Match the terms below (by letter) with the appropriate definition listed below.

Term
a. residual value
b. unguaranteed residual value
c. minimum lease payments
d. gross lease payments
e. capital lease
f. operating lease
g. sales-type lease
h. direct financing lease

\[ \begin{align*}
\text{h} & \quad 1. \text{ A lease that is entered into primarily by an entity that provides lending services.} \\
\text{e} & \quad 2. \text{ A lease agreement that is in substance a sale and purchase of property.} \\
\text{c} & \quad 3. \text{ The total of lease payments plus bargain purchase option or guaranteed residual value.} \\
\text{b} & \quad 4. \text{ The value of leased property that remains with the lessor at the end of a lease.}
\end{align*} \]

Indicate with the appropriate letter the nature of each adjustment described below:

Type of Adjustment
A. Change in principle (general)
B. Change in principle (reported retroactively)
C. Change in principle (reported retrospectively)
D. Change in estimate
E. Change in reporting entity
F. Correction of an error

\[ \begin{align*}
\text{e} & \quad 1. \text{ A company changes from presenting nonconsolidate to consolidated financial statements.} \\
\text{A} & \quad 2. \text{ A company changes depreciation methods used in depreciating equipment.} \\
\text{c} & \quad 3. \text{ A company changes from percentage of completion to the completed contract method.} \\
\text{f} & \quad 4. \text{ A company changes from a nonacceptable to an acceptable accounting principle.} \\
\text{d} & \quad 5. \text{ A company changes depreciation methods and changes the estimated useful life of the same asset.}
\end{align*} \]

Johnson Company had 95 million shares of common stock and 1 million shares of 6%, $100 par, cumulative preferred stock, and 1 million shares of 8%, $100 par, noncumulative preferred stock outstanding at the end of 1997 and 1998. No dividends were declared or paid on common stock in either year. In 1998 a $3 million dividend was paid on the 6% preferred stock while a $4 million dividend was paid on the 8% preferred stock. Net income for 1998 was $200 million. The company's tax rate is 30%.

Required:
Compute earnings per share for the year ended December 31, 1998.

\[ \frac{200 \text{M}}{95 \text{M}} - (6\% \times 100 \times 1 \text{M}) - 4 \text{m} = 2.00 \text{ EPS} \]
Wentworth, Inc. had 50,000 shares of common stock outstanding at January 1, 1997. On March 31, 1997, an additional 12,000 shares were sold for cash. Wentworth also had $4,000,000 of 6% convertible bonds outstanding at the end of 1997. The bonds are convertible into 40,000 shares of common stock. Net income for the year was $250,000. The tax rate is 35%.

Required:
Compute basic and diluted earnings per share for the year ended December 31, 1997.

\[
\text{Basic} \\
\frac{250,000}{(50,000 + (12,000 \times 9/12))} = \$4.24 \text{ EPS}
\]

\[
\text{Diluted} \\
\frac{(250,000 + ((\$4M \times 6\% \times (1 - .35)))}{(50,000 + (12,000 \times 9/12) + 40,000)} = \$4.10
\]

Southern Edison Company leased equipment from Hitech Leasing on January 1, 1998.

**Other information:**
- Lease term: 3 years
- Annual payments: $40,000 on January 1 each year
- Life of asset: 3 years
- Implicit interest rate: 8%
- Incremental rate: 8%
- PV, annuity due, 3 periods, 8%: 2.7833
- PV, ordinary annuity, 3 periods, 8%: 2.5771
- Hitech's cost of the equipment: $111,332

**January 1, 1998**
- Leased receivable ($40,000 x 3): 120,000
- Unearned interest: 8,668
- Equipment inventory: 111,332
- Cash: 40,000
- Lease receivable: 40,000

**December 31, 1998**
- Unearned interest ($111,332 - $40,000) x 8%: 5,707
- Interest revenue: 5,707

**January 1, 1999**
- Cash: 40,000
- Lease receivable: 40,000

**December 31, 1999**
- Unearned interest: 2,963
- ($111,332 - $40,000 - $34,293) x 8%: 2,963
- Interest revenue: 2,963
9. A lease contains a bargain purchase option. In determining the lessee's capitalizable cost at the beginning of the lease term, the payment called for by the bargain purchase option is
   A. Not capitalized.
   B. Subtracted at its present value.
   C. Added at its exercise price.
   D. Added at its present value.

5. For a capital lease, the amount recorded initially by the lessee as a liability should normally be:
   A. Exceed the total of the minimum lease payments.
   B. Exceed the present value of the minimum lease payments at the beginning of the lease.
   C. Equal the total of the minimum lease payments.
   D. Equal the present value of the minimum lease payments at the beginning of the lease.

6. The ifconverted method of computing EPS data assumes conversion of convertible securities at the
   A. Beginning of the earliest period reported (or at time of issuance, if later).
   B. Beginning of the earliest period reported (regardless of time of issuance).
   C. Middle of the earliest period reported (regardless of time of issuance).
   D. Ending of the earliest period reported (regardless of time of issuance).

7. In computing earnings per share data, which of the following is true regarding the weighted average computation of shares outstanding?
   A. Reacquired shares should be excluded from the date of their acquisition.
   B. Reacquired shares should be excluded from the beginning of the period in which they were acquired.
   C. Stock dividends and stock splits consummated after the close of the period do not affect the primary EPS computations, even though they may have been consummated before issuance of the financial statements.
   D. The shares issued during the period as a result of a stock dividend are weighted according to the portion of the period for which they were actually outstanding.

16. On December 1, 1993, Clay Co. declared and issued a 6% stock dividend on its 100,000 shares of outstanding common stock. There was no other common stock activity during 1993. What number of shares should Clay use in determining earnings per share for 1993?
   A. 100,000
   B. 100,500
   C. 103,000
   D. 106,000

32. Lino Co.'s worksheet for the preparation of its 1992 statement of cash flows included the following:

<table>
<thead>
<tr>
<th>December 31</th>
<th>January 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivable</td>
<td>$29,000</td>
</tr>
<tr>
<td>Allowance for uncollectible accounts</td>
<td>1,000</td>
</tr>
<tr>
<td>Prepaid rent expense</td>
<td>8,200</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>22,400</td>
</tr>
</tbody>
</table>

Lino's 1992 net income is $150,000. What amount should Lino include as net cash provided by operating activities in the statement of cash flows?
   A. $151,400
   B. $151,200
   C. $148,400
   D. $145,400

33. Duke Co. reported cost of goods sold of $270,000 for 1992. Additional information is as follows:

<table>
<thead>
<tr>
<th>December 31</th>
<th>January 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory</td>
<td>$60,000</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>26,000</td>
</tr>
</tbody>
</table>

If Duke uses the direct method, what amount should Duke report as cash paid to suppliers in its 1992 statement of cash flows?
   A. $242,000
   B. $268,000
   C. $272,000
   D. $298,000

34. In a statement of cash flows, proceeds from issuing equity instruments should be classified as cash inflows from
   A. Lending activities.
   B. Operating activities.
   C. Investing activities.
   D. Financing activities.

17. Timp, Inc. had the following common stock balances and transactions during 1991:

<table>
<thead>
<tr>
<th>1/1/91</th>
<th>2/1/91</th>
<th>3/1/91</th>
<th>7/1/91</th>
<th>12/31/91</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock outstanding</td>
<td>30,000</td>
<td>3,000</td>
<td>9,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Issued a 10% common stock dividend</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issued common stock in a pooling of interests</td>
<td></td>
<td></td>
<td>8,000</td>
<td></td>
</tr>
<tr>
<td>Issued common stock for cash</td>
<td></td>
<td></td>
<td></td>
<td>50,000</td>
</tr>
</tbody>
</table>

What was Timp’s 1991 weighted-average shares outstanding?
   A. 42,000
   B. 44,250
   C. 44,500
   D. 46,000

| 12/12 x 30,000 shares outstanding at 1/1 | 30,000 |
| 12/12 x 30,000 shares x 10% stock dividend | 3,000 |
| 12/12 x 5,000 shares issued in pooling | 9,000 |
| 6/12 x 8,000 shares issued for cash on 7/1 | -4,000 |
| Total | 46,000 |
Determine the amount of cash paid to suppliers for each of the four independent situations below.

<table>
<thead>
<tr>
<th>Situation</th>
<th>Cost of revenue</th>
<th>Inventory inc (dec)</th>
<th>Accounts payable inc (dec)</th>
<th>Cash paid to suppliers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>200,000</td>
<td>6,000</td>
<td>0</td>
<td>206,000</td>
</tr>
<tr>
<td>2</td>
<td>200,000</td>
<td>0</td>
<td>7,000</td>
<td>193,000</td>
</tr>
<tr>
<td>3</td>
<td>200,000</td>
<td>6,000</td>
<td>7,000</td>
<td>197,000</td>
</tr>
<tr>
<td>4</td>
<td>200,000</td>
<td>(6,000)</td>
<td>(7,000)</td>
<td>201,000</td>
</tr>
</tbody>
</table>

The accounting records of Southpole Industries provided the data below. Prepare a reconciliation of net income to net cash flows from operating activities.

Net income $100,000
Depreciation expense 15,000
Increase in inventory 2,000
Decrease in accounts receivable 1,400
Decrease in interest payable 1,600
Amortization of bond premium 3,000
Increase in accounts payable 8,000
Cash dividends paid 20,000

Net income $100,000
Adjustments for noncash effects:
Depreciation expense 15,000
Increase in inventory (2,000)
Decrease in interest payable (1,600)
Decrease in accounts receivable 1,400
Decrease in bond premium (3,000)
Increase in accounts payable 8,000
Net cash flows from operating activities $117,800