Stockholder's Equity

Common Stock, $5 Par, 1,000 shares issued and outstanding  $50,000
Paid in Capital in Excess of Par 20,000
Retained Earnings 30,000

$100,000

You purchase 500 shares at $6 per share and retire the shares. Prepare the journal entry to retire the 500 shares.

\[
\begin{align*}
\text{COMPANY} & \quad 500 \times 15 = 7500 \\
\text{Paid in Capital} & \quad 500 \times 2 = 1000 \\
\text{CASH} & \quad 500 \times 6 = 3000 \\
\text{Paid in Capital - Retained} & \quad 500
\end{align*}
\]

8. On January 1, Cole Company issued 10-year bonds with a face amount of $1,000,000 and a stated interest rate of 6% payable semiannually on each January 1. The bonds were priced to yield 10%. Present value factors are as follows:

\[
\begin{align*}
\text{At } 6\% & \quad \text{At } 10\% \\
\text{Present value of 1 for 10 periods} & \quad 0.463 & \quad 0.386 \\
\text{Present value of an annuity of 1 for 10 periods} & \quad 6.710 & \quad 6.145
\end{align*}
\]

The total issue price (rounded) of the bonds was $1,000,000 x 0.866 = $866,000.

EX. 14-62—Amortization of discount or premium.

Couples Industries, Inc., issued $6,000,000 of 8% debentures on May 1, 1995, and received cash totaling $7,908,102. The bonds pay interest semiannually on May 1 and November 1. The maturity date on these bonds is November 1, 2003. The firm uses the effective interest method of amortizing discounts and premiums. The bonds were sold to yield an effective interest rate of 10%.

Instructions

Calculate the total dollar amount of discount or premium amortization during the first year (5/1/95 through 4/30/96) these bonds were outstanding. (Show computations and round to the nearest dollar.)

Solution 14-62

<table>
<thead>
<tr>
<th>Date</th>
<th>Interest Expense</th>
<th>Cash Interest</th>
<th>Discount Amortized</th>
<th>Carrying Value of Bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>5/1/95</td>
<td>$354,905</td>
<td>$320,000</td>
<td>$34,905</td>
<td>$7,908,102</td>
</tr>
<tr>
<td>11/1/95</td>
<td>$356,850</td>
<td>$320,000</td>
<td>$36,850</td>
<td>$7,133,000</td>
</tr>
<tr>
<td>5/1/96</td>
<td></td>
<td>$320,000</td>
<td></td>
<td>$7,160,657</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td>$721,558</td>
</tr>
</tbody>
</table>
16-100. The McClain Corporation has 10% bonds that mature in 2011 outstanding. The bonds are dated October 1, 1991, and pay interest each April 1 and October 1. 20 YEAR BOND.

Required: Complete the following effective interest method amortization table through October 1, 1993.

Bond data:
- Maturity value — $100,000
- Contract interest rate — 10%
- Market interest rate at time of issue — 12% annually

Complete the amortization table:

<table>
<thead>
<tr>
<th>Semiannual Interest Date</th>
<th>Interest Payment</th>
<th>Interest Expense</th>
<th>Discount Amortization</th>
<th>Discount Account Balance</th>
<th>Bond Carrying Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>10/1/91</td>
<td></td>
<td></td>
<td></td>
<td>89,970</td>
<td>84,930</td>
</tr>
<tr>
<td>4/1/92</td>
<td>5,000</td>
<td>5,096</td>
<td>76</td>
<td>84,930</td>
<td>85,262</td>
</tr>
<tr>
<td>4/1/93</td>
<td>5,000</td>
<td>5,102</td>
<td>102</td>
<td>85,262</td>
<td>85,262</td>
</tr>
<tr>
<td>10/1/93</td>
<td>5,000</td>
<td>5,018</td>
<td>101</td>
<td>85,262</td>
<td>85,262</td>
</tr>
</tbody>
</table>

(2) If market interest rates go up what will be the effect on:

The stock market
- Gold down
- Oil down
- Price of bonds that are outstanding
- Go down in value
15-92. Remington-Steele Enterprises began the year with the following:

- Common Stock, $15 par value, 40,000 shares authorized, and 26,500 shares issued: $397,500
- Paid-in capital in excess of par value, common stock: 158,500
- Retained earnings: 250,450
- Total stockholders' equity: $1,306,450

During the current year, Remington-Steele reported these transactions related to common stock:

- Feb. 1 Declared a 10% common stock dividend; market price of the stock, $25 per share.
- Mar. 15 Distributed the stock dividend.
- Apr. 12 Repurchased 500 shares of their own common stock to hold as treasury stock; purchase price, $20 per share.
- May 16 Sold 300 shares of the treasury stock; reissue price, $40 per share.

15-92.

- Apr. 12 Treasury Stock
  - Cash: 10,000
- May 16 Cash
  - Treasury Stock: 12,000
  - Paid-in Capital from Treasury Stock Transactions: 6,000
- July 1 Cash
  - Paid-in Capital from Treasury Stock Transactions: 3,000
  - Treasury Stock: 1,000

Sept 24
- Common Stock: 7,000
- Paid-in Capital: 1,800
- Retained Earnings: 2,900
- Cash: 13,200
7-93. Dewey Books, Inc., owns 80% of Truman Publishers. Prepare a consolidation work sheet, using these balance sheets as of the date of purchase, October 31, 19X5:

<table>
<thead>
<tr>
<th>Assets</th>
<th>Dewey</th>
<th>Truman Publishers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$7,000</td>
<td>$13,900</td>
</tr>
<tr>
<td>Note receivable from Dewey</td>
<td>7,500</td>
<td>7,500</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>8,200</td>
<td>8,200</td>
</tr>
<tr>
<td>Inventory</td>
<td>16,425</td>
<td>16,425</td>
</tr>
<tr>
<td>Investment in Truman Publishers</td>
<td>36,225</td>
<td>36,225</td>
</tr>
<tr>
<td>Plant assets, net</td>
<td>38,600</td>
<td>38,600</td>
</tr>
<tr>
<td>Other assets</td>
<td>2,300</td>
<td>2,300</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$115,000</td>
<td>$86,925</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and Equity</th>
<th>Dewey</th>
<th>Truman Publishers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$12,600</td>
<td>$13,800</td>
</tr>
<tr>
<td>Notes payable</td>
<td>17,000</td>
<td>17,000</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>25,500</td>
<td>25,500</td>
</tr>
<tr>
<td>Common stock</td>
<td>18,090</td>
<td>18,090</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>12,625</td>
<td>12,625</td>
</tr>
<tr>
<td>Minority interest</td>
<td>6,575</td>
<td>6,575</td>
</tr>
<tr>
<td><strong>Total liabilities and equity</strong></td>
<td>$115,000</td>
<td>$86,925</td>
</tr>
</tbody>
</table>
16.91. Put the letter of the correct definition for each term in the space provided.

1. Callable bonds
2. Face value of a bond
3. Premium
4. Effective rate
5. Mortgage bonds
6. Underwriter
7. Stated rate
8. Debentures
9. Convertible bonds

a. Secured bonds
b. Purchases bonds from the issuing company and resells them to clients
c. Rate that determines the amount of cash interest a borrower pays
d. The difference between par value and a price higher than par
e. The amount a company borrows from bondholders
f. Unsecured bonds
g. Rate that investors demand in order to loan money
h. Bonds that the issuer may pay off at a specified price whenever the issuer wants to
i. Bonds that may be exchanged for stock

17.94 B) Translate the foreign-currency balance sheet of the Mexican subsidiary of Pinellas Corporation into dollars. When Pinellas acquired this subsidiary, the Mexican peso was worth $0.0064. The current exchange rate is $0.0035. During the period when the subsidiary earned its income, the average exchange rate was $0.0035 per peso.

<table>
<thead>
<tr>
<th>Assets</th>
<th>Peso</th>
<th>Exchange Rate</th>
<th>Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities</td>
<td>125,000,000</td>
<td>0.0035</td>
<td>37,500</td>
</tr>
<tr>
<td>Stockholders' Equity:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common Stock</td>
<td>65,000,000</td>
<td>0.0040</td>
<td>26,000</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>210,000,000</td>
<td>0.0035</td>
<td>73,500</td>
</tr>
<tr>
<td>Translation Adjustment</td>
<td>400,000,000</td>
<td></td>
<td>120,000</td>
</tr>
</tbody>
</table>
Items 1 and 2 are based on the following:

The following data pertains to Tyne Co.'s investments in marketable equity securities:

<table>
<thead>
<tr>
<th>Market value</th>
<th>Cost</th>
<th>12/31/93</th>
<th>12/31/94</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading</td>
<td>$159,000</td>
<td>$155,000</td>
<td>$160,000</td>
</tr>
<tr>
<td>Available for-sale</td>
<td>150,000</td>
<td>130,000</td>
<td>120,000</td>
</tr>
</tbody>
</table>

1. What amount should Tyne report as unrealized holding gain in its 1995 income statement?
   - a. $50,000
   - b. $55,000
   - c. $60,000
   - d. $65,000

2. What amount should Tyne report as net unrealized loss on marketable equity securities as of December 31, 1995, in its statement of stockholders' equity?
   - a. $0
   - b. $10,000
   - c. $15,000
   - d. $20,000

3. In 1994, Seda Corp. acquired 6,000 shares of its $1 par value common stock at $36 per share. During 1995, Seda issued 3,000 of these shares at $50 per share. Seda uses the cost method to account for its treasury stock transactions. What accounts and amounts should Seda credit in 1995 to record the issuance of the 3,000 shares?

   - a. Additional paid-in capital
   - b. Retained earnings
   - c. Common stock

   - a. $108,000
   - b. $144,000
   - c. $120,000
   - d. $42,000

   Additional paid-in capital: $108,000
   Retained earnings: $120,000
   Common stock: $144,000

Thus, the correct answer is (e).

4. Debt and equity securities that are classified as trading securities are included in the unrealized gain (loss) on trading securities. During 1995, Tyne realized a $150,000 unrealized gain on its trading securities. The unrealized gain on available-for-sale securities is $120,000. What is the total unrealized gain reported in the statement of earnings?
   - a. $270,000
   - b. $250,000
   - c. $220,000
   - d. $180,000

5. The computation of income taxes payable and income taxes receivable is based on the tax impact of both recognized and unrealized gains and losses on marketable equity securities. What is the income tax rate used for the income tax computation in 1995?

   - a. 30%
   - b. 40%
   - c. 50%
   - d. 60%
4. The following information pertains to Camp Corp.'s issuance of bonds on July 1, 1995:

<table>
<thead>
<tr>
<th>Bond Information</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Face amount</td>
<td>$900,000</td>
</tr>
<tr>
<td>Term</td>
<td>10 years</td>
</tr>
<tr>
<td>Stated interest rate</td>
<td>6%</td>
</tr>
<tr>
<td>Interest payment dates:</td>
<td>Annually on July 1</td>
</tr>
<tr>
<td>Yield</td>
<td>9%</td>
</tr>
<tr>
<td>Present value of 1 for 10 periods</td>
<td>$0.558 0.422</td>
</tr>
<tr>
<td>Future value of 1 for 10 periods</td>
<td>1.791 2.367</td>
</tr>
<tr>
<td>Present value of ordinary annuity of 1 for 10 periods</td>
<td>7.360 6.418</td>
</tr>
</tbody>
</table>

What should be the issue price for each $1,000 bond?

a. $1,000  
b. $864  
(c) $807  
d. $700  

4. (592, P2.39) (c) The issue price of each bond is equal to the present value (PV) of the maturity value plus the PV of the interest annuity. The PV must be computed using the yield rate (9%). The computation is:

\[
\begin{align*}
\text{Amount} & \quad \text{PV factor} & \quad \text{PV} \\
5,000 & \quad 0.558 & \quad 2,790 \\
60 & \quad 6.418 & \quad 385 \\
\end{align*}
\]

The annual interest amount above ($60) is the principal ($1,000) times the stated interest rate (6%).

2. (1192, P2.39) (d) Term bonds are bond issues that mature on a single date, as opposed to serial bonds, which mature in installments. In this case, the 9.34% bonds and the 9.175% bonds are term bonds ($700,000 + $500,000 = $1,200,000), while the 10% bonds are serial bonds ($300,000).