25. Which of the following are not included in an employer's payroll tax expense?
A. Employer portion of FICA taxes.
B. Federal unemployment taxes.
C. State unemployment taxes.
D. State income taxes.

33. The sale of gift cards by a company is a direct example of:
A. Unearned revenues.
B. Sales tax payable.
C. Current portion of long-term debt.
D. Deferred taxes.

44. If management can estimate the amount of loss that will occur due to litigation against the company, and the likelihood of the loss is *probable*, a contingent liability should be
A. Disclosed, but not reported as a liability.
B. Disclosed and reported as a liability.
C. Neither disclosed nor reported as a liability.
D. Reported as a liability, but not disclosed.

Samson Enterprises issued a ten-year, $20 million bond with a 10% interest rate for $19,500,000. The entry to record the bond issuance would have what effect on the financial statements?
A. Increase assets.
B. Increase liabilities.
C. Increase stockholders' equity.
D. a. and b.

6. The advantages of obtaining long-term funds by issuing bonds, rather than issuing additional common stock, include which of the following?
A. Interest payments are tax deductible to the company, while dividends are not.
B. The risk of going bankrupt decreases.
C. Expansion is achieved without surrendering ownership control.
D. a. and c.

The effective interest rate on bonds is higher than the stated rate when bonds sell:
a. At face value
b. Above face value
c. Below face value
d. At maturity value
Answer: C

On January 1, 2003, Santos Hospital issued a $250,000, 10 percent, 5-year bond for $231,601. Interest is payable on June 30 and December 31. Santos uses the effective-interest method to amortize all premiums and discounts. Assuming an effective interest rate of 12 percent, how much interest expense should be recorded on June 30, 2003?
a. $11,935.14
b. $12,500.00
c. $13,896.06
d. $14,729.82

43. Bonds payable should be reported as a long-term liability in the balance sheet at:
A. Face Value.
B. Current bond market price.
C. Carrying value.
D. Face value less accrued interest since the last interest payment date.

Discount-Mart issues $10 million in bonds on January 1, 2012. The bonds have a ten-year term and pay interest semiannually on June 30 and December 31 each year. Below is a partial bond amortization schedule for the bonds:

Date	Cash Paid	Interest Expense	Decrease in Carrying Value	Carrying Value
1/1/12				$8,640,967
6/30/12	$300,000	$345,639	$45,639	8,686,606
12/31/12	300,000	347,464	47,464	8,734,070
6/30/13	300,000	349,363	49,363	8,783,433
12/31/13	300,000	351,337	51,337	8,834,770

54. What is the stated annual rate of interest on the bonds? (Hint: Be sure to provide the annual rate rather than the six month rate.)
A. 3%.
B. 4%.
C. 6%.
D. 8%.

55. What is the market annual rate of interest on the bonds? (Hint: Be sure to provide the annual rate rather than the six month rate.)
A. 3%.
B. 4%.
C. 6%.
D. 8%.

56. What is the interest expense on the bonds in 2012?
A. $693,103.
B. $600,000.
C. $345,639.
D. $347,464.

57. What is the carrying value of the bonds as of December 31, 2013?
A. $8,834,770.
B. $8,686,606.
C. $8,734,070.
D. $8,783,433.

13. Outstanding common stock is:
A. Stock that is performing well on the New York Stock Exchange.
B. Stock that has been authorized by the state for issue.
C. Stock issued plus treasury stock.
D. Stock in the hands of stockholders.

17. If a company issues 1,000 shares of $1 par value common stock for $30 per share, what would be the effect on the accounting equation?
A. Increase assets and increase liabilities.
B. Increase assets and increase revenue.
C. Increase assets and increase stockholders' equity.
D. Increase assets and decrease stockholders' equit

The declaration of a common stock dividend:
a. Decreases a company's retained earnings balance
b. Decreases the par value of outstanding stock
c. Decreases the number of shares of outstanding stock
d. Decreases the amount of cash

Reiser Co. has 8,000 shares of no-par common stock with a $50 stated value and 3,000 shares of $40 par, 5 percent noncumulative preferred stock outstanding. If the company declares cash dividends of $22,000, the total amount of the dividend paid to preferred stockholders is:
a. $5,000
b. $11,000
c. $6,000
d. $5,500

A 2-for-1 stock split:
a. Increases retained earnings by 50 percent
b. Increases the par value of all authorized stock by one-half

c. Doubles the number of shares of stock outstanding
d. Requires a transfer of retained earnings to contributed capital
Answer: C

Bud Company has 14,000 shares of common stock authorized, of which 10,000 shares have been issued and 9,000 are currently outstanding. If the company declares a 10 percent stock dividend, how many shares of stock will it issue?
a. 900
b. 1,000
c. 1,400
d. None of the above
Answer: A

AACSB: Reflective Thinking

36. 41. The corporation's own stock that has been issued and then repurchased by the company is referred to as:
A. Preferred Stock.
B. Authorized Stock.
C. Treasury Stock.
D. Common Stock.

47. Retained Earnings represent a company's:
A. Net income less dividends since the company first started.
B. Undistributed net assets.
C. Extra paid-in capital.
D. Undistributed cash.

56. Both cash dividends and stock dividends:
A. reduce total assets.
B. reduce total liabilities.
C. reduce total stockholders' equity.
D. reduce retained earnings.

61. Large stock dividends and stock splits are issued primarily to:
A. Lower the trading price of the stock per share.
B. Increase the number of authorized shares.
C. Increase legal capital.
D. Increase the number of outstanding shares.

63. The statement of stockholders' equity shows
A. Only the ending balance in each stockholders' equity account.
B. How each equity account changed over time.
C. Only the beginning balance in each stockholders' equity account.
D. Less information than the stockholders' equity section in the balance sheet.

65. Panhandle Corporation was organized on January 3, 2012. The firm was authorized to issue 100,000 shares of $5 par value common stock. During 2012, Panhandle had the following transactions relating to shareholders' equity:

Issued 30,000 shares of common stock at $7 per share.
Issued 20,000 shares of common stock at $8 per share.
Reported a net income of $100,000.
Paid dividends of $50,000.

What is total paid-in capital at the end of 2012?
A. $420,000.
B. $370,000.
C. $470,000.
D. $320,000.

Sean Corp. issued a $40,000, 10 year bond at the face rate of 8%, paid semiannually. How much cash will the bond investors receive at the end of the first interest period?

a. $ 800
b. $1,600
c. $3,200
d. $4,000

David Corporation issues 20,000 shares of $0.50 par common stock for $6 per share; the Additional Paid-in Capital--Common account will **increase** by

a. $ 10,000.
b. $110,000.
c. $120,000.
d. $130,000.

44. If a company issues $5 par value common stock,

a. $5 per share is presented in the common stock account on the balance sheet.
b. the minimum selling price is $5.
c. the shareholders will receive $5 in dividends.
d. liabilities are increased as a result of the transaction.

45. When the owner of a sole proprietorship withdraws assets from the business for personal use

a. it is treated like a noncash dividend.
b. it is illegal because the assets belong to the separate entity, the proprietorship.
c. it would be recorded as a loss by the proprietorship.
d. it is recorded as a reduction of owner's equity.

47. Richards Corporation reported the following in the stockholders' equity section of its balance sheet at December 31, 2010:

Common stock, $1 stated value	$10,000
Additional paid-in capital - common	40,000
Retained earnings	25,000
Total contributed capital and retained earnings	$75,000
Less: Treasury stock (at cost $20 per share)	2,000
Total stockholders' equity	$73,000

How many shares of stock are issued?

a. 9,000
b. 10,000
c. 10,100
d. Not enough information to determine.

48. The Retained Earnings account balance for a large corporation is $10,000,000. This amount represents

a. earnings that have not been distributed to shareholders.
b. cash in the bank.
c. the amount of cash available for dividends.
d. revenues for all past years of operations.

Murphy Parts Shop began business on January 1, 2010. The corporate charter authorized issuance of 10,000 shares of $2 par value common stock and 4,000 shares of $8 par value, 6% cumulative preferred stock. Murphy issued 2,400 shares of common stock for cash at $20 per share on January 2, 2010. What effect does the entry to record the issuance of stock have on total stockholders' equity?

a. Increase of $4,800
b. Decrease of $4,800
c. Increase of $48,000
d. Decrease of $48,000

52. A company would repurchase its own stock for all of the following reasons except

a. it needs the stock for employee bonuses.
b. it wishes to make an investment in its own stock.
c. it wishes to prevent unwanted takeover attempts.
d. it wishes to improve the company's financial ratios.

.In 2010, Drew Company issued $200,000 of bonds for $189,640. If the face rate of interest was 8% and the effective rate of interest was 6.73%, how would Drew calculate the interest expense for the first year on the bonds using the effective interest method?

a. $189,640 x 6.73%
b. $189,640 x 8%
c. $10,000 x 6.73%
d. $10,000 x 8%

Archer Corporation has 2,000,000 authorized shares of $9 par-value common stock, with 300,000 shares issued and outstanding. After a 3-for-1 stock split, Archer Corporation would have:

a. 900,000 shares of common stock issued and outstanding at $3 par
b. 100,000 shares of common stock issued and outstanding at $27 par
c. 6,000,000 shares of common stock outstanding at $3 par
d. 666,667 shares of stock outstanding at $27 per share
Answer: A