1. Presented below is information related to ABC Corporation:

Common Stock, $1 par $4,300,000

Paid-in Capital in Excess of Par—Common Stock 550,000

Preferred 8 1/2% Stock, $50 par 2,000,000

Paid-in Capital in Excess of Par—Preferred Stock 400,000

Retained Earnings 1,500,000

Treasury Common Stock (at cost) 150,000

The total stockholders' equity of ABC Corporation is:

a. $8,600,000.

b. $8,750,000.

c. $7,100,000.

d. $7,250,000.

e. None of the above.

f. Answer cannot be determined from the information given.

2. How should a "gain" from the sale of treasury stock be reflected when using the cost method of recording treasury stock transactions?

a. As ordinary earnings shown on the income statement.

b. As paid-in capital from treasury stock transactions.

c. As an increase in the amount shown for common stock.

d. As an extraordinary item shown on the income statement.

e. As other comprehensive income.

f. None of the above.

3. ABC Corporation owned 900,000 shares of XYZ Corporation stock. On December 31, 2007, when ABC's account "Investment in Common Stock of XYZ Corporation" had a carrying value of $5 per share, ABC distributed these shares to its stockholders as a dividend. ABC originally paid $8 for each share. XYZ has 3,000,000 shares issued and outstanding, which are traded on a national stock exchange. The quoted market price for a XYZ share was $7 on the declaration date and $9 on the distribution date.

What would be the reduction in ABC's stockholders' equity as a result of the above transactions?

a. $3,600,000.

b. $4,500,000.

c. $7,200,000.

d. $8,100,000.

e. None of the above.

f. Answer cannot be determined from the information given.

4. ABC Company has 350,000 shares of $10 par value common stock outstanding. During the year, ABC declared a 10% stock dividend when the market price of the stock was $30 per share. Four months later ABC declared a $.50 per share cash dividend. As a result of the dividends declared during the year, retained earnings decreased by:

a. $1,242,500.

b. $1,225,000.

c. $525,000.

d. $192,500.

e. None of the above.

f. Answer cannot be determined from the information given.

5. The rate of return on common stock equity is calculated by dividing:

a. net income less preferred dividends by average common stockholders’ equity.

b. net income by average common stockholders’ equity.

c. net income less preferred dividends by ending common stockholders’ equity.

d. net income by ending common stockholders’ equity.

e. net income by average common stockholders’ equity less preferred dividends in arrears.

f. None of the above.

6. ABC Corporation offered detachable 5-year warrants to buy one share of common stock (par value $5) at $20 (at a time when the stock was selling for $32). The price paid for 200, $1,000 bonds with the warrants attached was $205,000. The market price of the ABC bonds without the warrants was $180,000, and the market price of the warrants without the bonds was $20,000. What amount should be allocated to the warrants?

a. $20,000

b. $20,500

c. $24,000

d. $25,000

e. None of the above.

f. Answer cannot be determined from the information given.

7. Compensation expense resulting from a compensatory stock option plan is generally:

a. recognized in the period of exercise.

b. recognized in the period of the grant.

c. allocated to the periods benefited by the employee's required service.

d. allocated over the periods of the employee's service life to retirement.

e. recognized on the date the employee can first exercise the option.

f. None of the above.

8. At December 31, 2007, XYZ Company had 500,000 shares of common stock issued and outstanding, 400,000 of which had been issued and outstanding throughout the year and 100,000 of which were issued on October 1, 2007. Net income for the year ended December 31, 2007, was $1,020,000. What should be XYZ's 2007 earnings per common share, rounded to the nearest penny?

a. $2.02

b. $2.55

c. $2.40

d. $2.27

e. None of the above.

f. Answer cannot be determined from the information given.

9. FLC Corporation had net income for the year of $480,000 and a weighted average number of common shares outstanding during the period of 200,000 shares. The company has a convertible bond issue outstanding. The bonds were issued four years ago at par ($2,000,000), carry a 7% interest rate, and are convertible into 40,000 shares of common stock. The company has a 40% tax rate. Diluted earnings per share are:

a. $1.65

b. $2.23.

c. $2.35.

d. $2.58.

e. None of the above.

f. Answer cannot be determined from the information given.

10. Unrealized holding gains or losses which are recognized in net income are from securities classified as:

a. held-to-maturity.

b. available-for-sale.

c. trading.

d. debt securities.

d. unrealized holding gains and losses are never recognized in net income.

f. None of the above.

11. On October 1, 2007, ABC Co. purchased to hold to maturity, 1,000, $1,000, 9% bonds for $990,000 which includes $15,000 accrued interest. The bonds, which mature on February 1, 2016, pay interest semiannually on February 1 and August 1. ABC uses the straight-line method of amortization. The bonds should be reported in the December 31, 2007 balance sheet at a carrying value of:

a. $975,000.

b. $975,750.

c. $990,000.

d. $990,250.

e. None of the above.

f. Answer cannot be determined from the information given.

12. On its December 31, 2006, balance sheet, ABC Co. reported its investment in available-for-sale securities, which had cost $600,000, at fair value of $550,000. At December 31, 2007, the fair value of the securities was $585,000. What should ABC report on its 2007 income statement as a result of the increase in fair value of this investment in 2007?

a. $0.

b. Unrealized loss of $15,000.

c. Realized gain of $35,000.

d. Unrealized gain of $35,000.

e. None of the above.

f. Answer cannot be determined from the information given.

13. When an investment in a held-to-maturity security is transferred to an available-for-sale security, the carrying value assigned to the available-for-sale security should be:

a. its original cost.

b. its fair value at the date of the transfer.

c. the lower of its original cost or its fair value at the date of the transfer.

d. the higher of its original cost or its fair value at the date of the transfer.

e. its carrying value at the date of the transfer.

f. None of the above.

14. ABC Corporation purchased 25,000 shares of common stock of the XYZ Corporation for $40 per share on January 2, 2008. XYZ Corporation had 100,000 shares of common stock outstanding during 2008, paid cash dividends of $60,000 during 2008, and reported net income of $200,000 for 2008. ABC Corporation should report revenue from investment for 2008 in the amount of:

a. $15,000.

b. $35,000.

c. $50,000.

d. $55,000.

e. None of the above.

f. Answer cannot be determined from the information given.

15. In 2007, ABC Company accrued, for financial statement reporting, estimated losses on disposal of unused plant facilities of $1,500,000. The facilities were sold in March 2008 and a $1,500,000 loss was recognized for tax purposes. Also in 2007, ABC paid $100,000 in premiums for a two-year life insurance policy in which the company was the beneficiary. Assuming that the enacted tax rate is 30% in both 2007 and 2008, and that ABC paid $780,000 in income taxes in 2007, the amount reported as net deferred income taxes on ABC's balance sheet at December 31, 2007, should be a:

a. $420,000 asset.

b. $360,000 asset.

c. $360,000 liability.

d. $450,000 asset.

e. None of the above.

f. Answer cannot be determined from the information given.

16. Interperiod tax allocation results in a deferred tax liability from:

a. an income item partially recognized for financial purposes but fully recognized for tax purposes in any one year.

b. the amount of deferred tax consequences attributed to temporary differences that result in net deductible amounts in future years.

c. an income item fully recognized for tax and financial purposes in any one year.

d. the amount of deferred tax consequences attributed to temporary differences that result in net taxable amounts in future years.

e. an expense item fully recognized for financial purposes but partially recognized for tax purposes in any one year.

f. None of the above.

17. Deferred taxes should be presented on the balance sheet:

a. as one net debit or credit amount.

b. in two amounts: one for the net current amount and one for the net noncurrent amount.

c. in two amounts: one for the net debit amount and one for the net credit amount.

d. as reductions of the related asset or liability accounts.

e. in two amounts: one for the deferred tax asset and one for the deferred tax liability.

f. None of the above

18. DTV Company deducts insurance expense of $84,000 for tax purposes in 2008, but the expense is not yet recognized for accounting purposes. In 2009, 2010, and 2011, no insurance expense will be deducted for tax purposes, but $28,000 of insurance expense will be reported for accounting purposes in each of these years. DTV Company has a tax rate of 40% and income taxes payable of $72,000 at the end of 2008. There were no deferred taxes at the beginning of 2008.

What is the amount of income tax expense for 2008?

a. $105,600

b. $100,800

c. $84,000

d. $72,000

e. None of the above.

f. Answer cannot be determined from the information given.

19. The accumulated benefit obligation measures:

a. the pension obligation on the basis of the plan formula applied to years of service to date and based on existing salary levels.

b. the pension obligation on the basis of the plan formula applied to years of service to date and based on future salary levels.

c. an estimated total benefit at retirement and then computes the level cost that will be sufficient, together with interest expected to accumulate at the assumed rate, to provide the total benefits at retirement.

d. the shortest possible period for funding to maximize the tax deduction.

e. the present value of future benefits based on past and future years of service.

f. None of the above.

20. Presented below is pension information related to BMK, Inc. for the year 2008:

Service cost $72,000

Interest on projected benefit obligation 54,000

Interest on vested benefits 24,000

Amortization of prior service cost due to increase in benefits 12,000

Expected return on plan assets 18,000

The amount of pension expense to be reported for 2008 is:

a. $108,000.

b. $144,000.

c. $162,000.

d. $120,000.

e. None of the above.

f. Answer cannot be determined from the information given.

21. When a company amends a pension plan, for accounting purposes, prior service costs should be:

a. treated as a prior period adjustment because no future periods are benefited.

b. amortized in accordance with procedures used for income tax purposes.

c. amortized under accrual accounting to current and future periods benefited.

d. treated as an expense of the period during which the funding occurs.

e. ignored for actuarial deferred funding purposes.

f. None of the above.

22. In a defined-benefit plan, the process of funding refers to:

a. determining the projected benefit obligation.

b. determining the accumulated benefit obligation.

c. making the periodic contributions to a funding agency to ensure that funds are available to meet retirees' claims.

d. determining the amount that might be reported for pension expense.

e. making payments to beneficiaries.

f. None of the above.

23. XYZ Company has a defined-benefit plan. At the end of 2008, it has determined the following information related to its pension plan:

Projected benefit obligation $700,000

Market-related asset value of pension plan 600,000

Accumulated benefit obligation 660,000

Accrued pension cost 35,000

Fair value of pension plan assets 610,000

The amount of the total pension liability that is reported in XYZ's balance sheet at the end of 2008 is:

a. $100,000.

b. $60,000.

c. $25,000.

d. $50,000.

e. None of the above.

f. Answer cannot be determined from the information given.

24. On January 1, 2005, RPG Corporation acquired equipment at a cost of $600,000. RPG adopted the double-declining balance method of depreciation for this equipment and had been recording depreciation over an estimated life of eight years, with no residual value. At the beginning of 2008, a decision was made to change to the straight-line method of depreciation for this equipment. Assuming a 30% tax rate, the cumulative effect of this accounting change on beginning retained earnings, net of tax, is:

a. $121,875.

b. $0.

c. $78,750.

d. $77,109.

e. None of the above.

f. Answer cannot be determined from the information given.

25. The estimated life of a building that has been depreciated 30 years of an originally estimated life of 50 years has been revised to a remaining life of 10 years. Based on this information, the accountant should:

a. continue to depreciate the building over the original 50-year life.

b. depreciate the remaining book value over the remaining life of the asset.

c. adjust accumulated depreciation to its appropriate balance, through net income, based on a 40-year life, and then depreciate the adjusted book value as though the estimated life had always been 40 years.

d. adjust accumulated depreciation to its appropriate balance through retained earnings, based on a 40-year life, and then depreciate the adjusted book value as though the estimated life had always been 40 years.

e. adjust accumulated depreciation to its appropriate balance through other comprehensive income, based on a 40-year life, and then depreciate the adjusted book value as though the estimated life had always been 40 years.

f. None of the above.

26. On January 1, 2007, CBA Corp. acquired a machine at a cost of $500,000. It is to be depreciated on the straight-line method over a five-year period with no residual value. Because of a bookkeeping error, no depreciation was recognized in CBA's 2007 financial statements. The oversight was discovered during the preparation of CBA’s 2008 financial statements. Depreciation expense on this machine for 2008 should be:

a. $0.

b. $100,000.

c. $125,000.

d. $200,000.

e. None of the above.

f. Answer cannot be determined from the information given.

27. JLE Company purchased equipment that cost $750,000 on January 1, 2006. The entire cost was recorded as an expense. The equipment had a nine-year life and a $30,000 residual value. JLE uses the straight-line method to account for depreciation expense. The error was discovered on December 10, 2008. JLE is subject to a 40 % tax rate.

Before the correction was made and before the books were closed on December 31, 2008, retained earnings was understated by:

a. $332,000.

b. $336,000.

c. $354,000.

d. $450,000.

e. None of the above.

f. Answer cannot be determined from the information given.