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Mid Term Exam
Intermediate Financial Accounting II
Fall 2009
ADM3340 Sections A & B

(SUGGESTED SOLUTIONS)

Name: _____ ID#: _____

Section	Tick one
A (Professor Conheady)	
B (Professor Collier)	

Instructions:

1. Write your name and student ID number, and indicate your section, above.
2. Cell phones and all other communication devices are prohibited.
3. This examination "SUGGESTED SOLUTION" comprises **4** questions over **21** numbered pages. Answer all questions in this booklet. Booklet is **not** to be removed from the examination room. You may not separate the pages.
4. Limit your answer to the space provided. Blank sheets for rough work and supporting calculations are given at the end of each question.
5. This exam is out of 100 marks and is 2½ hours long. You should budget approximately 1.5 minutes per mark.
6. Please do not ask the invigilator or the professor any questions, as they will not be answered. State reasonable assumptions, if you feel they are necessary.
7. Present value tables are provided on page 21.
8. Language (non-electronic) dictionaries are allowed.
9. You ***must*** sign the Statement of Academic integrity on page 2 of this exam.

Question		Marks
1	Multiple Choice	/15
2	Investments	/34
3	Liabilities	/25
4	Shareholders Equity	/26
TOTAL		/100

You must sign the following

Statement of Academic Integrity
The Telfer School of Management does not condone academic fraud, an act by a student that may result in a false academic evaluation of that student or of another student. Without limiting the generality of this definition, academic fraud occurs when a student commits any of the following offences: plagiarism or cheating of any kind, use of books, notes, mathematical tables, dictionaries or other study aid unless an explicit written note to the contrary appears on the exam, to have in his/her possession cameras, radios (radios with head sets), tape recorders, pagers, cell phones, or any other communication device which has not been previously authorized in writing.

Statement to be signed by the student:
I have read the text on academic integrity and I pledge not to have committed or attempted to commit academic fraud in this examination.

Signed:_____

Note: an examination without this signed statement will not be graded and will receive an exam grade of zero.

QUESTION 1 (15 marks)
Multiple choice questions: enter your answer in the table below.

1	B
2	C
3	D
4	A
5	B

6	D
7	D
8	C
9	A
10	C

11	E
12	A
13	C
14	A
15	A

Multiple choice questions: enter your answer in the table above.

Each question is worth 1 mark.

1) Cash dividends declared out of current earnings are distributed to an investor. How will the investor's investment account be affected by those dividends under each of the following accounting methods?

	Cost Method	Equity Method
1	No effect	No effect
2	No effect	Decrease
3	Decrease	No effect
4	Decrease	Decrease

a) Choice 1
b) Choice 2
c) Choice 3
d) Choice 4

2) A debt security is classified as held-to-maturity if the reporting entity has the
a) positive intent to hold it to maturity.
b) positive intent to hold it to maturity and has held it for more than one year.
c) positive intent to hold it to maturity and has the ability to hold it to maturity.
d) intent to hold it for an indefinite period of time.

3) Held-to-maturity investments are accounted for at
a) fair value.
b) lower of cost and fair value.
c) net present value.
d) amortized cost.

4) The premium or discount on available-for-sale investments in bonds is
a) amortized over the life of the bond.
b) recorded as an expense or revenue.
c) not amortized.
d) amortized over the expected holding period.

5) When an investment changes its classification from available-for-sale to held-to-maturity the transfer takes place at:
a) equity
b) fair value
c) carrying value
d) market value

6) Which of the following statements is *false*?
a) A company may exclude a short-term obligation from current liabilities if the firm intends to refinance the obligation on a long-term basis and demonstrates an ability to complete the refinancing.
b) Cash dividends should be recorded as a liability when they are declared by the board of directors.
c) Under the cash basis method, warranty costs are charged to expense as they are paid.
d) Federal income taxes withheld from employees' payroll cheques should never be recorded as a liability since the employer will eventually remit the amounts withheld to the appropriate taxing authority.

7) Which of the following is the proper way to report a gain contingency?
a) As an accrued amount
b) As deferred revenue
c) As an account receivable with additional disclosure explaining the nature of the contingency

d) As a disclosure only

8) Assume that a manufacturing corporation has (1) good quality control, (2) a one-year operating cycle, (3) a relatively stable pattern of annual sales, and (4) a continuing policy of guaranteeing new products against defects for three years that has resulted in material but rather stable warranty repair and replacement costs. Any liability for the warranty
   a) should be reported as long-term.
   b) should be reported as current.
   c) should be reported as part current and part long-term.
   d) need not be disclosed.

9) If bonds are initially sold at a discount and the straight-line method of amortization is used, interest expense in the earlier years will
   a) exceed what it would have been had the effective interest method of amortization been used.
   b) be less than what it would have been had the effective interest method of amortization been used.
   c) be the same as what it would have been had the effective interest method of amortization been used.
   d) be less than the stated (nominal) rate of interest.

10) When a company sets aside money in a trust such that the investment and any return will be sufficient to pay the principal and the interest to the creditor, but the creditor does not release the company from the primary obligation to settle the debt, this type of arrangement is known as
   a) substantive repayment.
   b) in-substance refunding.
   c) in-substance defeasance.
   d) legal defeasance.

11) When 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 original issue price, the existing contributed capital account from prior retirements in this class of shares, if any, and any remaining balance to retained earnings.
   c) The share account for the average per share amount and retained earnings for the additional amount.
   d) The share account for the average per share amount and a loss account for the additional amount.
   e) None of the above.

12) Gahan Corp. purchased its own shares on January 1, 2008 for $20,000 and debited the treasury shares account for the purchase price. The shares were subsequently sold for $12,000. The $8,000 difference between the cost and sales price should be recorded as a deduction from
   a) contributed surplus to the extent that previous net "gains" from sales or retirements of the same class of shares are included therein; otherwise, from retained earnings.
   b) contributed surplus without regard as to whether or not there have been previous net "gains" from sales or retirements of the same class of shares included therein.
   c) retained earnings.
   d) net income.

13) Which of the following statements about property dividends is *not* true?
   a) A property dividend is a nonreciprocal transfer of nonmonetary assets.
   b) A property dividend is also called a dividend in kind.
   c) The accounting for a property dividend should be based on the carrying value (book value) of the nonmonetary assets transferred.
   d) All of these statements are true.

14) The issuer of a 5% common stock dividend to common shareholders preferably should transfer from retained earnings to contributed capital an amount equal to the
   a) market value of the shares issued.
   b) book value of the shares issued.
   c) minimum legal requirements.
   d) par or stated value of the shares issued.

15) A company wishes to raise funds by issuing either bonds or cumulative preferred shares. How will the annual interest or dividend affect total liabilities each year?
   a) Interest is a current liability each year (until paid).
   b) Undeclared cumulative preferred dividends are a current liability each year (until paid).
   c) Both interest and undeclared cumulative preferred dividends are current liabilities each year (until paid).
   d) Interest and cumulative preferred dividends in arrears are current liabilities each year (until paid).

QUESTION 2 (34 marks)

Answer both parts. Each part is independent.

PART 1: (19 marks)

The following amortization schedule is for an investment in Baker Corp.'s $100,000, five-year bonds with a 7% interest rate and a 5% yield, which were purchased on December 31, 2007, for $108,660 :

	Cash Received	Interest Income	Bond Premium Amortized	Amortized Cost of Bonds
Dec. 31, 2007				$108,660
Dec. 31, 2008	$7,000	$5,433	$1,567	107,093
Dec. 31, 2009	7,000	5,354	1,646	105,447
Dec. 31, 2010	7,000	5,272	1,728	103,719
Dec. 31, 2011	7,000	5,186	1,814	101,905
Dec. 31, 2012	7,000	5,095	1,905	100,000

The following schedule presents a comparison of the amortized cost and fair value of the bonds at year end :

	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2012
Amortized cost	$107,093	$105,447	$103,719	$101,905	$100,000
Fair value	$106,500	$107,500	$105,650	$103,000	$100,000

Required

Part A (assume the bonds are classified originally as held-to-maturity) (15 marks)

a) Prepare the journal entry to record the purchase of these bonds on December 31, 2007, assuming the bonds are classified as held to maturity. (2 marks)

b) Prepare the journal entry(ies) related to the held-to-maturity bonds for 2008. (2 marks)

c) Prepare the journal entry(ies) related to the held-to-maturity bonds for 2010. (2 marks)

d) Prepare the journal entry(ies), if required, to reclassify the bond investment to the available-for-sale category on December 31, 2010. (3 marks)

e) Briefly discuss the circumstances under which a held-to-maturity investment is allowed to be reclassified. Do any of these circumstances apply to Baker Corporation based on the information given? If yes, explain why. If no, explain the consequences. (6 marks)

Part B (assume the bonds are classified originally as available for sale) (4 marks)
Each part [(f) and g)] is independent.

f) Calculate the holding gain or holding loss that would be recorded on the Baker Corporation AFS bonds on December 31, 2010 (show all supporting calculations; no journal entries are required). (2 marks)

g) Prepare the journal entry(ies), if required, to reclassify the available-for-sale bond investment to the held-to-maturity category on December 31, 2011. (2 marks)

Part A

(a) December 31, 2007

Investment in Baker Corp. Bonds (HTM)	108,660	
Cash		108,660

(b) December 31, 2008

Cash	7,000	
Investment in Baker Corp. Bonds (HTM)		1,567
Interest Income		5,433

(c) December 31, 2010

Cash	7,000	
Investment in Baker Corp. Bonds (HTM)		1,728
Interest Income		5,272

(d) December 31, 2010

Investment in Baker Bonds (AFS)	105,650	
Investment in Baker Corp. Bonds (HTM)		103,719
Holding Gain on Transfer of Investment (OCI)		1,931

(e) Transfers in and out of the Held-to-Maturity classification are restricted to the following circumstances:

1. When the sale or reclassification is so close to the maturity date (e.g., three months) that interest rate changes do not materially affect its fair value.
2. When substantially all of the principal that was outstanding at acquisition has been collected.
3. When the sale or reclassification is due to a non-recurring, isolated event that is beyond management's ability to anticipate or control.

The first two circumstances do not apply in this case. If the reclassification is not due to exception #3, the held-to-maturity classification is tainted and for a period of two years the entity is not permitted to use this classification for any of its financial assets.

Part B

Each part [(f) and g)] is independent.

(f) December 31, 2010 (this entry not required)

Holding Loss on Investment in Bonds (OCI)	122	
Investment in Baker Corp. Bonds (AFS)		122
[$105,650 - ($107,500- $1,728)]		

(g) December 31, 2011:

Investment in Bonds (HTM)	103,000	
Investment in Bonds (AFS)		103,000

PART 2: (15 marks)

Gypsy Corporation reported the following portfolio of investments on its balance sheet at September 31, 2008, its most recent reporting date:

	Cost	Fair Value
Fogelberg Inc common (5,000 shares)	$225,000	$200,000
Petra Inc. preferred (3,500 shares)	$133,000	$140,000
Weisberg Corp. common (1,000 shares)	$180,000	$179,000

On October 10, 2008, the Fogelberg Inc. shares were sold at $54 per share. In addition, 3,000 shares of Los Tigres Corp. common shares were acquired at $59.50 per share on November 2, 2008. A 1% commission is charged by the company's broker on all transactions and the company's policy is to capitalize all such costs. The December 31, 2008, fair values were as follows: Petra Inc. $96,000; Los Tigres Corp. $132,000; and Weisberg Corp. $193,000. All the investments are classified as available for sale.

Required

a) Prepare the journal entries to record the sale of the Fogelberg common shares, the purchase of the Los Tigres Corp. common shares, and adjusting entries related to the available-for-sale investment portfolio in the last quarter of 2008. (8 marks)

b) Show how all amounts will be reported on Gypsy Corporation's balance sheet, income statement, statement of comprehensive income, and statement of changes in accumulated other comprehensive income for the quarter ending December 31, 2008. (7 marks)

(a) 1. **October 10, 2008**

Cash	267,300	
Holding Loss on Fogelberg (OCI).....		25,000
Investment in Fogelberg Inc. (AFS).....		200,000
Gain on Sale of Shares		42,300
($267,300 - $225,000)		

2. **November 2, 2008**

Investment in Los Tigres Corp. (AFS).....	180,285	
Cash		180,285
(3,000 shares X $59.50 = $178,500 X 1.01)		

3. At September 30, 2008, Gypsy Corporation had the following fair value adjustment:

Available-for-Sale Investments Portfolio—September 30, 2008

Securities	Carrying Value	Fair Value	Unrealized Gain (Loss)
Fogelberg Inc.. common	$225,000	$200,000	$(25,000)
Petra, Inc., preferred	133,000	140,000	7,000
Weisberg Corp., common	180,000	179,000	(1,000)
Total of portfolio	$538,000	$519,000	$(19,000)

At December 31, 2008, Gypsy Corporation had the following fair value adjustment:

Available-for-Sale Investments Portfolio—December 31, 2008

Securities	Carrying Value	Fair Value	Unrealized Gain (Loss)
Petra, Inc. preferred	$140,000	$ 96,000	$(44,000)
Weisberg Corp., common	179,000	193,000	14,000
Los Tigres Inc., common	180,285	132,000	(48,285)
Total of portfolio	$499,285	$421,000	$(78,285)

The entries on December 31, 2008 are therefore as follows:

Holding Loss on Petra Inc. (OCI)	44,000	
Investment in Weisberg Corp. (AFS)	14,000	
Holding Loss on Los Tigres Inc. (OCI)	48,285	
Investment in Petra Inc. (AFS)		44,000
Holding Gain on Weisberg Corp. (OCI)		14,000
Investment in Los Tigres Inc. (AFS)		48,285

(b) Reporting of Available-for-Sale Investments Carried at Fair Value

BALANCE SHEET, December 31, 2008

Current assets (assumed)	
Investments, at fair value with gains and losses in OCI	$ 421,000
Shareholders' Equity	
Accumulated Other Comprehensive Income	($72,285)

INCOME STATEMENT, Quarter Ending December 31, 2008

Other revenues and gains	
Gain on sale of investments in shares	$42,300

STATEMENT OF COMPREHENSIVE INCOME, Quarter Ending December 31, 2008

Net income (including realized gain of $42,300)	$ x
Other comprehensive income:	
Unrealized net losses on available-for-sale investments arising in year	(78,825)
Reclassification/reversal adjustment for (gains)/losses included in net income	25,000
Other comprehensive income	(53,285)
Comprehensive income	$ x - 53,285

STATEMENT OF CHANGES IN ACCUMULATED OTHER Comprehensive Income, Quarter Ending December 31, 2008

Accumulated other comprehensive income (loss), September 30, 2008	($19,000)
Other comprehensive income, quarter ending December 31, 2008	(53,285)
Accumulated other comprehensive income (loss), December 31, 2008	($72,285)

QUESTION 3 (25 marks)

Answer all three (3) parts. Each part is independent.

PART 1: (7 marks)

On November 1, 2009 Marondera Inc. issues $1,000,000 face value bonds. The bond date is September 1, 2009 and the bonds carry a coupon rate of 10% per year, payable semi-annually on March 1 and September 1. The bonds' maturity date is August 31, 2019. The bonds provide an annual yield of 8%.

Required
Present the entry to record the issuance of the bonds.

The "Date Table" below is not required in your solution:

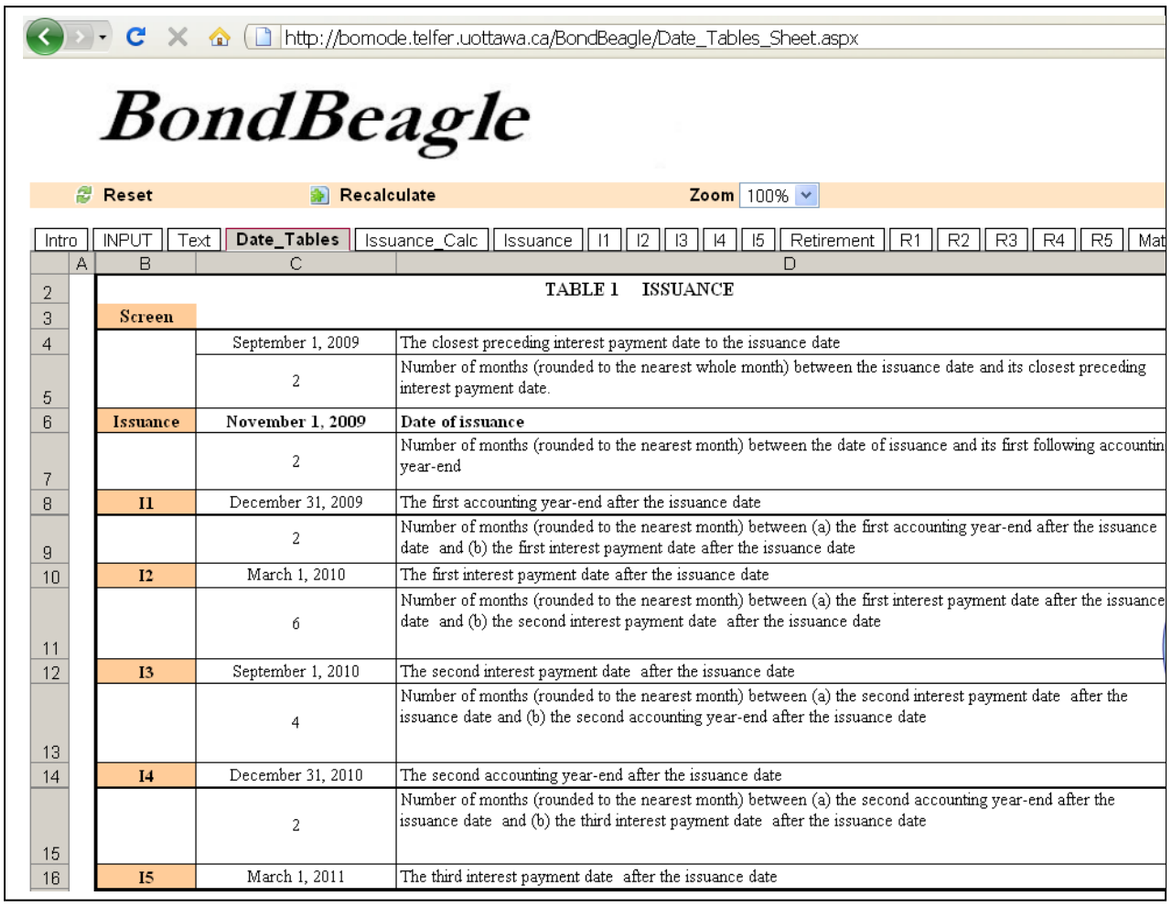


TABLE 1 ISSUANCE

3	Screen		
4		September 1, 2009	The closest preceding interest payment date to the issuance date
5		2	Number of months (rounded to the nearest whole month) between the issuance date and its closest preceding interest payment date.
6	Issuance	November 1, 2009	Date of issuance
7		2	Number of months (rounded to the nearest month) between the date of issuance and its first following accountin year-end
8	I1	December 31, 2009	The first accounting year-end after the issuance date
9		2	Number of months (rounded to the nearest month) between (a) the first accounting year-end after the issuance date and (b) the first interest payment date after the issuance date
10	I2	March 1, 2010	The first interest payment date after the issuance date
11		6	Number of months (rounded to the nearest month) between (a) the first interest payment date after the issuance date and (b) the second interest payment date after the issuance date
12	I3	September 1, 2010	The second interest payment date after the issuance date
13		4	Number of months (rounded to the nearest month) between (a) the second interest payment date after the issuance date and (b) the second accounting year-end after the issuance date
14	I4	December 31, 2010	The second accounting year-end after the issuance date
15		2	Number of months (rounded to the nearest month) between (a) the second accounting year-end after the issuance date and (b) the third interest payment date after the issuance date
16	I5	March 1, 2011	The third interest payment date after the issuance date

http://bomode.telfer.uottawa.ca/BondBeagle/Issuance_Sheet.aspx

BondBeagle

Reset | Recalculate | Zoom 100%

Intro | INPUT | Text | Date_Tables | Issuance_Calc | **Issuance** | I1 | I2 | I3 | I4 | I5 | Retirement | R1

	B	C	D	E
2	November 01, 2009	Date of issuance	Dr	Cr
3				
4				
5	Cash		1,151,050.00	
6		Interest payable		16,666.67
7		Bonds payable		1,000,000.00
8		Bond premium		134,383.33
9				
10	To record the issuance of 10.00-year bonds, face value $1,000,000, stated interest rate 10.0000% per annum. The bond date is September 01, 2009 with interest paid semi-annually. There are 118 months (including 20 interest payments) between the bond's issuance and maturity dates. For details of how this journal entry's amounts are determined, please refer to the ISSUANCE_CALC sheet.			

http://bomode.telfer.uottawa.ca/BondBeagle/Issuance_Calc_Sheet.aspx

BondBeagle

Reset | Recalculate | Zoom 100%

Intro | INPUT | Text | Date_Tables | **Issuance_Calc** | Issuance | I1 | I2 | I3 | I4 | I5 | Retirement | R1 | R2 | R3 | R4

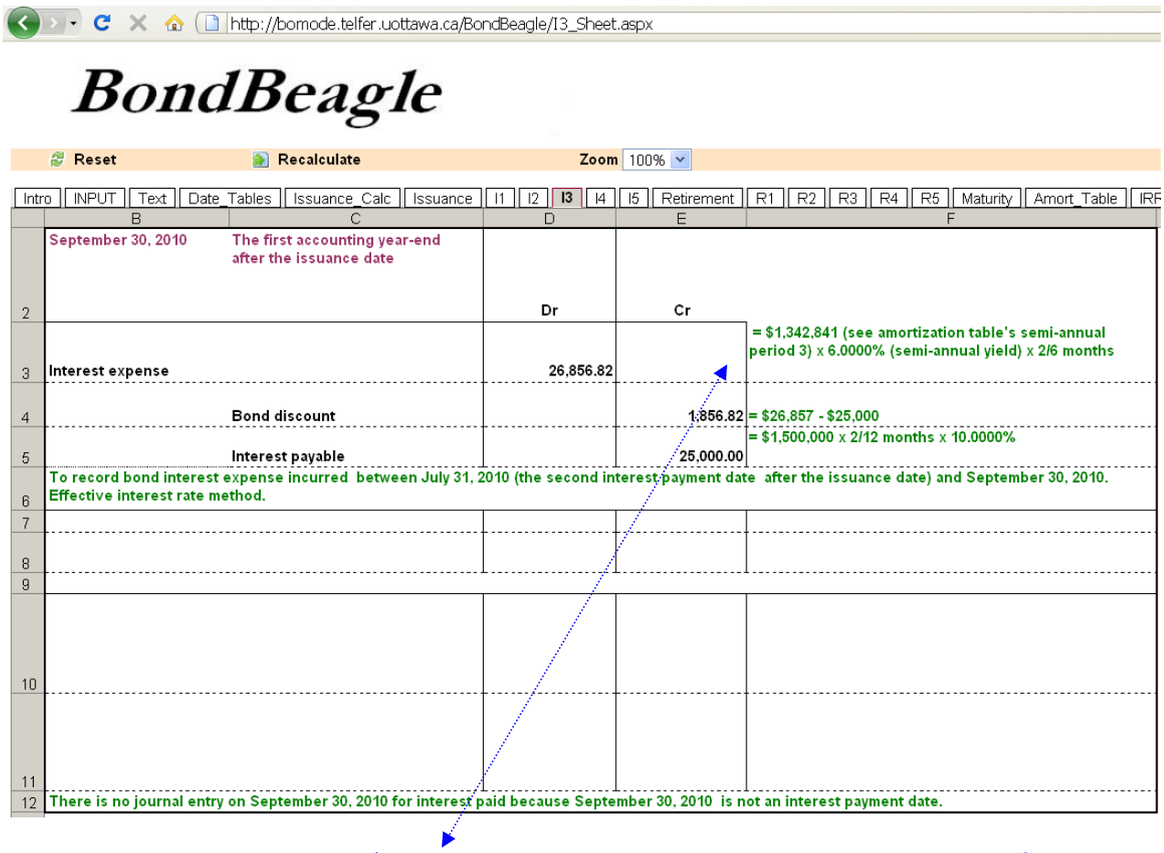
	B	C	D	E	F	G	H
20						If the bonds were issued on:	
21						September 1, 2009	March 1, 2010
22						There would be 20 semi-annual interest payments (120 months) between September 1, 2009 and the maturity date, August 31, 2019	There would be 19 semi-annual interest payments (114 months) between March 1, 2010 and the maturity date, August 31, 2019
23	Present value of the bond's 20.00 semi-annual interest payments of $50,000 (= $1,000,000 x 10.0000%/2) at 4.0000% effective interest rate [$679,517 = 13.59033 x $50,000]					679,516.50	
24	Present value of the maturity value of $1,000,000 at the end of 20.00 periods at 4.0000% effective interest rate [$456,390 = 0.45639 x $1,000,000]					456,390.00	
25	Present value of the bond's 19.00 semi-annual interest payments of $50,000 (= $1,000,000 x 10.0000%/2) at 4.0000% effective interest rate [$656,697 = 13.13394 x $50,000]						656,697.00
26	Present value of the maturity value of $1,000,000 at the end of 19.00 periods at 4.0000% effective interest rate [$474,640 = 0.47464 x $1,000,000]						474,640.00
27	Total					1,135,906.50	1,131,337.00
28	Bond proceeds, excluding any accrued interest and issuance cost, on November 01, 2009 (which lies between September 01, 2009 and March 01, 2010). $1,134,383 = $1,135,907 + {[($1,131,337 - $1,135,907)/6months] x 2months}					1,134,383.33	

PART 2: (8 marks)

On November 1, 2009 Bulawayo Inc. issues $1,500,000 face value bonds. The bond date is February 1, 2009 and the bonds carry a coupon rate of 10% per year, payable semi-annually on January 31 and July 31. The bonds' maturity date is January 31, 2019. Proceeds upon issuance, excluding accrued interest, were $1,335,102, and the bonds provide an annual yield of 12%.

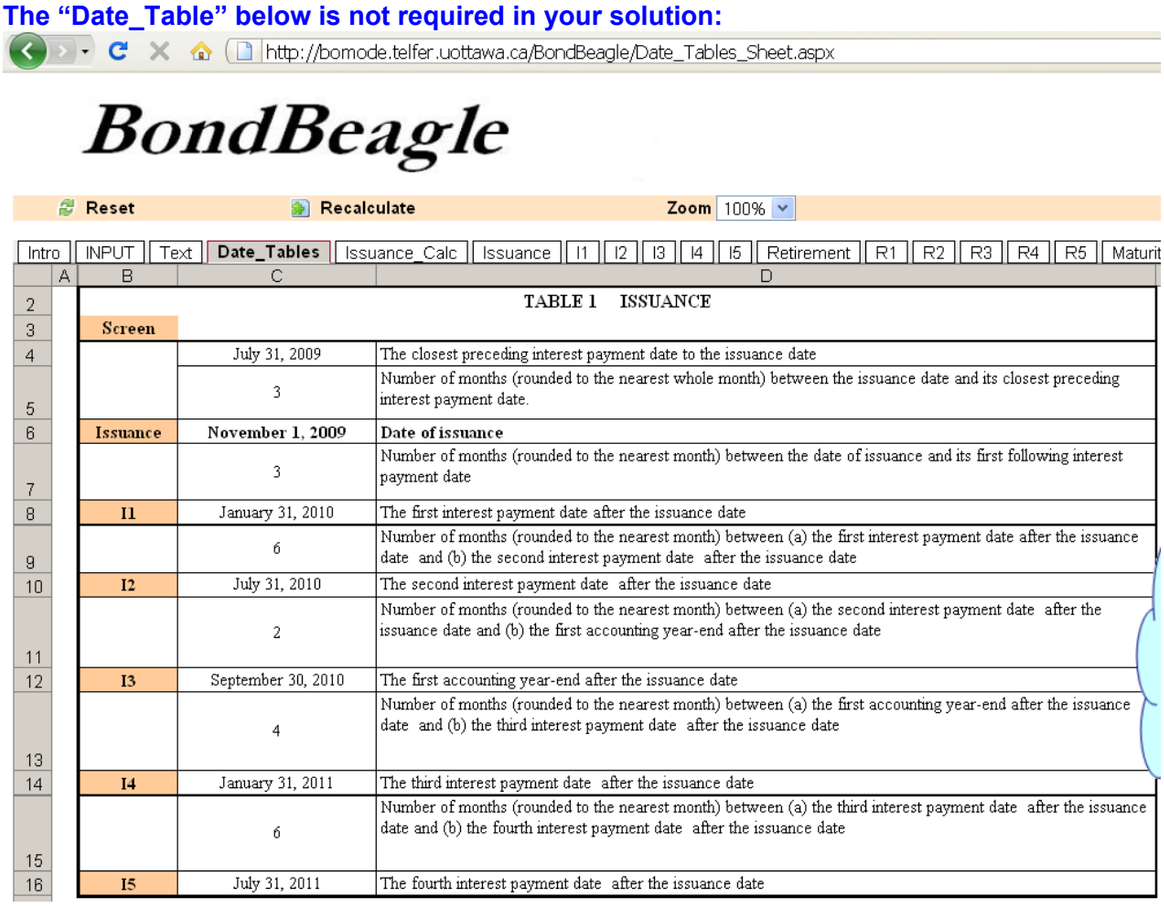
Bulawayo Inc. uses the effective interest rate method to amortize any bond premium or discount. Bulawayo Inc.'s accounting year-end is September 30.

Required
Present the journal entry necessary for these bonds on 30 September 2010.



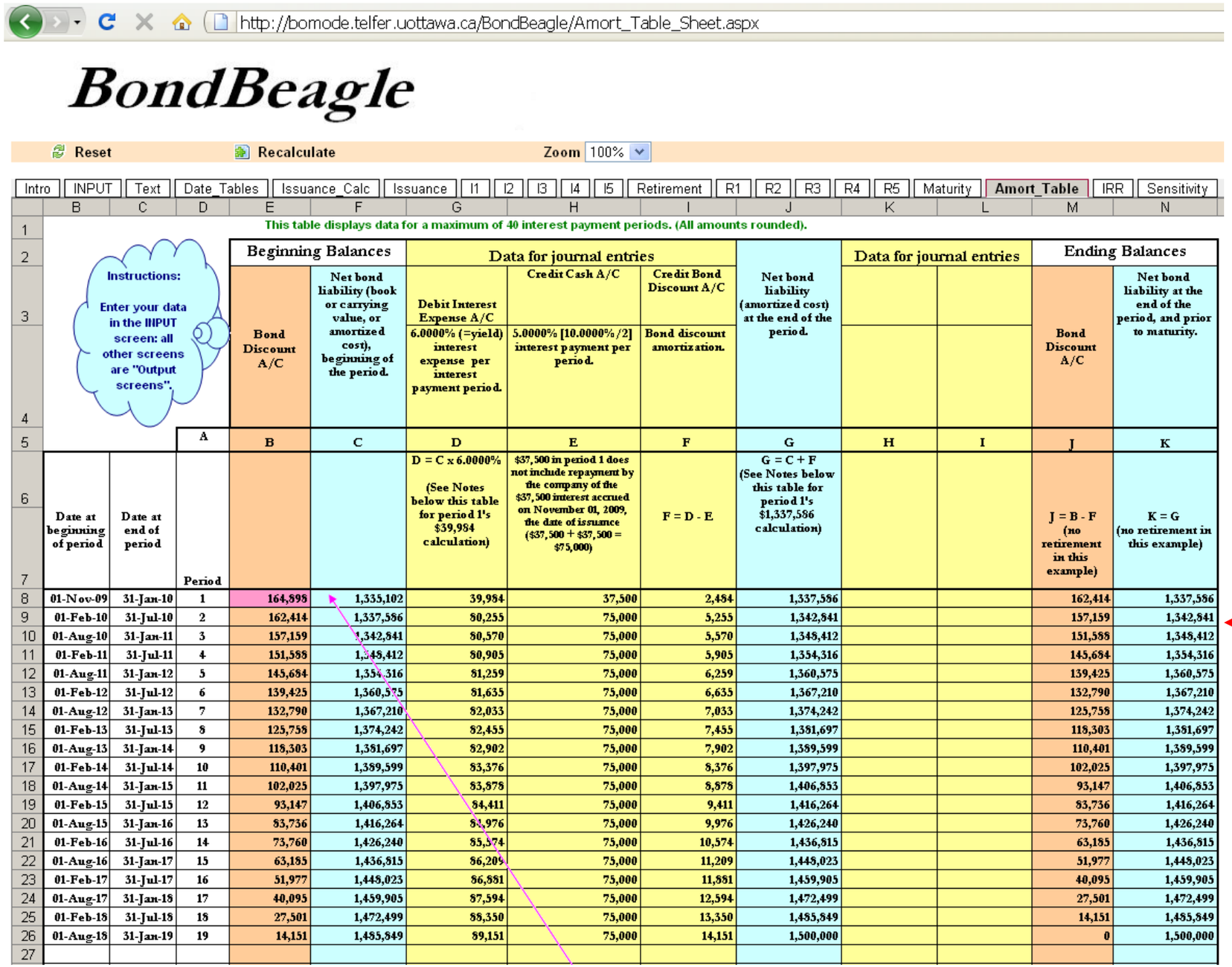
The quickest way to calculate $1,342,841 is to determine the PV at July 31, 2010, of the bonds' remaining cash flows (interest payments & principal), using either financial tables or an electronic calculator. BondBeagle's amortization table below (not required in the exam) shows the $1,342,841.

The "Date_Table" below is not required in your solution:



	A	B	C	D
2		TABLE 1 ISSUANCE		
3		**Screen**		
4			July 31, 2009	The closest preceding interest payment date to the issuance date
5			3	Number of months (rounded to the nearest whole month) between the issuance date and its closest preceding interest payment date.
6		**Issuance**	**November 1, 2009**	**Date of issuance**
7			3	Number of months (rounded to the nearest month) between the date of issuance and its first following interest payment date
8		**I1**	January 31, 2010	The first interest payment date after the issuance date
9			6	Number of months (rounded to the nearest month) between (a) the first interest payment date after the issuance date and (b) the second interest payment date after the issuance date
10		**I2**	July 31, 2010	The second interest payment date after the issuance date
11			2	Number of months (rounded to the nearest month) between (a) the second interest payment date after the issuance date and (b) the first accounting year-end after the issuance date
12		**I3**	September 30, 2010	The first accounting year-end after the issuance date
13			4	Number of months (rounded to the nearest month) between (a) the first accounting year-end after the issuance date and (b) the third interest payment date after the issuance date
14		**I4**	January 31, 2011	The third interest payment date after the issuance date
15			6	Number of months (rounded to the nearest month) between (a) the third interest payment date after the issuance date and (b) the fourth interest payment date after the issuance date
16		**I5**	July 31, 2011	The fourth interest payment date after the issuance date

This amortization table below is not reauired in vour solution:



http://bomode.telfer.uottawa.ca/BondBeagle/Amort_Table_Sheet.aspx

BondBeagle

Reset | Recalculate | Zoom 100%

Intro | INPUT | Text | Date_Tables | Issuance_Calc | Issuance | I1 | I2 | I3 | I4 | I5 | Retirement | R1 | R2 | R3 | R4 | R5 | Maturity | Amort_Table | IRR | Sensitivity

This table displays data for a maximum of 40 interest payment periods. (All amounts rounded).

Instructions:

Enter your data in the INPUT screen: all other screens are "Output screens".

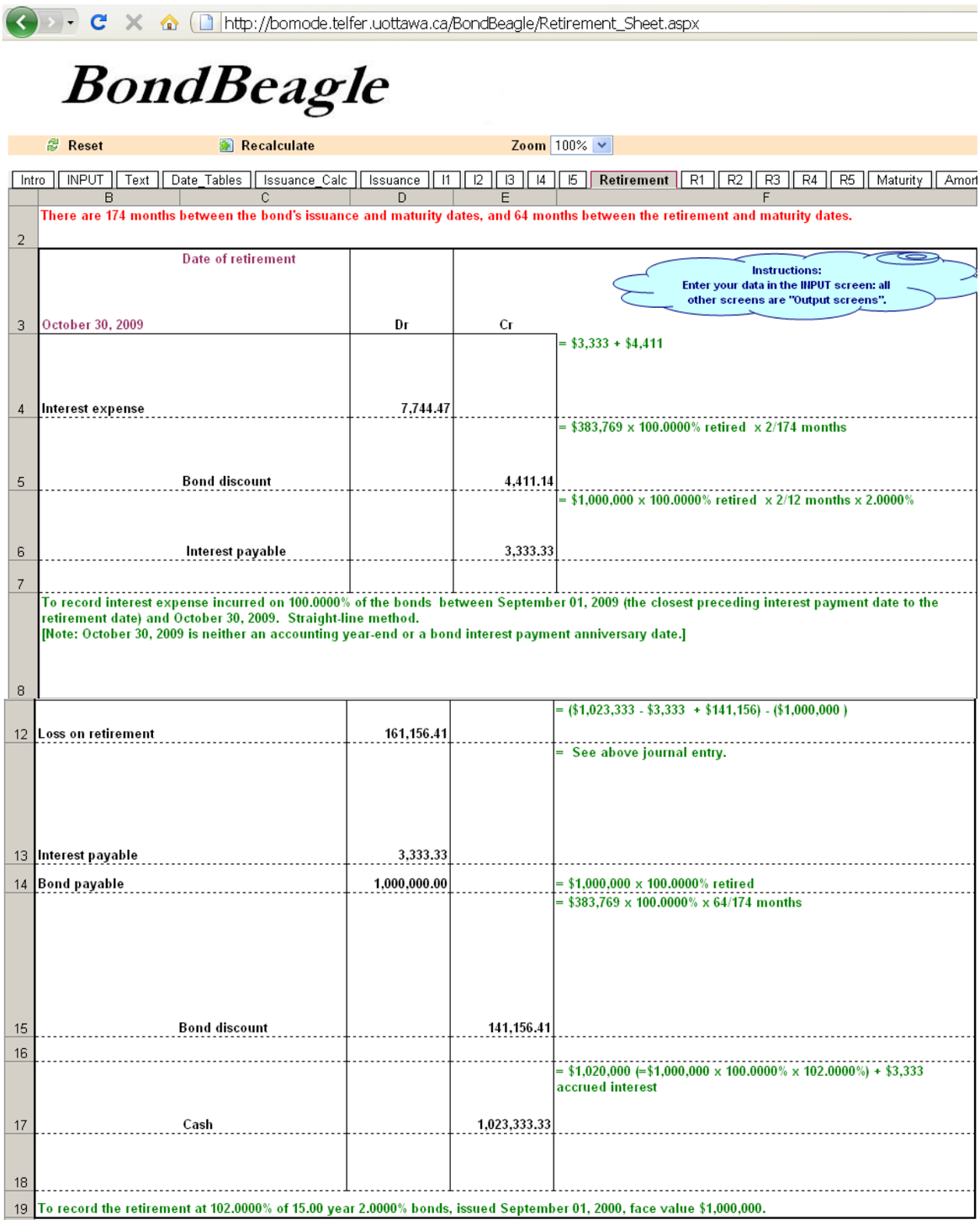
				Beginning Balances		Data for journal entries				Data for journal entries		Ending Balances	
				Bond Discount A/C	Net bond liability (book or carrying value, or amortized cost), beginning of the period.	Debit Interest Expense A/C	Credit Cash A/C	Credit Bond Discount A/C	Net bond liability (amortized cost) at the end of the period.			Bond Discount A/C	Net bond liability at the end of the period, and prior to maturity.
						6.0000% (=yield) interest expense per interest payment period.	5.0000% [10.0000%/2] interest payment per period.	Bond discount amortization.					
		A		B	C	D	E	F	G	H	I	J	K
	Date at beginning of period	Date at end of period	Period			D = C x 6.0000% (See Notes below this table for period 1's $39,984 calculation)	$37,500 in period 1 does not include repayment by the company of the $37,500 interest accrued on November 01, 2009, the date of issuance ($37,500 + $37,500 = $75,000)	F = D - E	G = C + F (See Notes below this table for period 1's $1,337,586 calculation)			J = B - F (no retirement in this example)	K = G (no retirement in this example)
8	01-Nov-09	31-Jan-10	1	164,898	1,335,102	39,984	37,500	2,484	1,337,586			162,414	1,337,586
9	01-Feb-10	31-Jul-10	2	162,414	1,337,586	80,255	75,000	5,255	1,342,841			157,159	1,342,841
10	01-Aug-10	31-Jan-11	3	157,159	1,342,841	80,570	75,000	5,570	1,348,412			151,588	1,348,412
11	01-Feb-11	31-Jul-11	4	151,588	1,348,412	80,905	75,000	5,905	1,354,316			145,684	1,354,316
12	01-Aug-11	31-Jan-12	5	145,684	1,354,316	81,259	75,000	6,259	1,360,575			139,425	1,360,575
13	01-Feb-12	31-Jul-12	6	139,425	1,360,575	81,635	75,000	6,635	1,367,210			132,790	1,367,210
14	01-Aug-12	31-Jan-13	7	132,790	1,367,210	82,033	75,000	7,033	1,374,242			125,758	1,374,242
15	01-Feb-13	31-Jul-13	8	125,758	1,374,242	82,455	75,000	7,455	1,381,697			118,303	1,381,697
16	01-Aug-13	31-Jan-14	9	118,303	1,381,697	82,902	75,000	7,902	1,389,599			110,401	1,389,599
17	01-Feb-14	31-Jul-14	10	110,401	1,389,599	83,376	75,000	8,376	1,397,975			102,025	1,397,975
18	01-Aug-14	31-Jan-15	11	102,025	1,397,975	83,878	75,000	8,878	1,406,853			93,147	1,406,853
19	01-Feb-15	31-Jul-15	12	93,147	1,406,853	84,411	75,000	9,411	1,416,264			83,736	1,416,264
20	01-Aug-15	31-Jan-16	13	83,736	1,416,264	83,976	75,000	9,976	1,426,240			73,760	1,426,240
21	01-Feb-16	31-Jul-16	14	73,760	1,426,240	85,574	75,000	10,574	1,436,815			63,185	1,436,815
22	01-Aug-16	31-Jan-17	15	63,185	1,436,815	86,209	75,000	11,209	1,448,023			51,977	1,448,023
23	01-Feb-17	31-Jul-17	16	51,977	1,448,023	86,881	75,000	11,881	1,459,905			40,095	1,459,905
24	01-Aug-17	31-Jan-18	17	40,095	1,459,905	87,594	75,000	12,594	1,472,499			27,501	1,472,499
25	01-Feb-18	31-Jul-18	18	27,501	1,472,499	88,350	75,000	13,350	1,485,849			14,151	1,485,849
26	01-Aug-18	31-Jan-19	19	14,151	1,485,849	89,151	75,000	14,151	1,500,000			0	1,500,000
27													

PART 3: (10 marks)

On September 1, 2000 Mutare Inc. issues $1,000,000 face value bonds. The bond date is March 1, 2000 and the bonds carry a coupon rate of 2% per year, payable semi-annually on March 1 and September 1. The bonds' maturity date is March 1, 2015. Proceeds upon issuance were $616,231, and the bonds provide an annual yield of 6%.

Mutare Inc. uses the straight-line method to amortize any bond premium or discount. On October 30, 2009 Mutare Inc. retires all of the bonds at 102% ($1,020,000), excluding accrued interest. Mutare Inc.'s accounting year-end is April 30.

Required
Present all journal entries necessary to update premium/discount amortization, accrual of interest payable, and bond retirement on 30 October 2009.



The "Date Table" below is not required in your solution:

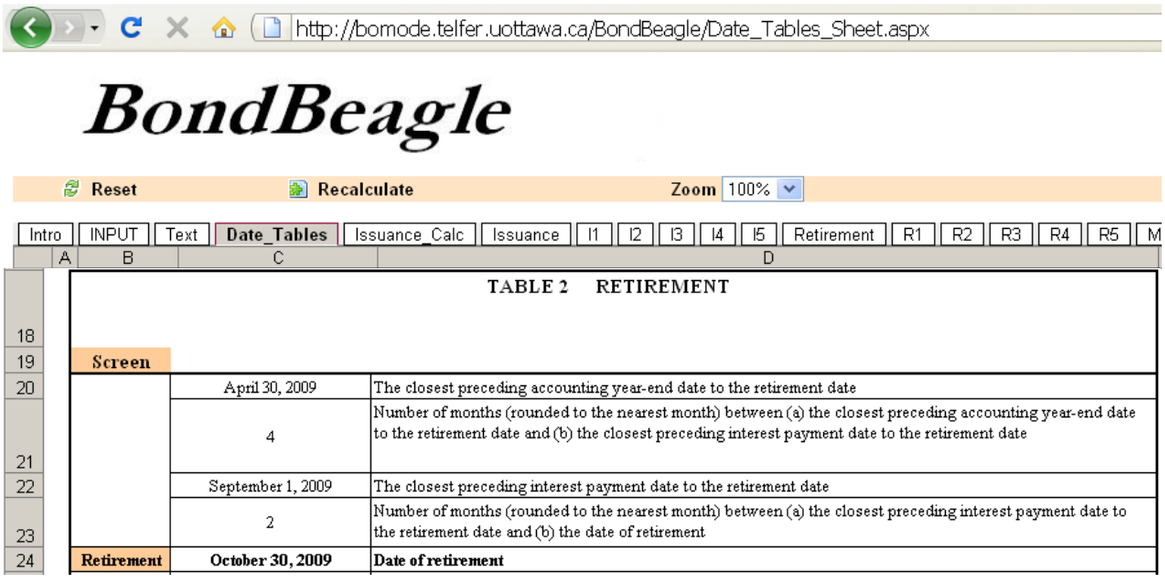


TABLE 2 RETIREMENT

Screen		
	April 30, 2009	The closest preceding accounting year-end date to the retirement date
	4	Number of months (rounded to the nearest month) between (a) the closest preceding accounting year-end date to the retirement date and (b) the closest preceding interest payment date to the retirement date
	September 1, 2009	The closest preceding interest payment date to the retirement date
	2	Number of months (rounded to the nearest month) between (a) the closest preceding interest payment date to the retirement date and (b) the date of retirement
Retirement	**October 30, 2009**	**Date of retirement**

QUESTION 4 (26 marks)

Answer all four (4) parts. Each part is independent.

PART 1: (8 marks)

Cum-Chan Corporation has unlimited no-par common shares authorised. The following transactions took place during October in the corporation's first year.

October 1	To record authorization (memorandum).
October 2	Issued 4,000 shares to a lawyer at $10 in payment for legal fees related to incorporation. Treat the legal fees as an expense.
October 3	Sold 600,000 shares at $20; collected cash in full and issued the shares. Share issue costs amounted to $61,400. Treat this amount as a reduction in the common shares account.
October 4	Issued 80,000 shares and paid $140,000 cash in total payment for a piece of land.
October 5	Received subscription for 40,000 shares at $18 per share; collected 70% of the subscription price. The shares will not be issued until collection of cash in full.
October 30	Collected balance on October 5's subscription receivable.

Required
Give the journal entries for the above transactions. Justify and state any assumption you make.

October 1 Authorization:
Memo: unlimited common shares authorized.

October 2.	Organization expense	40,000	
	Common shares, no-par, 4,000 shares		40,000
October 3.	Cash	12,000,000	
	Common shares, no-par, 600,000 shares		12,000,000
	Common shares, no-par	61,400	
	Cash		61,400
October 4.	Land	1,740,000	
	Cash		140,000
	Common shares, no-par, 80,000 shares		1,600,000
	Assume $20 per share based on earlier transaction.		
October 5.	Cash	504,000	
	Stock subscription receivable	216,000	
	Common shares subscribed, 40,000 shares		720,000
October 30.	Cash	216,000	
	Stock subscription receivable		216,000
	Common shares subscribed, 40,000 shares	720,000	
	Common shares, no-par, 40,000 shares		720,000

PART 2: (5 marks)

Using the accounts information below for Berylyn Inc., prepare in good form the shareholder's equity section of the balance sheet at December 31, 2008.

Common Shares	$ 1,617,850
Class A preferred shares	650,000
Cash dividends, common shares	55,000
Treasury stock common	19,800
Contributed capital on preferred share retirement	6,250
Appropriated retained earnings, unchanged during year	40,000
Accumulated other comprehensive income	345,700
Fractional share rights outstanding	15,500
Retained earnings, December 31, 2008	6,351,100
Stock dividend distributable, common shares	105,250

Berylyn Inc.
Shareholders' Equity
As at 31 December 2008

Contributed Capital:	
Preferred shares, Class A	$ 650,000
Common shares	1,617,850
Stock dividend distributable, common shares	105,250
Fractional common share rights outstanding	15,550
Contributed capital on preferred share retirement	6,250
Total contributed capital	2,394,900
Retained earnings	6,351,100
	8,746,000
Less: Treasury stock, common	(19,800)
	8,726,200
Accumulated other comprehensive income	345,700
Total Shareholders' Equity	$ 9,071,900

OR

Contributed Capital:		
Preferred shares, Class A	$ 650,000	
Common shares	1,617,850	
Stock dividend distributable, common shares	105,250	
Fractional common share rights outstanding	15,550	
Contributed capital on preferred share retirement	6,250	
Total contributed capital		$2,394,900
Appropriated retained earnings	40,000	
Unappropriated retained earnings	6,351,100	
Total retained earnings		6,391,100
		8,786,000
Less: Treasury stock, common		(19,800)
		8,766,200
Accumulated other comprehensive income		345,700
Total Shareholders' Equity		$ 9,111,900

PART 3: (8 marks)

Spencer, Inc., has $400,000, $0.80, no par value preferred shares (40,000 shares) and $600,000 of no par value common shares (60,000 shares) outstanding. No dividends have been paid or declared during 2007 and 2008. As of December 31, 2009, it is desired to distribute $204,000 in dividends.

Required
How much will the preferred and common shareholders receive under each of the following assumptions (show all supporting calculations):
(a) The preferred is noncumulative and nonparticipating.
(b) The preferred is cumulative and nonparticipating.
(c) The preferred is cumulative and fully participating.
(d) The preferred is cumulative and participating to a maximum total dividend rate of $1.20 per share.

(a)	Preferred	Common	Total
Current year's dividend ($.80 × 40,000)	$32,000	$ —	$ 32,000
Remainder to common		172,000	172,000
	$32,000	$172,000	$204,000

(b)	Preferred	Common	Total
Dividends in arrears, $.80 × 40,000 for two years	$64,000	$ —	$ 64,000
Current year's dividend	32,000	—	32,000
Remainder to common		108,000	108,000
	$96,000	$108,000	$204,000

(c)

	Preferred	Common	Total
Dividends in arrears, $.80 × 40,000 for two years	$ 64,000	$ —	$ 64,000
Current year's dividend	32,000	48,000	80,000
Participating dividend 6% ($60,000 ÷ $1,000,000)	24,000	36,000	60,000
	$120,000	$84,000	$204,000

(d)

	Preferred	Common	Total
Dividends in arrears, $.80 × 40,000 for two years	$ 64,000	$ —	$ 64,000
Current year's dividend	32,000	48,000	80,000
Participating dividend*	16,000	24,000	40,000
Remainder to common	—	20,000	20,000
	$112,000	$92,000	$204,000

*$16,000 = $48,000 (= maximum = 40,000 shares x $1.20 = $48,000) less $32,000.
$24,0000 = ($48,000/40,000-prfd-shs) x 60,000 common shares.

PART 4: (5 marks)

Required
Indicate the principal effects of a stock dividend versus a stock split as they affect the issuing corporation. Respond in the spaces as follows: "C" for change; "NC" for no change.

	Stock dividend	Stock split
Legal Capital	_____	_____
Number of Shares Outstanding	_____	_____
Total Shareholders' Equity	_____	_____
Retained Earnings	_____	_____
Composition of Shareholders' Equity	_____	_____

	Stock dividend	Stock split
Legal Capital	C	NC
Number of Shares Outstanding	C	C
Total Shareholders' Equity	NC	NC
Retained Earnings	C	NC
Composition of Shareholders' Equity	C	NC

Financial Tables
Present Value Tables

Table 2: PRESENT VALUE of $1.00 that is received in the future.

Period/ Percent	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%
1	0.9900990	0.9803922	0.9708738	0.9615385	0.9523810	0.9433962	0.9345794	0.9259259	0.9174312	0.9090909	0.9009009	0.8928571
2	0.9802960	0.9611688	0.9425959	0.9245562	0.9070295	0.8899964	0.8734387	0.8573388	0.8416800	0.8264463	0.8116224	0.7971939
3	0.9705901	0.9423223	0.9151417	0.8889964	0.8638376	0.8396193	0.8162979	0.7938322	0.7721835	0.7513148	0.7311914	0.7117802
4	0.9609803	0.9238454	0.8884870	0.8548042	0.8227025	0.7920937	0.7628952	0.7350299	0.7084252	0.6830135	0.6587310	0.6355181
5	0.9514657	0.9057308	0.8626088	0.8219271	0.7835262	0.7472582	0.7129862	0.6805832	0.6499314	0.6209213	0.5934513	0.5674269
6	0.9420452	0.8879714	0.8374843	0.7903145	0.7462154	0.7049605	0.6663422	0.6301696	0.5962673	0.5644739	0.5346408	0.5066311
7	0.9327181	0.8705602	0.8130915	0.7599178	0.7106813	0.6650571	0.6227497	0.5834904	0.5470342	0.5131581	0.4816584	0.4523492
8	0.9234832	0.8534904	0.7894092	0.7306902	0.6768394	0.6274124	0.5820091	0.5402689	0.5018663	0.4665074	0.4339265	0.4038832
9	0.9143398	0.8367553	0.7664167	0.7025867	0.6446089	0.5918985	0.5439337	0.5002490	0.4604278	0.4240976	0.3909248	0.3606100
10	0.9052870	0.8203483	0.7440939	0.6755642	0.6139133	0.5583948	0.5083493	0.4631935	0.4224108	0.3855433	0.3521845	0.3219732
11	0.8963237	0.8042630	0.7224213	0.6495809	0.5846793	0.5267875	0.4750928	0.4288829	0.3875329	0.3504939	0.3172833	0.2874761
12	0.8874492	0.7884932	0.7013799	0.6245970	0.5568374	0.4969694	0.4440120	0.3971138	0.3555347	0.3186308	0.2858408	0.2566751
13	0.8786626	0.7730325	0.6809513	0.6005741	0.5303214	0.4688390	0.4149644	0.3676979	0.3261786	0.2896644	0.2575143	0.2291742
14	0.8699630	0.7578750	0.6611178	0.5774751	0.5050680	0.4423010	0.3878172	0.3404610	0.2992465	0.2633313	0.2319948	0.2046198
15	0.8613495	0.7430147	0.6418619	0.5552645	0.4810171	0.4172651	0.3624460	0.3152417	0.2745380	0.2393920	0.2090043	0.1826963
16	0.8528213	0.7284458	0.6231669	0.5339082	0.4581115	0.3936463	0.3387346	0.2918905	0.2518698	0.2176291	0.1882922	0.1631217
17	0.8443775	0.7141626	0.6050164	0.5133732	0.4362967	0.3713644	0.3165744	0.2702690	0.2310732	0.1978447	0.1696326	0.1456443
18	0.8360173	0.7001594	0.5873946	0.4936281	0.4155207	0.3503438	0.2958639	0.2502490	0.2119937	0.1798588	0.1528222	0.1300396
19	0.8277399	0.6864308	0.5702860	0.4746424	0.3957340	0.3305130	0.2765083	0.2317121	0.1944897	0.1635080	0.1376776	0.1161068
20	0.8195445	0.6729713	0.5536758	0.4563869	0.3768895	0.3118047	0.2584190	0.2145482	0.1784309	0.1486436	0.1240339	0.1036668

Table 4: PRESENT VALUE of Annuity of $1.00 in arrears.

Period/ Percent	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%
1	0.990099	0.980392	0.970874	0.961538	0.952381	0.943396	0.934579	0.925926	0.917431	0.909091	0.900901	0.892857
2	1.970395	1.941561	1.913470	1.886095	1.859410	1.833393	1.808018	1.783265	1.759111	1.735537	1.712523	1.690051
3	2.940985	2.883883	2.828611	2.775091	2.723248	2.673012	2.624316	2.577097	2.531295	2.486852	2.443715	2.401831
4	3.901966	3.807729	3.717098	3.629895	3.545951	3.465106	3.387211	3.312127	3.239720	3.169865	3.102446	3.037349
5	4.853431	4.713460	4.579707	4.451822	4.329477	4.212364	4.100197	3.992710	3.889651	3.790787	3.695897	3.604776
6	5.795476	5.601431	5.417191	5.242137	5.075692	4.917324	4.766540	4.622880	4.485919	4.355261	4.230538	4.111407
7	6.728195	6.471991	6.230283	6.002055	5.786373	5.582381	5.389289	5.206370	5.032953	4.868419	4.712196	4.563757
8	7.651678	7.325481	7.019692	6.732745	6.463213	6.209794	5.971299	5.746639	5.534819	5.334926	5.146123	4.967640
9	8.566018	8.162237	7.786109	7.435332	7.107822	6.801692	6.515232	6.246888	5.995247	5.759024	5.537048	5.328250
10	9.471305	8.982585	8.530203	8.110896	7.721735	7.360087	7.023582	6.710081	6.417658	6.144567	5.889232	5.650223
11	10.367628	9.786848	9.252624	8.760477	8.306414	7.886875	7.498674	7.138964	6.805191	6.495061	6.206515	5.937699
12	11.255077	10.575341	9.954004	9.385074	8.863252	8.383844	7.942686	7.536078	7.160725	6.813692	6.492356	6.194374
13	12.133740	11.348374	10.634955	9.985648	9.393573	8.852683	8.357651	7.903776	7.486904	7.103356	6.749870	6.423548
14	13.003703	12.106249	11.296073	10.563123	9.898641	9.294984	8.745468	8.244237	7.786150	7.366687	6.981865	6.628168
15	13.865053	12.849264	11.937935	11.118387	10.379658	9.712249	9.107914	8.559479	8.060688	7.606080	7.190870	6.810864
16	14.717874	13.577709	12.561102	11.652296	10.837770	10.105895	9.446649	8.851369	8.312558	7.823709	7.379162	6.973986
17	15.562251	14.291872	13.166118	12.165669	11.274066	10.477260	9.763223	9.121638	8.543631	8.021553	7.548794	7.119630
18	16.398269	14.992031	13.753513	12.659297	11.689587	10.827603	10.059087	9.371887	8.755625	8.201412	7.701617	7.249670
19	17.226008	15.678462	14.323799	13.133939	12.085321	11.158116	10.335595	9.603599	8.950115	8.364920	7.839294	7.365777
20	18.045553	16.351433	14.877475	13.590326	12.462210	11.469921	10.594014	9.818147	9.128546	8.513564	7.963328	7.469444