

Corporations & Stock

S00-Group 1

For questions 1 through 12, write the identifying letter(s) of the correct account(s) to be debited and credited for each transaction on your answer sheet.

Some answers will include multiple accounts. The order in which you write the identifying letters in an answer is not considered in grading. However, all accounts in an answer must be correct in order for the answer to be correct.

A.	Cash in Bank	E.	Income Summary
B.	Common Stock (\$25 par)	F.	Paid-In Capital in Excess of Par
C.	Dividends—Common	G.	Retained Earnings
D.	Dividends Payable—Common		

The question numbers are listed in the appropriate debit and credit columns.

Debit	Credit	Transaction
1.	2.	Issued 1,000 shares of common stock at par.
3.	*4.	Issued 2,000 shares of common stock at \$30 per share.
5.	6.	Declared a \$100 per share cash dividend.
7.	8.	Paid the dividends.
9.	10.	Closed the Income Summary account (the corporation had a net income for the year)
11.	12.	Closed the Dividends account.

S01 - Group 9

The following balances appear in the general ledger accounts of a corporation on December 31, 2000, after closing entries were posted at the end of the fiscal period.

5% Preferred Stock (\$100 par)	\$550,000
Common Stock (\$8 par)	44,000
Paid-in Capital in Excess of Par—Common	12,000
Retained Earnings	862,750
Dividends—Preferred	-0-
Dividends—Common	-0-

The corporation is authorized to issue 10,000 shares of preferred stock and 40,000 shares of common stock.

The following transactions that occurred in 2000 that affected the S/H equity accounts.

Jan 2	The board of directors declared the annual cash dividend on the preferred stock issued to all stockholders of record as of January 12, 2000 payable on February 10, 2000.
Feb 10	Paid the preferred stock cash dividend.
May 10	The board of directors declared the annual cash dividend of \$2.00 per share on the common stock to all stockholders of record as of May 20, 2000, payable on June 15, 2000.
June 15	Paid the common stock cash dividend.
Aug 1	Issued 3000 shares of 5% preferred stock at par.
Sept 1	Issued 500 shares of common stock at par.
Nov 1	Issued 2,000 shares of common stock for \$10 per share.
Dec 31	Closed the net income for the year of \$348,975
Dec 31	Closed the two dividend accounts.

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For questions 43 and 44, write on your answer sheet the correct number of shares of stock issued as of January 1, 2000.

43. 5% Preferred Stock

*44. Common Stock

For questions 45 through 49, write on your answer sheet the correct amount of the beginning balance as of January 1, 2000 for each of the following accounts:

45. 5% Preferred Stock

46. Common Stock

47. Paid-in Capital in Excess of Par—Common

**48. Retained Earnings

49. Dividends--Common

S01 - Group 11

62. Which of the following is a written permission to operate as a corporation that spells out the rules under which a business must operate?

- A. declaration
- B. corporate agreement
- C. charter
- D. corporate rit

63. The term “authorized capital stock” is the

- A. par value per share
- B. number of shares issued to shareholders
- C. number of shares of preferred stock only
- D. maximum number of shares a corporation may issue

64. If a stockholder cannot attend the stockholders’ meeting, the stockholder may send in a/an ____, which gives the stockholder’s voting rights to someone else

- A. absentee ballot
- B. PIC ballot
- C. proxy
- D. declared ballot

S02 - Group 1

Write the identifying letter of the best term for questions 1 through 6 on your answer sheet.

A	Articles of Incorporation
B	Authorized Capital Stock
C	Bankruptcy
D	Business Cessation
E	Business Settlement
F	Certificate Value
G	Dissolution

H	Liquidation
I	Partnership Agreement
J	Partnership Contract
K	Par Value
L	Proxy
M	Request to Incorporate
N	Voting Substitution Declaration

1. The process of stopping the operation of a business

2. A written agreement setting forth the conditions under which a partnership is to operate

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3. A value assigned to a share of stock and printed on the stock certificate
4. The process of paying all liabilities of a business and distributing the remaining cash to the owner(s)
5. A legal procedure in which a company that cannot meet its financial obligations is relieved of its debts
6. A written application requesting permission to form a corporation

S02 - Group 2 Write TRUE if the statement is true; write FALSE if it is false.

7. Par value must be stated in \$5 increments according to federal law.
8. During the process of liquidating a business, the owner must receive the original investment before any creditors are paid because of the limited liability clause.
9. Most corporations set the par value low because state laws do not allow the corporation to sell stock below its par value when it is first issued for sale to the public.
10. In inflationary times, LIFO creates lower profits and a lower asset value than FIFO.
11. A non-interest-bearing note requires only the payment of the principal when the note is due.

S03 - Group 1

Indicate whether each item expresses an advantage or a disadvantage of a corporation or if the item is not a characteristic of a corporation. Write on your answer sheet "A" for advantage, "D" for disadvantage, or "N" if the item is not a characteristic of a corporation.

1. Extensive government regulation
2. Ease of transfer of ownership
3. Limited liability of the owners
4. Dividends to stockholders of regular corporations are not taxable as personal income
5. Required to disclose operations to the public

S02 - Group 7

Use the following information to answer questions 25 through 29. Write the correct amount on your answer sheet. (Watch dates carefully.)

Live Oak Corporation has existed since 1999. Its balance sheet on December 31, 2000 showed the following:

Assets	204,195
Liabilities	56,780
Capital Stock-Common (\$5 par)	32,500
Paid-In Capital in Excess of Par	19,500

The company's income statement for the twelve months ended December 31, 2001 showed the following:

Revenue	347,687
Cost of Merchandise Sold	229,470
Expenses	85,272

Live Oak Corporation's general ledger and Statement of Stockholders' Equity for the year ended December 31, 2001 indicated that on 7-1-01, 4,000 shares of common stock had been issued @ \$9 per share and that on 12-1-01 cash dividends declared and paid on all shares issued and outstanding were \$1.55 per share.

Live Oak Corporation's total liabilities on December 31, 2001 were \$33,980.

25. What is the net income for 2001?

26. What is the 12-31-01 balance in Capital Stock-Common?

27. What is the 12-31-01 balance in Paid in Capital in Excess of Par?

*28. What is the 12-31-01 balance of Retained Earnings?

**29. What is the amount of total assets as of 12-31-01?

S03 - Group 6

For questions 25 through 36, write the identifying letter(s) of the correct account(s) to be debited and credited for each transaction on your answer sheet.

Some answers will include multiple accounts. The order in which you write the identifying letters in an answer is not considered in grading. However, all accounts in an answer must be correct in order for the response to be correct.

A.	Cash in Bank	E.	Income Summary
B.	Common Stock (\$25 par)	F.	Paid-In Capital in Excess of Par
C.	Dividends—Common	G.	Retained Earnings
D.	Dividends Payable—Common		

The question numbers are listed in the appropriate debit and credit columns.

Debit	Credit	Transaction
25.	26.	Issued 1,000 shares of common stock at par.
27.	*28.	Issued 2,000 shares of common stock at \$30 per share.
29.	30.	Declared a \$100 per share cash dividend.
31.	32.	Paid the dividends.
33.	34.	Closed the Income Summary account (the corporation had a net income for the year)
35.	36.	Closed the Dividends account.

S04 - Group 9

The following information was found on financial statements for three separate companies.

	Davidson Inc.	Jefferson Inc.	Denman Inc.
December 31, 2002			
Assets	42,250	80,200	56,200
Liabilities	12,690	20,490	15,740
December 31, 2003			
Assets	49,890	95,750	50,100
Liabilities	?	15,740	20,460
During year 2003			
Stock issuances	10,000	15,000	5,000
Net Income<Loss>	6,250	?	?
Cash dividends	2,400	8,100	None

For questions 18 through 20, write the correct amount on your answer sheet. A net loss must be indicated by parentheses or brackets.

18. What is the amount of December 31, 2003 total liabilities for Davidson Inc.?

19. What is the amount of 2003 net income or loss for Jefferson, Inc.?

* 20. What is the amount of 2003 net income or loss for Denman Inc.?

S04 - Group 11

Dynotek, Inc. estimated its corporate federal income tax based on quarterly analysis of net income before income taxes. Dynotek debited Federal Income Tax Expense and credited Cash in Bank as follows:

April 15, 2003	\$30,000
June 15, 2003	\$25,000
Sept. 15, 2003	\$20,000
Dec. 15, 2003	\$20,000

The CPA for Dynotek prepared an end-of-year (12-31-03) work sheet. In a separate calculation, the CPA determined the Income Statement column totals excluding Federal Income Tax Expense, thus arriving at net income before federal income tax expense as follows: Income Statement Debit column subtotal of \$1,397,625 and an Income Statement Credit column subtotal of \$1,697,625.

The corporate federal income tax rates for 2003 are as follows:

15% of net income before taxes	Zero to \$50,000
Plus 25% of net income before taxes	\$50,000 to \$75,000
Plus 34% of net income before taxes	\$75,000 to \$100,000
Plus 39% of net income before taxes	\$100,000 to \$335,000
Plus 34% of net income before taxes	Over \$335,000

For questions 27-29, write the identifying letter of the best response on your answer sheet.

27. What is the total amount of corporate Federal Income Tax Expense that the corporation will report on its Income Statement for the year ended 12-31-03?
A. \$5,250 B. \$22,000 C. \$95,000 D. \$100,250 E. \$117,000

28. The adjusting journal entry for corporate federal income tax expense for 2003 includes a:
A. debit to Federal Income Tax Payable
B. credit to Federal Income Tax Expense
C. debit to Cash in Bank
D. credit to Federal Income Tax Payable

* 29. What is the balance of Federal Income Tax Payable after the 12-31-03 adjustment is posted?
A. zero B. \$5,250 C. \$22,000 D. \$95,000 E. \$100,250 F. \$117,000

S04 - Group 13

For items 45 through 52 write TRUE if the statement is true; write FALSE if it is false.

45. If the corporation issues only one class of capital stock, it is called preferred stock.
46. Common stockholders have the right to vote and elect the board of directors.
47. Each share of common stock is entitled to two votes.
48. A common stockholder may send in a proxy, which gives the stockholder's voting rights to someone else.
49. Preferred stockholders are entitled to receive dividends before common stockholders.
50. Common stockholders are given preference over preferred stockholders to the assets of the corporation should it cease operations.

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51. When a corporation receives permission from the state to operate, it is authorized to sell a certain number of shares of stock to investors; the maximum number of which is called its authorized capital stock.
52. Before a cash dividend can be declared, the corporation should have a sufficient amount of cash available to pay the dividend, but it does not matter what the balance of Retained Earnings is before the declaration.

S04 - Group 16

The Balance Sheet of Happy Pets, Inc. as of December 31, 2003 included the following amounts:

8% Preferred Stock, \$100 Par	\$250,000
Common Stock, \$5 Par	100,000
Paid-In Capital in Excess of Par—Common	140,000
Retained Earnings	565,000

Happy Pets, Inc. is authorized to issue 5,000 shares of \$100 par, 8% preferred stock and 100,000 shares of \$5 par common stock.

For questions 67 through 71, write the correct number or amount on your answer sheet.

67. How many shares of common stock have been issued?
- * 68. Considering the fact that there has been only one issuance of common stock, at what price per share were the common shares sold?
69. How many shares of 8% Preferred Stock have been issued?
- * 70. If the corporation pays preferred dividends on a quarterly basis, what would be the amount of the first quarter's preferred stock dividend?
- * 71. Disregard the information in the previous question and assume now that preferred stockholders are paid annually. Suppose that on November 15, 2004 the board of directors of Happy Pets, Inc. declared a total cash dividend to all shareholders of \$49,000. What amount per share is available to common shareholders?

Corporations & Stock

S05 - Group 11

The following balances appear in the general ledger accounts of a corporation on December 31, 2004 after closing entries were posted at the end of the fiscal period.

6% Preferred Stock (\$100 par)	\$235,000
Common Stock (\$7 par)	44,100
Paid-in Capital in Excess of Par—Common	13,400
Retained Earnings	823,909
Dividends—Preferred	-0-
Dividends—Common	-0-

The corporation is authorized to issue 20,000 shares of preferred stock and 50,000 shares of common stock.

The following are all the transactions that occurred in 2004 that affected the stockholders' equity accounts.

Jan 5	The board of directors declared the annual cash dividend on the preferred stock issued to all stockholders of record as of January 15, 2004 payable on February 15, 2004.
Feb 15	Paid the preferred stock cash dividend.
May 7	The board of directors declared the annual cash dividend of \$3.50 per share on the common stock to all stockholders of record as of May 15, 2004, payable on June 15, 2004.
June 15	Paid the common stock cash dividend.
Aug 1	Issued 750 shares of 6% preferred stock at par.
Sept 1	Issued 1300 shares of common stock at par.
Nov 1	Issued 800 shares of common stock for \$8.00 per share.
Dec 31	Closed the net income for the year of \$162,780
Dec 31	Closed the two dividend accounts.

For questions 37 and 38, write on your answer sheet the correct number of shares of stock issued as of January 1, 2004.

37. 6% Preferred Stock

*38. Common Stock

For questions 39 through 43, write on your answer sheet the correct amount of the beginning balance as of January 1, 2004 for each of the following accounts:

39. 6% Preferred Stock

*40. Common Stock

41. Paid-in Capital in Excess of Par—Common

**42. Retained Earnings

43. Dividends--Common

S05 - Group 14

For questions 63 through 66, write the identifying letter of the best response on your answer sheet.

63. Incorporation fees paid to the state, attorneys' fees for legal services, payments to promoters to sell stock, the cost of printing stock certificates, and other costs to bring a corporation into existence are called
 A. incorporating expenses C. organization costs
 B. proxy costs D. paid-in capital
64. Where is the best place to find the par value of stock of a Texas corporation?
 A. on the state of Texas' website C. in the Dividends account
 B. on the stock certificate D. on the PGA tour
65. If a corporation issues only one class of capital stock, the stock is called
 A. common stock C. paid-in capital in excess of common
 B. preferred stock D. authorized par stock
66. The three dates that are important in the dividend process are:
 A. accrual, deferral, issuance C. March 5, September 10, November 6
 B. authorized, issuance, retainage D. declaration, record, payment

S06 - Group 5

Beacon, Inc. estimated its corporate federal income tax for the year 2005. Beacon made four payments to the IRS in 2005 for \$23,000 each and debited Federal Income Tax Expense and credited Cash in Bank for each payment.

The CPA for Beacon prepared an end-of-year (12-31-05) work sheet. In a separate calculation, the CPA determined the Income Statement column totals excluding Federal Income Tax Expense, thus arriving at net income before federal income tax expense as follows: Income Statement Debit column subtotal of \$5,370,515 and an Income Statement Credit column subtotal of \$5,657,915.

The corporate federal income tax rates for 2005 are as follows:

15% of net income before taxes	Zero to \$50,000
Plus 25% of net income before taxes	\$50,000 to \$75,000
Plus 34% of net income before taxes	\$75,000 to \$100,000
Plus 39% of net income before taxes	\$100,000 to \$335,000
Plus 34% of net income before taxes	Over \$335,000

19. What is the total amount of corporate Federal Income Tax Expense that the corporation will report on its Income Statement for the year ended 12-31-05?
 A. \$3,336 B. \$92,000 C. \$95,336 D. \$97,716 E. \$112,086
20. The adjusting journal entry for corporate federal income tax expense for 2005 includes a:
 A. credit to Federal Income Tax Payable
 B. credit to Federal Income Tax Expense
 C. debit to Cash in Bank
 D. debit to Federal Income Tax Payable

Corporations & Stock

- * 21. What is the balance of Federal Income Tax Payable after the 12-31-05 adjustment is posted?
 A. zero B. \$3,336 C. \$5,716 D. \$20,086 E. \$92,000 F. \$95,336
22. Federal Income Tax Payable is classified on the financial statements as a/an
 A. income tax expense item C. deferred revenue
 B. current liability D. long-term liability
- *23. What is Net Income After Federal Income Tax as reported on the income statement for the year ended 12-31-05?
 A. \$175,314 C. \$192,064 E. \$284,064
 B. \$189,684 D. \$195,400 F. \$287,400
24. What is the Income Statement Debit column subtotal before net income is written on the work sheet?
 A. \$5,370,515 B. \$5,373,851 C. \$5,462,515 D. \$5,465,851 E. \$5,468,231

S06 - Group 9

For question #41, write the identifying letter of the best response on your answer sheet.

- *41. Susan Webb is considering purchasing stock in one of three companies. She has gathered the following information about the companies:

	Sun, Inc.	Moon, Inc.	Stars, Inc.
Earnings Per Share	\$1.60	\$0.75	\$2.25
Current Market Value Per Share	\$19.60	\$10.50	\$29.25

If all other company considerations are comparable, which stock will be more attractive to Susan after she calculates the price-earnings ratio for each company?

- A. Sun, Inc.
 B. Moon, Inc.
 C. Stars, Inc.

S06 - Group 11

For questions 49 through 51, write the correct amount on your answer sheet.

49. Bower, Inc. began operations and all stock was issued on opening day of public trading. The financial statements at the end of the first year included the following:

Preferred 6% Stock, \$100 par value	\$60,000
Common Stock, \$8 par value	112,000
Paid-in Capital in Excess of Par--Common	64,400
Retained Earnings	86,700

What was the selling price per share of the common stock?

50. Denham, Inc. had 22,250 shares of \$6 par common stock issued. At the end of the year 2005, the corporation had net income of \$260,900. The board of directors declared a \$5 cash dividend per share of common stock on the last day of 2005. How much of the 2005 net income was retained by the corporation after the dividend?

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*51. The financial statements of Coastal, Inc. included the following on January 1, 2006:

Preferred \$6 Stock, \$100 par	\$250,000
Common Stock, \$5 par	465,000
Paid-in Capital in Excess of Par—Common	116,250
Retained Earnings	978,652

The board of directors approved the annual cash dividend of \$247,500 for both preferred and common stockholders. The dividend is payable to stockholders of record as of January 15, 2006 with payment on February 1, 2006. What is the amount of the dividend paid on each share of common stock?

S07 - Group 4

For questions 19-22, write the identifying letter of the best response on your answer sheet.

19. Before a dividend is declared by a corporation's board of directors, the corporation
 - A. must have preferred stock authorized and issued.
 - B. must have an adequate balance in the Retained Earnings account.
 - C. should have a sufficient amount of cash available to pay the dividend.
 - D. all the above
 - E. only B and C above
20. A separate general ledger owner's equity account is maintained for each owner of a
 - A. corporation
 - B. proprietorship
 - C. partnership
 - D. all the above
 - E. only A and B above
 - F. only B and C above
21. Retained Earnings is
 - A. a stockholders' equity account.
 - B. increased by a corporation's net income.
 - C. income held by a corporation possibly for business expansion.
 - D. an amount earned by a corporation and not yet distributed to stockholders.
 - E. all the above
 - F. only A and B above
22. Which of the following statements is false?
 - A. A corporation's dividend account is a temporary account similar to a proprietorship's or partnership's drawing account.
 - B. At the end of each fiscal period, the balance in the dividends account is closed to an account called Stockholders' Equity.
 - C. Dividends normally are declared on one date and paid on a later date.
 - D. When a board of directors declares a dividend, the corporation is then obligated to pay the dividend, which is evidenced by the account called Dividends Payable.
 - E. Stockholders owning the stock on the date of record receive the entire dividend, regardless of how long they have owned the stock.

S07 - Group 5

Refer to the work paper in Table 1 on page 11. Longhorn, Inc. is authorized to issue 10,000 shares of \$100 par, preferred 9% stock and 500,000 shares of \$5 par common stock. The following selected amounts appeared in the Balance Sheet section of the company's work sheet for the year ended December 31, 2006. All account balances are normal balances.

Dividends Payable—Preferred	22,500
Dividends Payable—Common	150,000
Preferred Stock	500,000
Common Stock	750,000
Paid-in Capital in Excess of Par--Common	300,000
Retained Earnings	735,000
Dividends—Preferred	45,000
Dividends—Common	262,500

The company's work sheet indicates net income for the year of \$525,000. The general ledger also showed that both dividend payable accounts had a zero balance as of January 1, 2006.

(Pay particular attention to the correct format of each of your answers in this group.)

For questions 23 and 24, write on your answer sheet the correct number of shares of stock issued as of January 1, 2006.

- 23. Preferred Stock
- 24. Common Stock

For questions 25 through 30, write on your answer sheet the correct dollar amount of the beginning balance as of January 1, 2006 for each of the following:

- * 25. Preferred Stock
- * 26. Common Stock
- 27. Paid-in Capital in Excess of Par—Common
- 28. Retained Earnings
- 29. Dividends—Common
- 30. Dividends Payable—Preferred

For questions 31 through 33, write the correct dollar amount on your answer sheet.

- * 31. What was the balance of Retained Earnings after the 12-31-06 closing entries were posted?
- * 32. How much was the dividend amount per share of common stock declared on June 1, 2006?
- * 33. How much was the dividend amount per share of common stock declared on December 1, 2006?

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Table 1
 (for questions 23 through 33)

Date	Description	Preferred Stock	Common Stock	Paid In Capital in Excess of Par-- Common	Dividends-- Preferred	Dividends-- Common
01-10-06	Issued 500 shares Preferred Stock at par					
06-01-06	Declared semiannual cash dividend of \$135,000 for both preferred and common stockholders of record as of June 15					
07-15-06	Paid all dividends declared on 6-1-06					
08-10-06	Received \$9 per share when 25,000 shares Common stock issued					
12-01-06	Declared semiannual cash dividend of \$172,500 for both preferred and common stockholders of record as of Dec. 15					

S07 - Group 6

34. In regards to the declaration of dividends, a journal entry is required on the date of record.
35. Corporate earnings distributed to stockholders are called dividends.
36. When cash dividends are declared, a dividend account is debited and a liability account is credited.
37. A corporation may use an agent such as a bank, who then handles the details of sending dividend checks to individual stockholders.
38. A corporation owned by a few persons or by a family is called a closely-knit corporation.
39. A partnership is a separate legal entity that is created and exists only by law.
40. Common stockholders have the right to vote for the board of directors of the corporation and are entitled to one vote for each share of stock they own.
41. Preferred stockholders have preference over common stockholders because they are entitled to receive dividends before common stockholders, and preferred stockholders are entitled to two votes for each share of preferred stock they own.
42. On the Statement of Stockholders' Equity, Preferred Stock is listed before Common Stock.

S08 - Group 8

The Balance Sheet of Stern Bear, Inc. as of December 31, 2007 included the following amounts:

9% Preferred Stock, \$100 Par	\$125,200
Common Stock, \$25 Par	310,000
Paid-In Capital in Excess of Par—Common	86,800
Retained Earnings	904,685

Stern Bear, Inc. is authorized to issue 5,000 shares of \$100 par, 9% preferred stock and 50,000 shares of \$25 par common stock.

For questions 24 through 28, write the correct number or amount on your answer sheet.

24. How many shares of common stock have been issued?
- *25. Considering the fact that there has been only one issuance of common stock, at what price per share were the common shares sold?
26. How many shares of 9% Preferred Stock have been issued?
- *27. If the corporation pays preferred dividends on a quarterly basis, what would be the amount of the first quarter's preferred stock dividend?
- *28. Disregard the information in the previous question and assume now that preferred and common stockholders are paid annually. Suppose that on November 16, 2007 the board of directors of Stern Bear, Inc. declared a total cash dividend to all shareholders of \$183,008. What amount per share is available to common shareholders?

S08 - Group 11

Refer to Table 3 below. Century, Inc. estimated its corporate federal income tax for the year 2007. Century made four payments to the IRS in 2007 for \$26,500 each and debited Federal Income Tax Expense and credited Cash in Bank for each payment.

The CPA for Century prepared an end-of-year (12-31-07) work sheet. In a separate calculation, the CPA determined the Income Statement column totals excluding Federal Income Tax Expense, thus arriving at net income or net loss before federal income tax expense as follows: Income Statement Debit column subtotal of \$6,502,092 and an Income Statement Credit column subtotal of \$6,827,492.

For questions 46 through 52, write the identifying letter of the best response on your answer sheet.

46. Century made the first estimated income tax payment in March of 2007. The other three payments were due in
- A. April, May, and June C. June, September, and December
B. May, July, and September D. June, August, and November
47. What is the total amount of corporate Federal Income Tax Expense that the corporation will report on its Income Statement for the year ended 12-31-07?
- A. \$87,906 B. \$106,000 C. \$110,156 D. \$110,636 E. \$126,906

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48. The adjusting journal entry for corporate federal income tax expense for 2007 includes a:
- credit to Federal Income Tax Expense
 - credit to Federal Income Tax Payable
 - debit to Cash in Bank
 - debit to Federal Income Tax Payable
- *49. What is the balance of Federal Income Tax Payable after the 12-31-07 adjustment is posted?
- | | | | |
|------------|-------------|--------------|--------------|
| A. zero | C. \$ 4,636 | E. \$ 20,906 | G. \$110,156 |
| B. \$4,156 | D. \$18,094 | F. \$106,000 | |
50. Federal Income Tax Payable is classified on the financial statements as a/an
- | | |
|----------------------------|------------------------|
| A. income tax expense item | C. deferred revenue |
| B. current liability | D. long-term liability |
- *51. What is Net Income After Federal Income Tax as reported on the income statement for the year ended 12-31-07?
- | | | | | |
|--------------|--------------|--------------|--------------|--------------|
| A. \$198,494 | B. \$214,764 | C. \$215,244 | D. \$219,400 | E. \$237,494 |
|--------------|--------------|--------------|--------------|--------------|
52. What is the amount that should be written as the Income Statement Debit column subtotal before "Net Income After Federal Income Tax" is written on the work sheet?
- | | | | | |
|----------------|----------------|----------------|----------------|----------------|
| A. \$6,391,936 | B. \$6,612,248 | C. \$6,717,336 | D. \$6,827,492 | E. \$6,937,648 |
|----------------|----------------|----------------|----------------|----------------|

S08 - Group 12

Refer again to Table 3 below. Flip Flop, Inc. began operating four years ago and incurred federal income tax expense as follows:

Year	Net Income	Income Tax
		Expense
2004	25,500	3,825
2005	19,520	2,928
2006	4,500	675

Flip Flop made four estimated income tax payments of \$300 each to the IRS during 2007. The accountant prepared an end-of-year (12-31-07) work sheet. In a separate calculation, the accountant determined the Income Statement column totals excluding Federal Income Tax Expense, thus arriving at net income or net loss before federal income tax expense as follows: Income Statement Debit column subtotal of \$157,290 and an Income Statement Credit column subtotal of \$146,210.

53. What is the total amount of federal income tax expense that the corporation will report on its income statement for the year ending 12-31-07?
- | | | | | |
|---------|----------|----------|------------|------------|
| A. zero | B. \$300 | C. \$462 | D. \$1,200 | E. \$1,662 |
|---------|----------|----------|------------|------------|
54. The \$1,200 that Flip Flop paid to the IRS in estimated income tax payments in 2007
- is non-refundable and will be transferred by the IRS to the general operating budget of the federal government.
 - is non-refundable and will be transferred by the IRS to the state government in which Flip Flop was incorporated.
 - will be refunded to Flip Flop after it files its 2007 corporate income tax return.
 - is properly paid to the IRS for corporate income tax owed for 2007.

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*55. Flip Flop is entitled to receive a refund of taxes paid in years prior to Jan. 1, 2007 in the amount of

A. zero

B. \$300

C. \$462

D. \$1,200

E. \$1,662

Table 3
(for questions 46 through 55)

The corporate federal income tax rates for years 2000 through 2007 are as follows:

15% of net income before taxes	Zero to \$50,000
Plus 25% of net income before taxes	\$50,000 to \$75,000
Plus 34% of net income before taxes	\$75,000 to \$100,000
Plus 39% of net income before taxes	\$100,000 to \$335,000
Plus 34% of net income before taxes	Over \$335,000

S09 - Group 9

On January 5, 2008 Absolon, Inc. was organized and authorized to issue 500,000 shares of \$25 par common stock and 75,000 shares of \$100 par, preferred 6% stock.

The company prepares adjusting and closing entries only at the fiscal year end which is December 31. The company prepares a Balance Sheet, Income Statement, and Statement of Stockholders' Equity annually.

In January 5,000 shares of common stock were issued at par, 3,000 shares of common stock were issued at \$28, and 300 shares of preferred stock were issued at \$100.

The company earned \$89,400 in net income in 2008. On December 20, 2008 the board of directors declared an annual dividend of \$29,800 for both preferred and common shareholders to be paid by March 15, 2009.

For questions 42 through 45 write the correct amount or number on your answer sheet.

*42. Of the total dividends declared, what amount per share is available to the common stockholders?

43. After closing entries how much of the net income is retained by the corporation?

*44. What amount should be reported on the December 31, 2008 balance sheet on the single equity line called Stockholders' Equity?

45. How many shares of common stock are unissued as of December 31, 2008?

S10 - Group 6

Zebra Corp is a service business incorporated on July 1, 2009 and is authorized to issue 100,000 shares of \$5 par common stock. On July 1, 2009 there were 10,000 common shares issued at par. This cash was used to acquire various assets needed to begin business operations.

The following chart provides selected account balances of Zebra Corp as of 12-31-09. These general ledger balances reflect all adjusting entries. Closing entries consisting of 1) the closing of all revenue accounts and 2) the closing of all expense accounts have been posted. All accounts have normal balances and Income Summary has a credit balance.

A	Cash in Bank	?	E	Paid-In Capital in Excess of Par	7,500
B	Dividends Payable—Common	?	F	Retained Earnings	?
C	Dividends—Common	?	G	Income Summary	42,680
D	Common Stock	175,000			

All the remaining equity transactions for the fiscal year ending 12-31-09 are:

DR	CR	Date	Transaction
XXX	15.	9-15-09	Issued 20,000 shares of common stock at par.
16.	*17.	11-6-09	Issued <u> ? </u> shares of common stock at \$ <u> ? </u> per share.
18.	19.	11-7-09	Declared the first and only \$0.25 per share cash dividend.
20.	21.	12-31-09	Closed the Dividends account.
22.	23.	12-31-09	Closed the Income Summary account.

For questions 15 through 23, write on your answer sheet the identifying letter(s) of the correct account(s) to be debited and credited for each transaction. The question numbers are listed in the appropriate debit and credit columns.

Some answers will include multiple accounts. The order in which you write the identifying letters in an answer is not considered in grading. However, all accounts in an answer must be correct in order for the response to be correct.

For questions 24 through 28, write the correct amount on your answer sheet.

24. How many shares of common stock were issued on 11-6-09?
- * 25. What was the price per share of the common stock issuance on 11-6-09?
26. What was the total amount of dividends declared on 11-7-09?
27. What was the balance of Retained Earnings on the Post-Closing Trial Balance dated December 31, 2009?
28. What was the amount of Total Stockholders' Equity on the Balance Sheet dated December 31, 2009?

S10 -Group 7

Lion, Inc. estimated its corporate federal income tax for the year 2009. Lion made four payments to the IRS in 2009 for \$26,000 each and debited Federal Income Tax Expense and credited Cash in Bank for each payment.

The CPA for Lion prepared an end-of-year (12-31-09) work sheet. In a separate calculation, the CPA determined the Income Statement column totals excluding Federal Income Tax Expense, thus arriving at net income before federal income tax expense as follows: Income Statement Debit column subtotal of \$5,657,915 and an Income Statement Credit column subtotal of \$5,992,515.

The corporate federal income tax rates for 2009 are as follows:

15% of net income before taxes	Zero to \$50,000
Plus 25% of net income before taxes	\$50,000 to \$75,000
Plus 34% of net income before taxes	\$75,000 to \$100,000
Plus 39% of net income before taxes	\$100,000 to \$335,000
Plus 34% of net income before taxes	Over \$335,000

For questions 29 through 34, write the identifying letter of the best response on your answer sheet.

29. What is the total amount of corporate Federal Income Tax Expense that the corporation will report on its Income Statement for the year ended 12-31-09?
A. \$9,744 B. \$104,000 C. \$113,744 D. \$130,494 E. \$147,844
30. The adjusting journal entry for corporate federal income tax expense for 2009 includes a:
A. credit to Federal Income Tax Expense
B. credit to Federal Income Tax Payable
C. debit to Cash in Bank
D. debit to Federal Income Tax Payable
31. What is the balance of Federal Income Tax Payable after the 12-31-09 adjustment is posted?
A. zero B. \$9,744 C. \$26,494 D. \$43,844 E. \$104,000 F. \$113,744
32. Federal Income Tax Payable is classified on the financial statements as a/an
A. income tax expense item C. deferred revenue
B. current liability D. long-term liability
- * 33. What is Net Income After Federal Income Tax as reported on the income statement for the year ended 12-31-09?
A. \$186,756 B. \$204,106 C. \$220,856 D. \$230,600 E. \$324,856 F. \$334,600
34. What is the Income Statement Debit column subtotal before net income is written on the work sheet?
A. \$5,544,171 C. \$5,667,659 E. \$5,771,659
B. \$5,657,915 D. \$5,761,915 F. \$6,106,259

S11 - Group 8

Bexco, Inc. is a closely held corporation formed in 2008 and has only one shareholder, Alex Wilmon. The corporation has a fiscal year end of December 31 and the basis of accounting is the accrual basis. For this group of questions, disregard depreciation.

There is only one class of stock issued. On May 1, 2010 Bexco, Inc. issued 350 shares of common stock to Alex Wilmon.

On November 1, 2010 a cash dividend of \$5 per share was declared on all shares issued as of November 15, 2010, which was paid on December 15, 2010.

The following account balances (listed alphabetically) are correct, and all have normal balances. The balances were as of December 31, 2010 after all adjusting entries were prepared and posted correctly but before closing entries were posted. The account called Paid-in Capital in Excess of Par has a zero balance. The only other general ledger accounts that are not listed below are Dividends and Retained Earnings.

Accounts Payable	5,300	Gasoline Expense	9,000
Accounts Receivable	2,400	Insurance Expense	8,000
Building	17,200	Interest Expense	2,000
Cash	7,600	Payroll Tax Expense	800
Common Stock (\$10 par)	8,000	Salary Expense	7,900
Equipment	4,200	Revenue	56,000
Equipment Rental Expense	1,600	Utilities Expense	5,000
Note Payable (due in 2020)	12,100	Vehicles	20,000

For questions 36 through 38, write the correct amount on your answer sheet.

36. What is the balance of the common stock account on January 1, 2010?
 37. What is the balance of Retained Earnings in the general ledger after closing entries for 2010 are posted?
 *38. What is the balance of Retained Earnings on January 1, 2010?

For questions 39 and 40, write the identifying letter of the best response on your answer sheet.

- *39. What is the profitability of Bexco, Inc. measured by the return on common stockholder's equity as of 12-31-10?
 A. 0.64% C. 0.93% E. 9.3% G. 83% I. 271%
 B. 0.83% D. 3.47% F. 64% H. 92.7% J. 347%
40. The reason the account called Paid-in Capital in Excess of Par has a zero balance is because
 A. the shareholder still owes the corporation for the increase in value of the company shares.
 B. all preferred shares were issued in a previous fiscal year.
 C. all common shares were issued at par.
 D. all common shares were issued at a price greater than par value.