1. Explain the following terms (mention the background, methods, contents and significance):
   - Balance Score Card
   - Transfer Pricing
   - Operation Leverage
   - Equivalent Production

20%

2. Give an example of Capital Expenditure that is misclassified as Revenue Expenditure. Explain the transaction and record it in the financial statements. State the impact on financial statements.

20%

3. Discuss the benefits of a new partner over the old partner (Bonus) and provide an example with the explanation.

20%

4. Nathan K. Corporation sold $2,500,000, 8%, 10-year bonds on January 1, 2002. The bonds were dated January 1, 2002, and pay interest on July 1 and January 1. Nathan K. Corporation uses the straight-line method to amortize bond premium or discount. Assume no interest is accrued on June 30.

   **Instructions**
   (a) Prepare all the necessary journal entries to record the issuance of the bonds and bond interest expense for 2002, assuming that the bonds sold at 103.
   (b) Prepare journal entries as in part (a) assuming that the bonds sold at 96.
   (c) Show balance sheet presentation for each bond issue at December 31, 2002.

20%
5. Knight Corporation owns a number of cruise ships and a chain of hotels. The hotels, which have not been profitable, were discontinued on September 1, 2002. The 2002 operating results for the company were as follows.

- Operating revenues: $12,850,000
- Operating expenses: $8,700,000
- Operating income: $4,150,000

Analysis discloses that these data include the operating results of the hotel chain, which were: operating revenues $3,000,000 and operating expenses $4,000,000. The hotels were sold at a gain of $500,000 before taxes. This gain is not included in the operating results. During the year, Knight suffered an extraordinary fire loss of $800,000 before taxes, which is not included in the operating results. In 2002, the company had other revenues and gains of $100,000, which are not included in the operating results. The corporation is in the 30% income tax bracket.

**Instructions**

(a) Prepare a condensed income statement.

(b) Compute the earnings per share data that should appear in the income statement. Assume weighted average shares of stock equaled 440,000. (Round to two decimals.)