John Molson School of Business
Department of Accountancy
ACCO 320 B Intermediate Accounting II
Prof. Trevor Hagyard, Dr. Kelly F. Gheyara
Midterm Examination, Fall 2012
Friday, October 19, 2012

Student Name:____________________________**Student ID:**_________________**Section**:________

		Estimated time	Marks
Question I	Short Questions	43 minutes	24 Marks
Question II	Short Theory Questions	27 minutes	15 Marks
Question III	Transactional Situations	110 minutes	61 Marks
TOTAL		**180 minutes**	**100 Marks**

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 3 Questions and 13 Pages.**

2. **ANSWER QUESTION I AND II 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 wiselyYYou 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 - Short Questions - 24 Marks

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

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 data given below to answer Questions 1 and 2 below.

1. Hillside Corporation has 80,000 shares of common stock issued at $55 each and still outstanding. Contributed surplus relating to this class of stock is $15,000 and relating to all classes of stock is $60,000. The balance in retained earnings is $175,000. If Hillside repurchases 2,000 shares of this class of common stock for $62, the balance in the common stock account would decrease by:
   a. $62,000
   b. $124,000
   c. $110,000
   d. $55,000
   e. none of the above but $ _______________ .

2. By how much if any will the contributed surplus relating to this class of common stock decrease?
   a. $14,000
   b. $1,000
   c. zero
   d. $1,500
   e. none of the above but $ _______________ .

Use the data given below to answer **Questions 3 and 4 below**.

XY Corporation sold $150,000 three year 8% (payable 4% semiannually) bonds dated March 1, 20X1, for $156,400 plus accrued interest. Interest is payable each February 28 and August 31. The bonds were sold July 1, 20X1. XY has a year-end of December 31 and uses the straight-line method of amortizing all bond discounts or premiums.

3. How much would XY record for interest expense in 20X1 relating to this bond issue?
   a. $4,800
   b $1,200
   c. $7,200
   d. $2,000
   e. $2,400

4. How much cash was received for the bond sale on July 1, 20X1?
   a. $156,400
   b. $164,400
   c. $150,000
   d. $160,400
   e. $164,000

5. Company D Owed Bank N a $60,000, 10% (payable each December 31), four-year note payable dated January 1, 20X1. Company D has experienced severe financial difficulties and is likely to default on the note and interest during 20X3 unless some concessions are made. Consequently on January 2, 20X3 the parties agreed to restructure the debt as follows:
   - interest payments each year to be reduced to 5% of the new principal per year for 20X3 and 20X4;
   - reduce the principal to $50,000.

   Assume the current market rate of interest is 7%. Immediately after restructuring, Company D would have what balance for its note payable?
   a. $45,640
   b. $52,690
   c. $60,000
   d. $50,000
   e. None of the above but $ ____________________ .

Use the data given below to answer (rounded to the nearest dollar), **Questions 6 and 7 below**.

On January 1, 2010 Ryan Corporation issued bonds with a face value of $5,000,000 and a coupon rate of 5% for $4,670,865. The effective rate on the bonds is 6%. The bonds pay interest each January 1 and July 1 and mature on July 1, 2018.

The company uses effective rate amortization method.

6. The journal entry (and amount) to recognize the interest expense on **December 31, 2010** would be:
   a. Debit Interest Expense [$140,126]; Credit Bonds Payable [$15,126]; Credit Cash [$125,000].
   b. Debit Interest Expense [$140,580]; Credit Bonds Payable [$15,580]; Credit Interest Payable [$125,000].
   c. Debit Interest Expense [$150,000]; Credit Bonds Payable [$25,000]; Interest Payable [$125,000].
   d. Debit Interest Expense [$140,126]; Credit Cash [$125,000]; Credit Bonds Payable [$15,126].
   e. None of the above but: ____ .

7. On December 31, 2011, the total amount for bonds payable reported by Ryan on its Balance sheet would be:
   a. Long-term Liability: Bonds Payable [$5,000,000].
   b. Long-term Liability: Bonds Payable [$4,734,147].
   c. Long-term Liability: Bonds Payable [$4,717,618].
   d. Long-term Liability: Bonds Payable [$4,751,171].
   e. None of the above but: $ _________________ .

Use the following information to answer Questions 8 and 9.

On May 1, 2008, Jacques Co. issued $2,500,000 of 7% bonds at 103, which are due on April 30, 2018. Ten detachable stock warrants were attached to each $1,000 bond. Each warrant entitles the holder to purchase one share of Jacques= no par value common shares at a price of $80. The bonds without the warrants would sell at 94. On May 1, 2008, the fair value of Jacques= common shares was $65 each.

8. On May 1, 2008, Jacques should credit Contributed Surplus from Stock Warrants for
   a. $200,000.
   b. $15,000.
   c. $20,600.
   d. $225,000.
   e. None of the above but $ ________________ .

9. On July 1, 2008, 40% of the warrant holders exchanged their warrants for shares in Jacques. Determine the amount which the company should transfer to Common Shares Account.
   a. Credit of $1,215,000.
   b. Credit of $940,000.
   c. Credit of $890,000.
   d. Credit of $1,025,000.
   e. None of the above but $ __________________ .

Use the following information to answer Questions 10, 11 and 12. Each question is independent.

On June 30, 2011, Ole Town, Inc's reported its capital accounts as follows:

Common Shares, no par, 40,000 shares outstanding	$1,600,000
Retained Earnings	3,200,000

10. If a $2 per share cash dividend were declared but not paid. The capital accounts balances would show revised balances as follows:
    a. Common Shares: $1,520,000 and Retained Earnings: $3,280,000.
    b. Common Shares: $1,600,000 and Retained Earnings: $3,120,000.
    c. Common Shares: $1,600,000 and Retained Earnings: $3,200,000.
    d. Common Shares: $1,520,000 and Retained Earnings: $3,120,000.
    e. None of the above but: ____ .

11. A 100% stock dividend (considered as a large stock dividend) was declared and distributed. The capital accounts balances would show revised balances as follows:
    a. Common Shares: $1,760,000; Retained Earnings: $2,940,000 and Contributed Surplus: $100,000.
    b. Common Shares: $1,860,000 and Retained Earnings: $2,940,000.
    c. Common Shares: $1,600,000 and Retained Earnings: $3,200,000.
    d. Common Shares: $1,860,000 and Retained Earnings: $3,460,000.
    e. None of the above but: ____ .

12. A 10% stock dividend was declared and distributed. Just after the date of declaration, the shares were traded at $65 per share. The capital accounts balances would show revised balances as follows:

a. Common Shares: $1,600,000; Retained Earnings: $2,940,000 and Contributed Surplus: $260,000.
b. Common Shares: $1,860,000 and Retained Earnings: $2,940,000.
c. Common Shares: $1,760,000 and Retained Earnings: $3,040,000.
d. Common Shares: $1,760,000 and Retained Earnings: $3,460,000.
e. None of the above but: would also accept at $59.09; thus common shares = 1,836,360; RE $2,963640 .

Question II - Short Theory Questions - 15 Marks

INSTRUCTIONS: Write your answers to **THIS QUESTION** on **THIS BOOKLET ONLY.** Answers written anywhere else **WILL NOT BE GRADED.** **Attempt ALL ELEVEN Questions.** Your **best 10** answers will be counted.

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.

1. A firm sells goods each year for which it extends warranty coverage averaging 2% of total sales for two years from the date of sale. During 1999, it sold $100,000 worth of goods. During 1999, the firm incurred $1,000 to service goods sold in 1998 and $200 to service goods sold in 1999. What is warranty expense for 1999?
   a. $200. b. $1,200.
   c. $3,200. d. $1,000.
   e. None of the above but $ 2,000 .

2. On December 31, 2007, Sherbrooke Co., which uses IFRS, has $4,000,000 of notes payable due on February 14, 2008. On February 2, 2008, Main borrowed a long-term loan of $2,400,000 from Quebec Provincial Bank and used $1,000,000 additional cash to pay $3,400,000 of the notes payable. The amount of the notes payable that should be reported as Current Liabilities [and Long-Term Liabilities] on the December 31, 2007 balance sheet that is issued on March 5, 2008 is
   a. $4,000,000 Current [$0 Long-term].
   b. $600,000 Current [$3,400,000 Long-term].
   c. $1,600,000 Current [$2,400,000 Long-term].
   d. $1,600,000 Current and [$0 Long-term]..
   e. None of the above but $ ____________________ .

3. In **[2] above**, Sherbrooke Co., reports under PE GAAP. The amount of the notes payable that should be reported as Current Liabilities [and Long-Term Liabilities] on the December 31, 2007 balance sheet that is issued on March 5, 2008 is
   a. $0 Current [$4,000,000 Long-term].
   b. $600,000 Current [$3,400,000 Long-term].
   c. $1,000,000 Current [$3,000,000 Long-term].
   d. $1,600,000 Current and [$0 Long-term].
   e. None of the above but $ 1,600,000 Current and [$2,400,000 Long-term] .

4. When non-par value shares are reacquired at a cost greater than their original issue price and cancelled, what account(s) should be debited?
   a. The share account for the total cost.
   b. The share account for the average issue price, contributed surplus for the additional amount, and lastly retained earnings for any remaining amount.
   c. The share account for the average per share amount, retained earnings for the additional amount, and lastly contributed surplus for any remaining amount.
   d. The share account for the average per share amount and a loss account for the additional amount.

Use the data given below to answer (rounded to the nearest dollar), the following **TWO** Questions.

On November 7, 2009 local residents sued Bravo Corporation for excess noise emissions that caused some of them to seek psychiatric attention. The total lawsuit was for $8,000,000. Bravo immediately consulted some of its litigation lawyers for their opinion on the probability of the lawsuit being successful and that the amount damages that may have to be paid. It also seeks advice on what it should report on its December 31, 2009 financial statements.

5. Its lawyers were of the opinion that the company would lose the suit but were unsure of the amount of the loss award. However, given prior decisions on similar cases, they strongly felt that with some negotiations, the case could be settled out of court for $4,700,000. Under **PE GAAP**, the company would
   a. accrue a provision loss of $8,000,000 with no financial statement disclosure necessary
   b. accrue a provision loss for an amount equal to the expected value of the damages claimed with a note disclosure for the balance.
   c. accrue a provision loss for an amount equal to the present value of the damages claimed with a note disclosure for the balance.
   d. simply disclose the details regarding the lawsuit in a note
   e. do nothing as the lawsuit has not yet ended.
   f. none of the above but <u>accrue a provision loss of $4,700,000 with a note disclose for the balance</u>.

6. Its lawyers were of the opinion that the company would lose the suit but were unsure of the amount of the loss award. However, given prior decisions on similar cases, they felt that with some negotiations, it was probable the amount of the settlement in the case could be as follows:

   $2.5 million with a 10% certainty;
   $3.5 million with a 40% certainty;
   $4.5 million with a 40% certainty; and
   $5.5 million with a 10% certainty.

   Under **IFRS**, the company would
   a. accrue a provision loss of $8,000,000 with no financial statement disclosure necessary
   b. accrue a provision loss of $4,000,000 with a note disclose for the balance.
   c. accrue a provision loss for an amount equal to the present value of the damages claimed with a note disclosure for the balance.
   d. simply disclose the details regarding the lawsuit in a note
   e. do nothing as the lawsuit has not yet ended.
   f. none of the above but <u>accrue provision loss of $4,000,000 with a descriptive note disclosure</u> .

7. Under IFRS, even if the entity plans to refinance long term debt, the current portion must be reported as a current liability UNLESS
   a. long term financing has been completed after the balance sheet date, but before the financial statements are released.
   b. management intends to refinance the debt on a long-term basis.

c. **at balance sheet date, the entity expects to refinance under an existing agreement for at least a year, and the decision is solely at its discretion.**
d. management intends to discharge the debt by issuing shares.

8. Which of the following is a current liability?
   a. Preferred dividends in arrears.
   b. Stock dividends distributable.
   c. Preferred cash dividends payable.
   d. Stock splits.
   e. Warrants issued and not yet exercised.
   f. None of the above.

9. Under IFRS, at the time of an asset acquisition, for the recognition of an asset retirement obligation for decontamination of a site at the end the asset=s useful life, the present value of the decontamination costs should be
   a. added to the related asset cost and recorded as an asset retirement obligation.
   b. expensed to product cost and recorded as an asset retirement obligation.
   c. expensed to AAsset Retirement Expense@ in the period actually paid.
   d. recorded as a separate long-term asset and as an asset retirement obligation.

10. At January 1, 2011, Konstruk 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 the city=s actions and was written off as worthless. In October 2011, a court awarded damages of $160,000 against the city and in favour of Konstruk. At December 31, 2011, the final outcome of this case was awaiting appeal by the city and was, therefore, uncertain. However, Konstruk's attorney felt it highly likely that the city's appeal will be denied. He was of the opinion that there was a 70% probability of being awarded $160,000, a 20% probability of being awarded $40,000 and only a 10% probability of not being awarded any damages. At December 31, 2011, what amount, if any, should Konstruk report for this gain contingency under IFRS?
    a. $160,000.
    b. $130,000.
    c. $100,000.
    d. $136,000.
    e. None of the above but $ <u>120,000 OR Note disclosure for the expected amount.</u> .

11. The pre-emptive right enables a shareholder to
    a. share proportionately in any new issues of shares in the same class.
    b. receive cash dividends before other classes of shares without the pre-emptive right.
    c. sell shares back to the corporation at the option of the shareholder.
    d. receive the same amount of dividends on a percentage basis as the preferred shareholders.
    e. prevent the directors of the company from exercising any voting rights.

Question III - Transactional Situations (61 MARKS)

Stated below are ***five separate*** situations which were encountered during 2011. 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

Kleenz, Inc., installed and placed into production on July 1, 2011, equipment costing $23.5 million for a new industrial laundry. The equipment has a useful life of 10 years and the company expects to recover $3.5 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 clean up the premises as part of the legal agreement. It estimates the total dismantling and removal costs to amount to $6 million at the end of the asset=s useful life. In addition to these costs, the company also estimated ongoing cleanup costs during production, to be $60,000 semiannually which will also be paid in total ($1.2 million) when the equipment is dismantled. Kleenz considers a semi-annual discount rate of 3% to be appropriate. On July 1, 21, the company contracts with Rapid Restorators, Inc., to dismantle and remove the equipment, and to clean up the site and pays a total sum of $7 million.

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

a] The dismantling costs and the asset retirement obligation on July 1, 2011.
b] The clean up costs during production for the six months ended December 31, 2011.
c] [b] above under PE GAAP.
d] The depreciation expense for 2011 to be recorded on December 31, 2011.
e] Determine the amount for depreciation expense in [d] above under PE GAAP [NO JOURNAL ENTRY REQUIRED].
f] The accretion costs for the period ended December 31 2011.
g] The payment for the dismantling and cleanup contract on July 1, 2021.
[12 Marks]

Situation 2

On December 31, 2011, Obramo, Inc. reports $600,000, $1.25, no par value preferred shares (60,000 shares) and $1,200,000 of no par value common shares outstanding (90,000 shares). No dividends have been paid or declared during 2009 and 2010. As of December 31, 2011, it is desired to distribute $423,000 in dividends.

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

(a) The preferred is noncumulative and nonparticipating. (2 marks)
(b) The preferred is cumulative and nonparticipating. (2.5 marks)
(c) The preferred is cumulative and fully participating. (5.5 marks)

[10 Marks]

Situation 3

Auto Partz, Inc., has recently introduced new magnetic brake rotors for use in high end car models. It introduced the product sometime early in January 2011 and had sold 300,000 units in the first year ending December 31. Each unit is sold for $500 and carries a two-year repair or replacement warranty. Warranties on similar products are available with competitors at $75 each. After some research, it was determined that 35% of the revenues would be recognized in the year of sale and the balance in the year following the sale. The company estimates its warranty expenses to be $25 per unit and has recorded $3 million as actual warranty costs in the first year.

Prepare the entries required, using the revenue method, to record the transactions:
a] on the sales of the rotors in the first year.
b] for the warranty costs in the first year.
c] adjustments at the end of the first year.

Prepare the entries required, using the expense method, to record the transactions:
d] on the sales of the rotors in the first year.
e] for the warranty costs in the first year.
f] adjustments at the end of the first year.

g] Is the cash basis for recording warranty expenses permitted under accounting practice? Give three conditions when this practice is permissible.

[12 Marks]

Situation 4

4. On July 1, 2009, Lonez Inc., reported a balance of $274,554 for Unamortized discount on a bond issue, Face value $4,600,000. On October 1, 2009, the company acquired and retired these bonds on the market. The coupon rate was 5% (interest payable on January 1 and July 1) and the effective rate 6% per annum respectively. Interest owing since the last semi-annual interest payment date, i.e., for the interim period, was paid in cash upon retirement of the bonds.

Prepare the entries required to record the following:
a] the interest expense for the interim period.
b] the retirement of the bonds assuming the bonds were acquired at 103 in the market.
c] the retirement of the bonds assuming the bonds were acquired in exchange for 46,000 shares which were being traded at $103 in the market.
d] assume the bonds in c] above were convertible bonds with a zero balance for Contributed Surplus -Conversion.

[12 Marks]

Situation 5

Bidenz Corp. is authorized to issue 8,000,000 no par value common shares. On December 31, 2010, the company reported 500,000 shares issued $5,942,000.

Prepare all entries required to record the following equity related transactions as listed below.

a] Jan. 1: 40,000 common shares were sold for cash at $11 per share with issue costs amounting to $10,000.
b] Mar. 1: 65,000 shares were repurchased in the market at $11.60 and cancelled.
c] Apr. 1: Subscribers apply for and are allocated to purchase 300,000 common shares at $15 per share with a 50% down payment. All subscriptions are accepted.
d] July 1: The company calls for 30% of the remaining subscriptions due. All subscribers pay the amounts due.
e] Oct. 1: The remaining subscription due are called in. Subscribers for 2,000 shares default and they forfeit all of their deposits as per the terms of the issue.
f] Nov. 1: The company issues the shares to the eligible subscribers.

[15 Marks]

The End - - - Time To Party

QUESTION III - SOLUTIONS (65 MARKS)

<u>SITUATION 1</u>

a] To record the dismantling costs related to the equipment and the asset retirement obligation:
[The present value of $6 million due in 20 years at 3% per year discount rate]
6,000,000 x 0.55368 = $3,322,080

Equipment	3,322,080	
Asset Retirement Obligations		3,322,080

b] To record the cleanup costs related to the production process and the asset retirement obligation at December 31, 2011:
[Present value of estimated clean up costs of $60,000 at 3% per half-year in 19 periods]
$60,000 x 0.57029 months = $34,217

Production Overhead Costs	34,217	
Asset Retirement Obligations		34,217

c] [b] above under PE GAAP.

Equipment	34,217	
Asset Retirement Obligations		34,217

d] The depreciation expense for 2011 on the <u>total equipment</u> to be recorded on December 31, 2011.
$20M + $3,322,080]/20 Periods = $1,166,104

Depreciation Expense	1,166,104	
Accumulated Depreciation - Equipment		1,166,104

e] Determine the amount for depreciation expense in [d] above under PE GAAP.

[$20M + $3,322,080 + 34,217]/20 Periods = $1,167,815

f] The accretion (interest) costs for 2011 on December 31.
Present Value of 3M after 19 periods less $3,322,080
[(6M x 0.57029) - $3,322,080] = $99,660; OR [$3,322,080 x 0.3]

Interest Expense	99,660	
Asset Retirement Obligations		99,660

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

Asset Retirement Obligations	7,200,000	
Gain on Settlement of ARO		200,000
Cash		7,000,000

SITUATION 2

	Preferred	Common	Total
(a) **(2 marks)**			
Dividends in arrears	$ -	$ -	$ -
Current year's dividend to preferred	75,000	-	75,000
Remainder to common		348,000	348,000
	$75,000	**$348,000**	**$ 423,000**

	Preferred	Common	Total
(b) (3 marks)			
Dividends in arrears, $.80 H 40,000 for two years	$150,000	$ -	$ 150,000
Current year's dividend to preferred	75,000	-	75,000
Remainder to common		198,000	198,000
	$225,000	**$198,000**	**$423,,000**

	Preferred	Common	Total
(c) (5 marks)			
Dividends in arrears, $.80 H 40,000 for two years	$150,000		$150,000
Current year's dividend (12.5%)	75,000	150,000	225,000
Participating dividend)	16,000	32,000	48,000
	$241,000	**$182,000**	**$423,000**

SITUATION 3

		Debit	Credit
a]	Cash/Accounts Receivable	150,000,000	
	Sales		127,500,000
	Unearned warranty revenue		22,500,000
b]	Warranty Expense	3,000,000	
	Cash, Inventory, Accrued Payroll		3,000,000
c]	Unearned warranty revenue	7,875,000	
	Warranty revenue		7,875,000
d]	Cash/Accounts Receivable	150,000,000	
	Sales		150,000,000
e]	Warranty Expense	3,000,000	
	Cash, Inventory, Accrued Payroll		3,000,000
f]	Warranty Expense	4,500,000	
	Estimated Liability for Warranties		4,500,000

g] The cash method of accounting for warranty costs is acceptable when the costs are not material or when the warranty period is relatively short. It may also be acceptable when the amount of the liability cannot be reasonably estimated or if future costs are not likely to be incurred.

SITUATION 4

a] **Accrual of Interest for 3 months (3 Marks)**

Interest Expense	64,882	
(4,600,000 - 274,554) x 3% x 3/6		
Bonds Payable [Plug]		7,382
Interest Payable		57,500
(4,600,000 x 2.5% x 3/6)		

b] **Extinguishment of Bond (3 Marks)**

Bonds Payable [4,600K - 274,554 + 7,382]	4,332,828*	
Int. payable	57,500	
Loss on Retirement	347,672	
Cash [4,600K x 1.03]		4,738,000

c] As Above in [b]:

Bonds Payable	4,332,828	
Interest Payable	57,500	
Loss on Retirement	405,172	
Cash		57,500
Common Shares		4,738,000

NOTE: If Cash is debited in interest expense entry in [a] above, then the entry in [c] will not have Interest Payable and Cash in it. The same is applicable to [b] above and to [d] below.

d]

Bonds Payable	4,332,828	
Interest Payable	57,500	
Cash		57,500
Common Shares		4,332,828

[NOTE: No Gain/Loss Is To Be Recognized]

SITUATION 5

(a)	Cash	440,000	
	Common Shares (12 x 80,000)		440,000
	Common Shares	10,000	
	Cash		10,000
(b)	Common Shares [Avg @ $11.8]	767,000	
	Cash [@$11.60]		754,000
	Contributed Surplus		13,000
(c)	Subscriptions Receivable (15 x 300,000)	4,500,000	
	Common Shares Subscribed		4,500,000
	Cash (0.50 x 4,500,000)	2,250,000	
	Subscriptions Receivable		2,250,000
(d)	Cash (0.30 x 4,500,000 x 0.5)	675,000	
	Subscriptions Receivable		675,000
			[also 1,350,000]
(e)	Cash (0.70 x 0.5 x 4,500,000 - 0,500)	1,564,500	
	Subscriptions Receivable		1,564,500
			[also 894,000]
	Common Shares Subscribed 2K x 15)	30,000	
	Subscriptions Receivable		10,500
			[also 6,000]
	Contributed Surplus - Subscriptions		19,500
			[also 24,000]
(g)	Common Shares Subscribed	4,470,000	
	Common Shares (4,500K - 30K)		4,470,000

Period	Cash interest paid	Int. expense (3%)	Amortization	Closing net liability
Jan 1, 2010 (open)				4,670,865
July 1, 2010	125,000	140,126	(15,126)	4,685,991
Jan 1, 2011	125,000	140,580	(15,580)	4,701,571
July 1, 2011	125,000	141,047	(16,047)	4,717,618
Jan 1, 2012	125,000	141,529	(16,529)	4,734,147
July 1, 2012	125,000	142,024	(17,024)	4,751,171
Jan 1, 2013	125,000	142,535	(17,535)	4,768,706
July 1, 2013	125,000	143,061	(18,061)	4,786,767