

# 1.

award:

**3.00 points****Problem 13-22 [LO3, LO5, LO6]**

A company is to be liquidated and has the following liabilities:

Income taxes	\$ 6,000
Notes payable (secured by land)	150,000
Accounts payable	100,000
Salaries payable (evenly divided between two employees)	21,000
Bonds payable	85,000
Administrative expenses for liquidation	35,000

The company has the following assets:

	Book Value	Fair Value
Current assets	\$ 95,000	\$ 50,000
Land	115,000	105,000
Buildings and equipment	115,000	150,000

How much money will the holders of the notes payable collect following the liquidation?

Total amount collected                      \$

**Worksheet**

Difficulty: 2 Medium

Learning Objective: 13-05 Account for a company as it enters bankruptcy.

*Problem 13-22 [LO3, LO5, LO6]*

Learning Objective: 13-03 Identify the various types of creditors as they are labeled during a bankruptcy.

Learning Objective: 13-06 Account for the liquidation of a company in bankruptcy.

# 2.

award:

**2.00 points**

**Problem 13-23 [LO3, LO6]**

Xavier Company is going through a Chapter 7 bankruptcy. All assets have been liquidated, and the company retains only \$27,400 in free cash. The following debts, totaling \$49,050, remain:

Government claims to unpaid taxes	\$ 8,200
Salary during last month owed to Mr. Key (not an officer)	20,025
Administrative expenses	4,650
Salary during last month owed to Ms. Rankin (not an officer)	7,425
Unsecured accounts payable	8,750

Indicate how much money will be paid to the creditor associated with each debt. **(Be sure to list liabilities in the order of priority.)**

(Click to select) ▼	
(Click to select) ▼	
(Click to select) ▼	

**Worksheet**

Difficulty: 2 Medium

Learning Objective: 13-06 Account for the liquidation of a company in bankruptcy.

**Problem 13-23 [LO3, LO6]**

Learning Objective: 13-03 Identify the various types of creditors as they are labeled during a bankruptcy.

**3.** award:  
**2.00 points**

**Problem 13-24 [LO3, LO5]**

Ataway Company has severe financial difficulties and is considering filing a bankruptcy petition. At this time, it has the following assets (stated at net realizable value) and liabilities:

Assets (pledged against debts of \$76,000)	\$ 128,000
Assets (pledged against debts of \$142,000)	56,000
Other assets	86,000
Liabilities with priority	65,000

Unsecured creditors	206,000
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In a liquidation, how much money would be paid on the partially secured debt?

Payment on partially secured debt      \$

**Worksheet**

Difficulty: 2 Medium

Learning Objective: 13-05 Account for a company as it enters bankruptcy.

*Problem 13-24 [LO3, LO5]*

Learning Objective: 13-03 Identify the various types of creditors as they are labeled during a bankruptcy.

**4.**award:  
**2.00 points***Problem 13-25 [LO3, LO5, LO6]*

Chesterfield Company has cash of \$63,000, inventory worth \$116,000, and a building worth \$143,000. Unfortunately, the company also has accounts payable of \$193,000, a note payable of \$93,000 (secured by the inventory), liabilities with priority of \$40,800, and a bond payable of \$176,000 (secured by the building).

How much money will the holder of the bond expect to receive?

Total amount received by bond holders      \$

**Worksheet**

Difficulty: 2 Medium

Learning Objective: 13-05 Account for a company as it enters bankruptcy.

*Problem 13-25 [LO3, LO5, LO6]*

Learning Objective: 13-03 Identify the various types of creditors as they are labeled during a bankruptcy.

Learning Objective: 13-06 Account for the liquidation of a company in bankruptcy.

**5.**award:  
**3.00 points***Problem 13-26 [LO3, LO6]*

Mondesto Company has the following:

Unsecured creditors	\$ 254,000
Liabilities with priority	134,000
Secured liabilities:	
Debt 1, \$258,000; value of pledged asset	204,000
Debt 2, \$204,000; value of pledged asset	124,000
Debt 3, \$144,000; value of pledged asset	188,000

The company also has a number of other assets that are not pledged in any way. The creditors holding Debt 2 want to receive at least \$176,000.

For how much do these free assets have to be sold so that the creditors associated with Debt 2 receive exactly \$176,000? **(Round your percentage answers in calculations to the nearest whole percent.)**

Sale price \$

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**Worksheet**

Difficulty: 2 Medium

Learning Objective: 13-06 Account for the liquidation of a company in bankruptcy.

*Problem 13-26 [LO3, LO6]*

Learning Objective: 13-03 Identify the various types of creditors as they are labeled during a bankruptcy.

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**6.** award:  
**2.00 points**

*Problem 13-27 [LO3, LO5]*

A statement of financial affairs created for an insolvent corporation that is beginning the process of liquidation discloses the following data (assets are shown at net realizable values):

Assets pledged with fully secured creditors	\$ 224,000
Fully secured liabilities	162,000
Assets pledged with partially secured creditors	392,000
Partially secured liabilities	514,000
Assets not pledged	312,000
Unsecured liabilities with priority	216,800
Accounts payable (unsecured)	402,000

- a. This company owes \$15,000 to an unsecured creditor (without priority). How much money can this creditor expect to collect?

Expected amount by creditor                      \$

- b. This company owes \$124,000 to a bank on a note payable that is secured by a security interest attached to property with an estimated net realizable value of \$92,000. How much money can this bank expect to collect?

Expected amount by bank                              \$

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**Worksheet**

Difficulty: 2 Medium

Learning Objective: 13-05 Account for a company as it enters bankruptcy.

*Problem 13-27 [LO3, LO5]*

Learning Objective: 13-03 Identify the various types of creditors as they are labeled during a bankruptcy.

**7.**

award:

**1.00 point**

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*Problem 13-31 [LO8]*

Pumpkin Company is going through bankruptcy reorganization. It has a \$265,000 note payable incurred prior to the order for relief. The company believes that the note will be settled for \$73,000 in cash. It is also possible that the creditor will instead take a piece of land that cost the company \$63,000 but is worth \$85,000. On a balance sheet during the reorganization period, identify the legitimate amount that can be claimed by the creditors.

- \$158,000
- \$73,000
- \$265,000
- \$192,000

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**Worksheet**

Difficulty: 2 Medium

Learning Objective: 13-08 Account for a company as it moves through reorganization.

*Problem 13-31 [LO8]*

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# 8.

award:  
3.00 points

**Problem 13-32 [LO9]**

A company is coming out of reorganization with the following accounts:

	Book Value	Fair Value
Receivables	\$ 82,000	\$ 94,000
Inventory	202,000	214,000
Buildings	302,000	404,000
Liabilities	302,000	302,000
Common stock	332,000	
Additional paid-in capital	24,000	
Retained earnings (deficit)	(72,000)	

The company's assets have a \$762,000 reorganization value. As part of the reorganization, the company's owners transferred 75 percent of the outstanding stock to the creditors.

Prepare the journal entry that is necessary to adjust the company's records to fresh start accounting.

General Journal	Debit	Credit
(Click to select) ▼	<input type="text"/>	
(Click to select) ▼	<input type="text"/>	
(Click to select) ▼	<input type="text"/>	
(Click to select) ▼	<input type="text"/>	
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(Click to select) ▼		<input type="text"/>

**Worksheet**

Difficulty: 2 Medium

*Problem 13-32 [LO9]*

Learning Objective: 13-09 Describe the financial reporting for a company that successfully exits bankruptcy as a reorganized entity.

award:  
**9.** **5.00 points**

*Problem 13-33 [LO8]*

Addison Corporation is currently going through a Chapter 11 bankruptcy. The company has the following account balances for the current year.

	Debit	Credit
Advertising expense	\$ 41,000	
Cost of goods sold	228,000	
Depreciation expense	39,000	
Interest expense	5,000	
Interest revenue		\$ 39,000
Loss on closing of branch	126,000	
Professional fees	88,000	
Rent expense	33,000	
Revenues		586,000
Salaries expense	87,000	

Prepare an income statement for this organization. The effective tax rate is 20 percent (realization of any tax benefits is anticipated). **(Amounts to be deducted and losses should be indicated with minus sign, except individual expenses which should be entered as positive values.)**

**ADDISON CORPORATION**  
Income Statement

(Click to select) ▼		\$	
<b>Costs and expenses:</b>			
(Click to select) ▼	\$		
(Click to select) ▼			
(Click to select) ▼			
(Click to select) ▼			
(Click to select) ▼			
(Click to select) ▼			
<b>Earnings before reorganization items and tax effects</b>			
<b>Reorganization items:</b>			
(Click to select) ▼			
(Click to select) ▼			

(Click to select) ▼		
	\$	

**Worksheet**

Difficulty: 2 Medium

*Problem 13-33 [LO8]*

Learning Objective: 13-08 Account for a company as it moves through reorganization.

**10.** award: **5.00 points**

*Problem 13-35 [LO8]*

Jaез Corporation is in the process of going through a reorganization. As of December 31, 2013, the company's accountant has determined the following information although the company is still several months away from emerging from the bankruptcy proceeding.

	Book Value	Fair Value
Cash	\$ 48,000	\$ 48,000
Inventory	70,000	72,000
Land	215,000	265,000
Buildings	245,000	285,000
Equipment	179,000	182,000

	Allowed Claims	Expected Settlement
<b>Liabilities as of the date of the order for relief</b>		
Accounts payable	\$ 148,000	\$ 45,000
Accrued expenses	55,000	29,000
Income taxes payable	47,000	43,000
Note payable (due 2016, secured by land)	125,000	125,000
Note payable (due 2018)	195,000	105,000
<b>Liabilities since the date of the order for relief</b>		
Accounts payable	\$ 85,000	
Note payable (due 2015)	135,000	

Stockholders' equity	
Common stock	\$ 225,000
Deficit	(258,000)

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Prepare a balance sheet in appropriate form. **(Be sure to list assets and liabilities in the order of their liquidity. Negative amounts should be indicated by a minus sign.)**

JAEZ CORPORATION  
Balance Sheet  
December 31, 2013

Current Assets:

(Click to select) ▼	\$		
(Click to select) ▼			\$

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Land, Buildings, and Equipment:

(Click to select) ▼		
(Click to select) ▼		
(Click to select) ▼		

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Total Assets

\$

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Liabilities not Subject to Compromise

Current Liabilities:

(Click to select) ▼	
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Long-term Liabilities:

(Click to select) ▼	\$		
(Click to select) ▼			

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Total

\$

Liabilities Subject to Compromise

(Click to select) ▼		

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Total Liabilities

Stockholders' Equity:

(Click to select) ▼	\$		
(Click to select) ▼			

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Total Liabilities and Shareholders' (deficit)

\$ **Worksheet**

Difficulty: 3 Hard

*Problem 13-35 [LO8]*

Learning Objective: 13-08 Account for a company as it moves through reorganization.

**11.** award:  
**12.00**  
**points***Problem 13-36 [LO9]*

Ristoni Company is in the process of emerging from a Chapter 11 bankruptcy. It will apply fresh start accounting as of December 31, 2013. The company currently has 36,000 shares of common stock outstanding with a \$288,000 par value. As part of the reorganization, the owners will contribute 21,000 shares of this stock back to the company. A retained earnings deficit balance of \$317,000 exists at the time of this reorganization.

The company has the following asset accounts:

	Book Value	Fair Value
Accounts receivable	\$ 72,000	\$ 51,000
Inventory	106,000	78,000
Land and buildings	602,000	612,000
Equipment	52,000	41,000

The company's liabilities will be settled as follows. Assume that all notes will be issued at reasonable interest rates.

- Accounts payable of \$86,000 will be settled with a note for \$11,000. These creditors will also get 4,000 shares of the stock contributed by the owners.
- Accrued expenses of \$41,000 will be settled with a note for \$10,000.
- Note payable of \$106,000 (due 2017) was fully secured and has not been renegotiated.
- Note payable of \$201,000 (due 2016) will be settled with a note for \$56,000 and 10,000 shares of the stock contributed by the owners.
- Note payable of \$191,000 (due 2014) will be settled with a note for \$77,000 and 7,000 shares of the stock contributed by the owners.
- Note payable of \$236,000 (due 2015) will be settled with a note for \$116,000.

The company has a reorganization value of \$880,000.

Prepare all journal entries for Ristoni so that the company can emerge from the bankruptcy proceeding.

**(Do not round intermediate calculations. Round your answers to the nearest dollar amount.)**

General Journal	Debit	Credit
To adjust accounts to market value as part of fresh start accounting.		
(Click to select) ▼	<input type="text"/>	
(Click to select) ▼	<input type="text"/>	
(Click to select) ▼		<input type="text"/>
(Click to select) ▼		<input type="text"/>
(Click to select) ▼		<input type="text"/>
(Click to select) ▼		<input type="text"/>
To record shares turned in upon reorganization.		
(Click to select) ▼	<input type="text"/>	
(Click to select) ▼		<input type="text"/>
To record settlement of accounts payable.		
(Click to select) ▼	<input type="text"/>	
(Click to select) ▼		<input type="text"/>
(Click to select) ▼		<input type="text"/>
(Click to select) ▼		<input type="text"/>
(Click to select) ▼		<input type="text"/>
To record settlement of accrued expenses.		
(Click to select) ▼	<input type="text"/>	
(Click to select) ▼		<input type="text"/>
(Click to select) ▼		<input type="text"/>
To record settlement of note payable due in 2016.		
(Click to select) ▼	<input type="text"/>	
(Click to select) ▼		<input type="text"/>
(Click to select) ▼		<input type="text"/>
(Click to select) ▼		<input type="text"/>
(Click to select) ▼		<input type="text"/>
To record settlement of note payable due in 2014.		
(Click to select) ▼	<input type="text"/>	
(Click to select) ▼		<input type="text"/>

(Click to select) ▼
(Click to select) ▼
(Click to select) ▼


To record settlement of note payable due in 2015.

(Click to select) ▼
(Click to select) ▼
(Click to select) ▼

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To adjust additional paid in capital, close out gain & deficit balance.

(Click to select) ▼
(Click to select) ▼
(Click to select) ▼


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**Worksheet**

Difficulty: 3 Hard

*Problem 13-36 [LO9]*

Learning Objective: 13-09 Describe the financial reporting for a company that successfully exits bankruptcy as a reorganized entity.