

Chapter 15– Advanced Accounting, 3rd Edition by Hamlen, Huefner and Largay

Practice Quiz

1. Topic: Legal aspects of bankruptcy

LO 1

In Chapter 7 proceedings:

- a. A repayment plan is worked out between an individual debtor with regular income and his/her creditors
- b. A business firm reorganizes, modifying the rights and interests of creditors and shareholders, while it continues to operate
- c. A debtor's assets are liquidated to pay creditors
- d. A corporation's debts are canceled, and its former creditors become equity investors

2. Topic: Legal aspects of bankruptcy

LO 1

In Chapter 11 proceedings:

- a. A repayment plan is worked out between an individual debtor with regular income and his/her creditors
- b. A business firm reorganizes, modifying the rights and interests of creditors and shareholders, while it continues to operate
- c. A debtor's assets are liquidated to pay creditors
- d. A corporation's debts are canceled, and its former creditors become equity investors

Use the following information to answer Questions 3 and 4:

The following information is available for a company entering Chapter 7 proceedings:

Unpaid wages and taxes (all have legal priority).....	\$ 520,000
Mortgages payable on assets with a fair value of \$600,000.....	546,000
Notes payable secured by assets with a fair value of \$500,000.....	780,000
Unsecured liabilities.....	1,950,000
Fair value of unsecured assets.....	1,690,000

3. Topic: Statement of affairs

LO 2

The Statement of Affairs reports total unsecured liabilities of:

- a. \$1,950,000
- b. \$2,776,000
- c. \$2,750,000
- d. \$2,230,000

4. Topic: Statement of affairs

LO 2

The estimated recovery rate for unsecured creditors is:

- a. 55 cents on the dollar
- b. 78 cents on the dollar
- c. 63 cents on the dollar
- d. 44 cents on the dollar

Use the following information to answer Questions 5 and 6:

You have been appointed receiver of a company in bankruptcy. At the time of your appointment, the company's balance sheet is as follows:

Cash	\$ 3,400	Priority liabilities	\$ 17,000
Receivables	20,400	Accounts and notes payable	227,800
Other assets	<u>156,400</u>	Stockholders' equity	<u>(64,600)</u>
Total assets	\$180,200	Total liabilities and equity	\$180,200

The following transactions occur:

- 1. Collected \$11,000 in settlement of \$15,400 of the receivables; the remaining \$5,000 is expected to be collectible.
- 2. Sold for \$62,000 other assets having a book value of \$51,000.
- 3. Paid the priority liabilities.
- 4. Accrued administrative expenses of \$14,000.
- 5. Paid \$45,000 on the accounts and notes payable.

5. Topic: Statement of estate deficit

LO 3

After the above transactions occur, the ending estate deficit balance is:

- a. \$(72,000)
- b. \$(58,000)
- c. \$(83,000)
- d. \$(69,000)

6. Topic: Statement of realization and liquidation

LO 3

On the statement of realization and liquidation for the period during which these transactions occurred, the "assets not realized" section totals:

- a. \$114,800
- b. \$103,800
- c. \$ 99,400
- d. \$110,400

7. Topic: Reorganization

LO 4

A company is emerging from reorganization under the bankruptcy laws. The following information is available concerning the company's financial condition:

Net losses from reorganization items	\$ 100,000
Allowed prepetition liabilities	2,100,000
Prepetition liabilities subject to compromise	1,600,000
Postpetition liabilities	350,000

For fresh start reporting to apply, the reorganization value of the company's must be:

- a. More than \$1,950,000
- b. More than \$4,150,000
- c. Less than \$2,550,000
- d. Less than \$2,450,000

8. Topic: Reorganization

LO 4

A company emerging from reorganization has the following balance sheet:

Assets	<u>\$11,375,000</u>
Postpetition liabilities	\$ 975,000
Prepetition fully secured liabilities	1,462,500
Liabilities subject to compromise	8,125,000
Preferred stock	1,950,000
Common stock	650,000
Retained earnings	<u>(1,787,500)</u>
Total liabilities and equity	<u>\$11,375,000</u>

The company's reorganization value is \$9,750,000. Liabilities subject to compromise are to be settled by converting them to notes payable in the amount of \$5,000,000 and 80% of the new common stock. The remaining common stock goes to the existing preferred and common stockholders.

Assuming the reorganization plan qualifies for fresh start reporting, the new common stock will be valued at:

- a. \$ 650,000
- b. \$2,312,500
- c. \$ 362,500
- d. \$4,750,000

9. Topic: Quasi-reorganization

LO 5

A company's balance sheet is as follows:

Cash	\$ 20,000	Liabilities	\$1,600,000
Other assets	2,200,000	Common stock, \$1 par	600,000
		Additional paid-in capital	700,000
		Retained earnings (deficit)	<u>(680,000)</u>
Total assets	<u>\$2,220,000</u>	Total liabilities and equity	\$2,220,000

The other assets have a fair value of 1,880,000. The company would properly accomplish a quasi-reorganization if it changed the par value of its common stock to:

- a. \$0.78/share
- b. \$0.50/share
- c. \$1.05/share
- d. \$0.80/share

10. Topic: Troubled debt restructuring

LO 5

A company completes a troubled debt restructuring, as follows: Assets with a book value of \$1,000,000 and a fair value of \$1,600,000 are transferred to a creditor in payment of a debt carried on the company's books at \$2,500,000.

The company will report a gain on restructuring of:

- a. \$ 100,000
- b. \$ 600,000
- c. \$ 900,000
- d. \$1,500,000