**Print by: Khristine Jackson  
FINANCIAL ACCT / Chapter 10 Graded**

|  |
| --- |
| http://edugen.wiley.com/edugen/art2/common/pixel.gif |
| http://edugen.wiley.com/edugen/art2/common/pixel000.gif |
| http://edugen.wiley.com/edugen/art2/common/pixel.gif |
| http://edugen.wiley.com/edugen/art2/common/pixel000.gif |
| http://edugen.wiley.com/edugen/art2/common/pixel.gif |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| http://edugen.wiley.com/edugen/art2/common/pixel.gif | \*AE10-9  Northeast Airlines is considering two alternatives for the financing of a purchase of a fleet of airplanes. These two alternatives are:   1. Issue 66,000 shares of common stock at $49 per share. (Cash dividends have not been paid nor is the payment of any contemplated). 2. Issue 10%, 10-year bonds at par for $3,234,000.   It is estimated that the company will earn $877,000 before interest and taxes as a result of this purchase. The company has an estimated tax rate of 30% and has 86,900 shares of common stock outstanding prior to the new financing.  Determine the effect on net income and earnings per share for these two methods of financing. ***(If answer is zero, please enter 0. Do not leave any fields blank. Round earnings per share to 2 decimal places, e.g. 10.50. Enter all amounts as positive amounts and subtract where necessary.)***   |  |  |  | | --- | --- | --- | |  | **Plan One Issue Stock** | **Plan Two Issue Bonds** | | Income before interest and taxes | $ | $ | | Interest |  |  | | Income before income taxes |  |  | | Income tax expense |  |  | | Net income | $ | $ | |  |  |  | | Outstanding shares |  |  | |  |  |  | | Earnings per share | $ | $ | | http://edugen.wiley.com/edugen/art2/common/pixel.gif |

|  |  |
| --- | --- |
| |  | | --- | | **Question Attempts: 0 of 3 used** | |

|  |
| --- |
| http://edugen.wiley.com/edugen/art/common/pixelaaa.gif |
| Copyright © 2000-2011 by John Wiley & Sons, Inc. or related companies. All rights reserved. |