**Quiz 3 Fall 2015**

**Name: Start: Finish:**

 **Multiple Choice Questions –2 points each**

(1) Which of the following represents the largest number of common shares?

1. Treasury Shares
2. Issued shares
3. Outstanding shares
4. Authorized shares

(2) If Keene Company issues 4,500 shares of $5 par value common stock for $80,000, the account

a. Common Stock will be credited for $22,500.

b. Paid-in Capital in Excess of Par will be credited for $22,500.

c. Paid-in Capital in Excess of Par will be credited for $80,000.

d. Cash will be debited for $57,500.

(3) The following data is available for Blaine Corporation at December 31, 2013:

Common stock, par $10 (authorized 25,000 shares) $200,000

Treasury Stock (at cost $15 per share) $900

Based on the data, how many shares of common stock are outstanding?

a. 25,000

b. 20,000

c. 24,940

d. 19,940

(4) Treasury stock is

a. stock issued by the U.S. Treasury Department.

b. stock purchased by a corporation and held as an investment in its treasury.

c. corporate stock issued by the treasurer of a company.

d. a corporation's own stock which has been reacquired but not retired.

 (5) The date on which a cash dividend becomes a binding legal obligation is on the

a. declaration date.

b. date of record.

c. payment date.

d. last day of the fiscal year-end.

(6) The cumulative effect of the declaration and payment of a cash dividend on a company's financial statements is to

a. decrease total liabilities and stockholders' equity.

b. increase total expenses and total liabilities.

c. increase total assets and stockholders' equity.

d. decrease total assets and stockholders' equity.

(7) Which of the following is not a significant date with respect to dividends?

a. The declaration date

b. The incorporation date

c. The record date

d. The payment date

(8) Dividends Payable is classified as a

a. long-term liability.

b. contra stockholders' equity account to Retained Earnings.

c. current liability.

d. stockholders' equity account.

(9) Story Inc. has 5,000 shares of 6%, $100 par value, cumulative preferred stock and 50,000 shares of $1 par value common stock outstanding at December 31, 2013. What is the annual dividend on the preferred stock?

a. $60 per share

b. $30,000 in total

c. $50,000 in total

d. $0.60 per share

(10) Entries for cash dividends are required on the:

(a) declaration date and the payment date.

(b) record date and the payment date.

(c) declaration date, record date, and payment date.

(d) declaration date and the record date.

(11) Which of the following is not reported under additional paid-in capital?

(a) Paid-in capital in excess of par value.

(b) Treasury Stock

(c) Paid-in capital in excess of stated value.

(d) Paid-in capital from treasury stock.

(12) Depreciation is a process of:

(a) valuation.

b) cost allocation.

(c) cash accumulation.

(d) appraisal.

(13) All of the following factors in computing depreciation are estimates except

a. cost.

b. residual value.

c. salvage value.

d. useful life.

(14) The balance in the Accumulated Depreciation account represents the

a. cash fund to be used to replace plant assets.

b. amount to be deducted from the cost of the plant asset to arrive at its fair market value.

c. amount charged to expense in the current period.

d. amount charged to expense since the acquisition of the plant asset.

(15) The book value of an asset is equal to the

a. asset's fair value less its historical cost.

b. blue book value relied on by secondary markets.

c. replacement cost of the asset.

d. asset's cost less accumulated depreciation.

(16) In computing depreciation, salvage value is

a. the fair value of a plant asset on the date of acquisition.

b. subtracted from accumulated depreciation to determine the plant asset's depreciable cost.

c. an estimate of a plant asset's value at the end of its useful life.

d. ignored in all the depreciation methods.

(17) A truck was purchased for $120,000 and it was estimated to have a $24,000 salvage value at the end of its useful life. Monthly depreciation expense of $2,000 was recorded using the straight-line method. The annual depreciation rate is

a. 20%.

b. 2%.

c. 8%.

d. 25%.

(18) The units-of-activity method is generally not suitable for

a. airplanes.

b. buildings.

c. delivery equipment.

d. factory machinery.

(19) Costs incurred to increase the operating efficiency or useful life of a plant asset are referred to as

a. capital expenditures.

b. expense expenditures.

c. ordinary repairs.

d. revenue expenditures

(20) A gain or loss on disposal of a plant asset is determined by comparing the

a. replacement cost of the asset with the asset's original cost.

b. book value of the asset with the asset's original cost.

c. original cost of the asset with the proceeds received from its sale.

d. book value of the asset with the proceeds received from its sale.

(21) If disposal of a plant asset occurs during the year, depreciation is

a. not recorded for the year.

b. recorded for the whole year.

c. recorded for the fraction of the year to the date of the disposal.

d. not recorded if the asset is scrapped.

(22) An asset which costs $29,800 and has accumulated depreciation of $8,000 is sold for $21,600. What amount of gain of loss will be recognized when the asset is sold?

a. A gain of $200.

b. A loss of $200.

c. A loss of $8,200.

d. A gain of $8,200.

(23) On a balance sheet, natural resources may be described more specifically as all of the following except

a. land improvements.

b. mineral deposits.

c. oil reserves.

d. timberlands.

(24) Depletion is

a. a decrease in market value of natural resources.

b. the amount of spoilage that occurs when natural resources are extracted.

c. the allocation of the cost of natural resources to expense.

d. the method used to record unsuccessful patents

(25) A coal company invests $12 million in a mine estimated to have 20 million tons of coal and no salvage value. It is expected that the mine will be in operation for 5 years. In the first year, 1,000,000 tons of coal are extracted and sold. What is the depletion expense for the first year?

a. $600,000

b. $240,000

c. $60,000

d. Cannot be determined from the information provided.

**Exercise #1 10 points**

The Remove-UR-Tattoo Clinic purchased a surgical laser for $84,000 on January 1, 2014. The estimated salvage value is $4,000. The laser has a useful life of five years and the clinic expects to use it 10,000 hours.

It was used for 900 hours in 2014; 2,100 hours in 2015; 2,400 hours in 2016.

**Instructions**

Showing all of your computations, compute the book value and the balance in the Accumulated Depreciation Account for December 31, 2015 under each of the following three methods after the depreciation for 2015 has been recorded:

(1) Straight-line:

2015 accumulated depreciation \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

 2015 book value \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(2) Units-of-activity:

 2015 accumulated depreciation \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

 2015 book value \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(3) Double-declining balance:

2015 accumulated depreciation \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

2015 book value \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Exercise #2 10 points**

On January 1, Steff Corporation had 80,000 shares of no-par common stock issued. 5,000 shares are held as treasury stock. The stock has a stated value of $5 per share. During the year, the following transactions occurred.

 Apr. 1 Issued 12,000 additional shares of common stock for $18 per share.

 June 15 Declared a cash dividend of $1 per share to stockholders of record on June 30.

 July 10 Paid the $1 cash dividend.

 Dec. 1 Purchased 7,000 additional shares of common stock for $17 per share.

 Dec. 15 Declared a cash dividend on outstanding shares of $1.20 per share to shareholders of record on December 31.

Instructions: Prepare the entries, if any, on each of the dividend dates.

**Essay Question 30 Points**

Gloria Holiday, President and Chief Operating Officer of Software–R-Us, Inc., a software development company, was recently in a serious auto accident. As a result, she has been ordered to bed rest for 2 months. The accident was widely reported in the trade papers.

Just prior to the accident the company had almost completed the development of a new software product that will automate the design of new homes, to include ordering of materials, tracking labor costs, electronic bill paying, Wi Fi, online reporting and so forth. Preliminary testing has indicated the product to be stable. However, final testing is not complete, though, no problems are expected. The building industry “has heard it through the grapevine” about the product and is expected to quickly adopt the software. On the other hand, previous rollouts of some other products by Software-R-Us have not gone well with any number of programming and adoption issues.

Recently, the company has seen and experienced a reduction in the trading of their stock on the Over The Counter market. This has been attributed problems with previous rollouts, a general decline in housing starts, and a weakened economy.

Snydlee Whiplash, Acting President, has suggested forgoing the quarterly dividend payment in order to conserve cash for the rollout of the new product. Marketing consultants have recommended an extensive rollout program with displays at trade shows, construction supply businesses, advertising in trade related media, and so forth. The consultants believe that such a campaign will help to minimize reluctance on the part of purchasers based up past problems with other products by Software-R-Us.

On the other hand, the company has a 20 year history of quarterly cash dividend payments. Not paying the dividend could further reduce trading or possibly cause the stock to be dumped over concern for problems within the company due to the absence of Ms. Holiday. Snydlee has suggested a stock dividend in place of a cash dividend. This could further dilute earnings per share and weaken the stock price even further.

1. Are Snydlee Whiplash’s suggestions legal?
2. Is it ethical to discontinue the dividend?

(Thanks to Gladys Knight and the Pips for use of “I heard it through the grapevine.”