174,845</u> |
| Issue Price | <u>441,740</u> |

13. a

<u>Amortization Table</u>				
Balance				441,740
1	15,000	17,670	2,670	444,410
2	15,000	17,776	2,776	447,186
3	15,000	17,887	2,887	450,073
4	15,000	18,003	3,003	453,076
Purchase Price @ 102	500,000 x 1.02		\$510,000	
Amortized Cost			<u>(453,076)</u>	
Loss			<u>56,924</u>	

14. d
 15. c
 16. b.
 17. e. none of the above but \$ 6,015,000
- | | | |
|-----------------------|-------------------------|---------------------------|
| Cash from Issue Price | .98 x 6,000,000 | \$5,880,000 |
| Cash From Interest | 0.09 x 3/12 x 6,000,000 | <u>135,000</u> |
| Cash Received | | <u>\$6,015,000</u> |

18. c Discount = $6,000,000 * (1 - 0.961) = 234,000$
Bond Life (120 - 3) = 117 Months
Amortized @ 3 Months = $(234,000 / 117) * 3 = 6,000$
Debit to Interest Expense: $\{(.09 \times 0.5 \times 6,000,000) + 6,000\} - (135,000)$ [being Interest Payable]

19. d

20. c $[0.1 \times 40,000 \times 65] = \$260,000$. RE: $[3,200,000 - 260,000]$ and CS: $[1,600,000 + 260,000]$

21. a

QUESTION II - Transactional Liability Situations - 34 Marks

Transaction I: Warranties - 7 Marks

In 2009, Future Corp, Inc. introduced a new line of televisions that carry a two-year warranty against manufacturer's defects. Based on past experience with similar products, warranty costs are expected to be approximately 1% of sales during the first year of the warranty and approximately an additional 3% of sales during the second year of the warranty. Sales were \$6,000,000 for the first year of the product's life and actual warranty expenditures were \$29,000 during that year. Assume that all sales were on credit.

Required:

1. Prepare journal entries to summarize the sales and any aspects of the warranty for 2009.
2. What amount should Future Corp report as a liability at December 31, 2009?

Answer TI

Accounts receivable	6,000,000	
Sales		6,000,000
Warranty expense (4% x 6,000,000)	240,000	
Estimated warranty liability		240,000
Estimated warranty liability	29,000	
Cash, parts, supplies etc.[Miscellaneous Accounts]		29,000
Estimated liability	240,000	
Actual expenditures	<u>(29,000)</u>	
Balance Dec 31	<u>211,000</u>	

Transaction II: Selling Price Of Bonds - 8 Marks

1. Determine the issue price on January 1, 2011, of bonds with a \$5,000,000 face value and maturing in ten years under the following terms -
 - (i) Coupon rate 12% yielding 10% in the market; interest paid semiannually on January 1 and July 1.
 - (ii) Coupon rate 10% yielding 12% in the market; interest paid annually on December 31.The company has a year ending on December 31.
2. In 1(i) above, prepare the journal entry for any bond effect on December 31, 2011.
3. In 1(i) above, show with appropriate computations, what will be reported in the Financial Statements on December 31, 2012.

Answer TII

1.(i)	\$5,623,113		
	\$5,000,000 x 0.37689	\$1,884,450	
	300,000 x 12.46221	<u>3,738,663</u>	
		<u>\$5,623,113</u>	
(ii)	\$4,434,960		
	\$5,000,000 x 0.32197	\$1,609,850	
	500,000 x 5.65022	<u>2,825,110</u>	
		<u>\$4,434,960</u>	
2.	Interest Xp [0.1 x 5,623,113 x 0.5]	281,156	
	Bonds/P	18,844	
	Interest/P [0.12 x 5M x 0.5]		300,000
	[JE 1]		

3.	<u>Amortization Table</u>			
	Balance			5,523,113
1	300,000	281,556	(18,844)	5,604,269
2	300,000	280,213	(19,787)	5,584,482
3	300,000	279,224	(20,776)	5,563,706
4	300,000	278,185	(21,815)	5,541,891
5	300,000	277,095	(22,905)	5,518,986
6	300,000	275,949	(24,051)	5,494,935

Report:	In Income Statement:	(279,224 + 278,185) = 557,409 as Interest Expense
	In Balance Sheet:	(22,905 + 24,051) = 46,956
	Current Liability:	Bonds Payable \$46,956
	Long term Liability:	Bonds Payable \$5,494,935

Transaction III: Entries Related To Bonds - 9 Marks

Prepare journal entries to record the following transactions related to Concord National Bank's [CNB] long-term bonds.

- (a) On April 1, 2010, CNB issued \$600,000, 9% bonds (dated January 1, 2010) for \$645,442 **including accrued interest**. Interest is payable annually on January 1, and the bonds mature on January 1, 2020.
- (b) On July 1, 2017, CNB retired \$180,000 of the bonds at 102 plus accrued interest on the redeemed bonds. CNB uses straight-line amortization.

Answer TIII

(a)	Cash	645,442	
	Bonds Payable.		631,942
	Interest Expense ($\$600,000 \times 9\% \times 3/12$).		13,500
(b)	Interest Expense.....	7,609	
	Bonds Payable ($\$31,942 \times .3 \times 6/117$).	491	
	Cash ($\$180,000 \times 9\% \times 6/12$).....		8,100
	Bonds Payable.	182,457	
	Loss on Redemption of Bonds.....	1,143	
	Cash [$600,000 \times 1.02 \times 0.3$].		183,600
		
	(Premium $\$31,942 \times .3 \times 87/117 = \$7,126$) and (Bonds/P $631,942 \times 0.3 = 189,583$)		
	And Bk Value = $189,538 - 7,126 = 182,457$		

Transaction IV: Convertible Bonds - 10 Marks

Daetor Ltd issued 10 year 6% convertible bonds on January 1, 2009 at 104. The bonds had a face value of \$500,000 and interest was paid twice a year on July 1 and January 1. After one year, each \$1,000 bond could be converted into 50 common shares. The bonds would have been sold for \$375,378 without the conversion feature to yield a 10% return. The company records both the debt and equity components of the transaction, as per ASPE.

On July 2, 2010, (after the payment of the interest on July 1), 3/5ths of the bonds were converted into shares. Daetor uses the effective interest method for recording bond interest and uses the book value method to record security conversions.

Required:

- 1) Prepare the journal entry to record bond issue.
- 2) Prepare the journal entry to record interest paid on July 1, 2010.
- 3) Prepare the journal entry to record bond conversion on July 2, 2010.

Answer TIV

1.	Cash (\$500,000 x 1.04)	520,000	
	Contributed surplus – conversion rights (520,000 – 375,378)		144,622
	Bonds payable (face value)		375,378
2.	Interest expense	19,155	
	Bonds payable		4,155
	Cash [0.06 x 500,000 x 0.5]		15,000
3.	Bonds payable ((387,259 x 0.6)	232,355	
	Contributed surplus – conversion rights (144,622 x 3/5)	86,773	
	Common shares (to balance)		319,128

		<u>Amortization Table</u>		
3.	Balance			375,378
	1 15,000	18,769	3,769	379,147
	2 15,000	18,957	3,957	383,104
	3 15,000	19,155	4,155	387,259

Question III - Shareholders' Equity (26 Marks)

SECTION A: Equity Transactions (14 Marks)

Prepare all journal entries necessary to record the transactions of KrizMaz, 2009, as stated below. Where an entry is not required, specify what alternate action is to be taken.

- January 1 The company was granted a charter in 2007 that authorized issuance of 90,000 \$20 par value, 5% cumulative preferred shares and 240,000 no par value common shares. It had 26,000 common shares issued and outstanding for \$940,000 plus retained earnings of \$350,000.
- 8,000 common shares are issued to the founders of the corporation for services rendered towards incorporating the company. The estimated cost presented by the founders was \$162,000
- March 1 16,000 common shares were issued in exchange for land valued by property evaluators at \$683,000. At the date of stock issuance, the common shares were being traded at \$35 per share.
- April 30 The company issues 21,000 common shares at \$57 each on subscription basis. \$20 were to be paid on application on April 30 and the balance to be paid on June 30.
- June 30 The balance of the instalments were received and the company issued the specified number of common shares. Applicants for 1,000 shares however, failed to pay the final instalment and the company, as per the terms of the issue, forfeited their first instalment.
- September 1 The company issued a 10% stock dividend on all common shares outstanding. The market value of a common share is \$65 on this date.
- December 1 A two-for-one stock split was declared.

Answer A (A)

January 1: .	No entry necessary.		
	Organization Expense	162,000	
	Common Shares		162,000
March 1:	Land	560,000	
	Common Shares (35 x 16,000)		560,000
April 30:	Subscriptions Receivable (57 x 21,000)	1,197,000	
	Common Shares Subscribed		1,197,000
	Cash (20 x 21,000)	420,000	
	Subscriptions Receivable		420,000
June 30:	Cash (20,000 x \$37)	740,000	
	Subscriptions Receivable		740,000
	Common Shares Subscribed (57 x 1,000)	57,000	
	Subscriptions Receivable (37 x 1,000)		37,000
	Contributed Surplus - Forfeited Shares		20,000
	Common Shares Subscribed	1,140,000	
	Common Shares (57 x 20,000)		1,140,000
September 1:	Retained Earnings	455,000	
	Common Shares (65 x 10% X 70,000)		455,000
December 1:	No Entry For Stock Splits OR Proforma Entry OR A Dummy Entry Issued 2-1 stock split; 231,000 shares issued for 77,000 shares		

SECTION B: Dividends on Preferred and Common shares (12 Marks)

Capitals, Inc. has \$600,000, \$0.90, no par value preferred shares (60,000 shares) and \$900,000 of no par value common shares outstanding (90,000 shares). No dividends have been paid or declared during 2008 and 2009. As of December 31, 2010, it is desired to distribute cash of \$306,000 as dividends.

Required (SHOW ALL WORK):

How much dividends will the preferred and common shareholders each receive under each of the following assumptions:

- A. The preferred shares are non-cumulative.
- B. The preferred shares are cumulative and non-participating.
- C. The preferred shares are cumulative and fully participating.

B) Dividends on preferred and common shares (12 Marks)

(a)		<u>Preferred</u>	<u>Common</u>	<u>Total</u>
	Current year's preferred dividend(\$ $.90 \times 60,000$)	\$54,000	\$ —	\$ 54,000
	Remainder to common		<u>252,000</u>	<u>252,000</u>
		<u>\$54,000</u>	<u>\$252,000</u>	<u>\$306,000</u>
(b)		<u>Preferred</u>	<u>Common</u>	<u>Total</u>
	Dividends in arrears, (\$ $.90 \times 60K \times 2$)	\$108,000	\$ —	\$ 108,000
	Current year's dividend to preferred	54,000	—	54,000
	Remainder to common		<u>144,000</u>	<u>144,000</u>
		<u>\$162,000</u>	<u>\$144,000</u>	<u>\$ 306,000</u>
(c)		<u>Preferred</u>	<u>Common</u>	<u>Total</u>
	Dividends in arrears, (\$ $.90 \times 60K \times 2$)	\$ 108,000	\$ —	\$ 108,000
	Current year's dividend @9%	54,000	81,000	135,000
	Excess dividend (\$ $600 \div \$1,500$) x 63K	<u>25,200</u>	<u>37,800</u>	<u>63,000</u>
		<u>\$187,200</u>	<u>\$118,800</u>	<u>\$ 306,000</u>