Part I Quiz Solutions

Instructions: Answer the following questions and problems. Show all work.

I. Complete this chart concerning the characteristics of the three legal forms of business.

Characteristic / Legal Form	Ease of Formation	Length of Life	Raising Capital	Owner's Liability	Taxes
Sole Proprietorship	Easy, just start	Limited to owner's life	Difficult, resources of one owner	Unlimited, personal assets at risk	Once, as personal income
Partnership	Easy, just start	Shortest, death or disagreement ends partnership	Easier, resources of the owners	Unlimited, personal assets at risk	Once, as personal income
Corporation	Somewhat difficult, file forms, pay state	Unlimited	Easiest, resources of anyone interested	Limited to investment	Twice, as corporate income & dividend income

II. Match each term with the appropriate description.

1) E	Howard Gardner	(A) Items of value
2) J	Managerial accounting	(B) Amounts owed
3) F	Deferred revenue	(C) The closing of a business
4) A	Assets	(D) Provides certified information
5) B	Liabilities	(E) Multiple intelligence
6) H	A + L =	(F) Received but not earned
7) C	Liquidation	(G) Earned but not received
8) I	Effective interest per period	(H) Owner's equity
9) G	Accrued revenue	(I) $\frac{I}{\text{amount received}}$
10) D	Financial accounting	(J) Provides information for internal decision making

III. Place the five functions of management in the proper location.

Plan	Organize	Coordinate	Control	Evaluate

IV. Make an account form balance sheet after year one operations for ZIP Corporation. Retained earnings of $600,000 is the result of a $400,000 dividend being subtracted from net income of $1,000,000. Total stockholders' equity should equal retained earnings added to total contributed capital. Use a 1999 calendar year.

ZIP Corporation
Opening Balance Sheet
December 31, 1999

Assets		**Liabilities**		
Cash	$ 1,700,000	Taxes Payable		$ 90,000
Supplies	10,000	Salaries Payable		20,000
Buildings	2,000,000	Notes Payable		4,000,000
Equipment	1,000,000	**Total Liabilities**		$ 4,110,000
Land	8,000,000			
Total Assets	$12,710,000	**Stockholders' Equity**		
		Preferred Stock	$1,500,000	
		Common Stock	2,000,000	
		Contributed Capital In Excess of Par		
		Preferred Stock	500,000	
		Common Stock	4,000,000	
		Total Contributed Capital	$8,000,000	
		Retained Earnings	600,000	
		Total Stockholders' Equity		8,600,000
		Total Liabilities and Stockholders' Equity		$12,710,000

V. Fifty $1,000 bonds paying interest of 8% were sold at 101.
   A. How much cash was received from this bond issue?
   B. How much interest was paid on each $1,000 bond?
   C. Calculate the total amount of interest paid on these bonds.
   D. What was the effective interest rate paid on these bonds?
   E. What might have caused this bond to sell above its face value?

A. Total cash received	B. Interest per bond	C. Interest paid	D. Effective interest	E. Causes
Bond Price = (1.01)(1,000) = $1,010 Received = ($1,010)(50) = $50,500	I = pin = ($1,000)(.08)(1) = $80	($80)(50) = $4,000	$\frac{I}{\text{Amount Received}} = \frac{\$80}{\$1,010}$ = .0792	Interest rates fall and/or the company's financial position improved.

VI. Complete a multi-step income statement for the upscale clothing store known as The Sack. Use a 1999 calendar year.

The Sack
Income Statement
For Period Ending December 31, 1999

Revenue		
Sales Revenue	$2,450,000	
Cost of Goods Sold	950,000	
Gross Profit		$1,500,000
Operating Expenses		
Salaries	$ 300,000	
Utilities	10,000	
Interest	240,000	
Advertising	550,000	
Total Operating Expenses		1,100,000
Income (Loss) from Operations		$ 400,000
Other Revenue and Expenses		
Other Income		50,000
Net Income		$ 450,000

VII. XYZ Corporation sold 5,000 shares of $10 par common stock for $15 per share and 1,000 shares of $100 par 8% preferred stock for $105 per share.

A. What was the stockholders' equity after this stock issue?
   1. Common stock equity equals (5,000 shares)($15 received) = $75,000.
   2. Preferred stock equity equals (1,000 shares)($105 received) = $105,000.
   3. Total equity equals $75,000 + $105,000 = $180,000.

B. Calculate the annual dividend paid to preferred stockholders.
   1. Each dividend equals pin = ($100)(.08)(1) = $8 per share.
   2. Total dividend equals ($8 per share)(1,000 shares) = $8,000.

C. Common stockholders were paid a dividend of $1.20 per share.
   What was the common stock dividend?
   1. Total dividend equals ($1.20 per share)(5,000 shares) = $6,000.

D. Net income was $55,000. What were retained earnings at the end of the year?
   1. Increase in retained earnings equals income - dividends.
   2. Total dividends equals $8,000 preferred + $6,000 common = $14,000.
   3. Retained earnings equals $55,000 - $14,000 = $41,000.

E. What was the stockholders' equity at the end of year one?
   1. Total stockholders' equity = contributed capital + retained earnings.
   2. $180,000 + $41,000 = $221,000

F. What does the change in stockholders' equity signify?
   1. The increase in assets - liabilities over the period was $221,000.
   2. What this means will be the subject of Parts II and III of
   Financial Accounting For Owners, Managers, and Administrators.