

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

Solutions to Practice Quiz

1. Topic: Legal aspects of bankruptcy

LO 1

Answer: c

Rationale: Chapter 7 provides for liquidation of a debtor firm or individual's assets to pay the creditors.

2. Topic: Legal aspects of bankruptcy

LO 1

Answer: b

Rationale: Chapter 11 provides for reorganization, whereby the firm continues in business without liquidating its assets, but develops a creditor-approved plan which modifies the rights and interests of its creditors and stockholders.

3. Topic: Statement of affairs

LO 2

Answer: d

Rationale: $(\$780,000 - \$500,000) + \$1,950,000 = \$2,230,000$.

4. Topic: Statement of affairs

LO 2

Answer: a

Rationale: Net free assets = $(\$600,000 - \$546,000) + \$1,690,000 - \$520,000 = \$1,224,000$. Total unsecured liabilities = $\$2,230,000$ (see question 3). $\$1,224,000 / \$2,230,000 = 55\%$.

5. Topic: Statement of estate deficit

LO 3

Answer: a

Rationale:

Gain on realization of other assets = $\$62,000 - \$51,000 =$	\$ 11,000
Loss on realization of receivables = $\$11,000 - \$15,400 =$	(4,400)
Accrued administrative expenses =	<u>(14,000)</u>
Net change in estate deficit	(7,400)
Beginning balance	<u>(64,600)</u>
Ending balance	<u><u>\$(72,000)</u></u>

6. Topic: Statement of realization and liquidation

LO 3

Answer: d

Rationale:

Accounts receivable = \$20,400 – \$15,400 =	\$ 5,000
Other assets = \$156,400 – \$51,000 =	<u>105,400</u>
Total	\$110,400

7. Topic: Reorganization

LO 4

Answer: d

Rationale: Fresh start reporting can be used if reorganization value is less than the sum of postpetition liabilities and allowed prepetition liabilities; reorganization value must be less than \$2,100,000 + \$350,000 = \$2,450,000.

8. Topic: Reorganization

LO 4

Answer: b

Rationale: The balance sheet following emergence from reorganization is:

Assets	<u>\$9,750,000</u>
Postpetition liabilities	\$ 975,000
Prepetition fully secured liabilities	1,462,500
Notes payable	5,000,000
Common stock	<u>2,312,500</u>
Total liabilities and equity	<u>\$9,750,000</u>

9. Topic: Quasi-reorganization

LO 5

Answer: b

Rationale: When the other assets are written off, the retained earnings deficit increases by \$2,200,000 – \$1,880,000 = \$320,000 to \$1,000,000. Therefore additional paid-in capital must increase by \$300,000 to \$1,000,000, to allow the company to write off its accumulated deficit against additional paid-in capital. By reducing the par value to \$0.50/share, the common stock declines by \$300,000, increasing additional paid-in capital by \$300,000.

10. Topic: Troubled debt restructuring

LO 5

Answer: c

Rationale: \$2,500,000 – \$1,600,000 = \$900,000