CHAPTER 15

STOCKHOLDERS' EQUITY

IFRS questions are available at the end of this chapter.

TRUE-FALSE—Conceptual

Answer	No.	Description
T	1.	State a corporation incorporates in.
F	2.	Definition of preemptive right.
T	3.	Common stock as residual interest.
F	4.	Earned capital definition.
T	5.	Reporting true no-par stock.
F	6.	Allocating proceeds in lump sum sales.
T	7.	Accounting for stock issued for noncash consideration.
F	8.	Definition of treasury stock.
F	9.	Reporting treasury stock under cost method.
T	10.	Selling treasury stock below cost.
F	11.	Participating preferred stock.
T	12.	Callable preferred stock.
T	13.	Restricting legal capital.
F	14.	Disclosing dividend policy.
F	15.	Affect of dividends on total stockholders' equity.
T	16.	Property dividends definition.
T	17.	Accounting for small stock dividend.
F	18.	Stock splits and large stock dividends.
F	19.	Computing rate of return on common stock equity.
T	20.	Computing payout ratio.

MULTIPLE CHOICE—Conceptual

Answer	No.	Description
c	21.	Nature of stockholders' interest.
b	22.	Pre-emptive right.
a	23.	Pre-emptive right.
b	^{S}24.	Definition of legal capital.
c	^{S}25.	Definition of residual owner.
c	26.	Nature of stockholders' equity.
d	27.	Sources of stockholders' equity.
d	28.	Classification of stockholders' equity.
d	29.	Allocation methods for a lump sum issuance.
b	30.	Capital stock issued in payment of services.
a	31.	Costs of issuing capital stock.
b	32.	Creation of "secret reserves."
a	^{P}33.	Authorized shares.
d	^{S}34.	Par value stock.
b	^{S}35.	Legal restrictions for profit distributions.
a	^{S}36.	Acquisition of treasury shares.
d	^{P}37.	Treasury shares definition.
c	38.	Purchase of treasury stock at greater than par value.

MULTIPLE CHOICE—Conceptual (cont.)

Answer	No.	Description
a	39.	Sale of treasury stock.
a	40.	Reissued treasury stock at less than acquisition cost.
b	41.	Reissued treasury stock at greater than acquisition cost.
c	42.	Effect of treasury stock transactions.
c	43.	Preferred stock—debt features.
b	44.	Cumulative feature of preferred stock.
b	[P]45.	Reporting redeemable stock.
c	[S]46.	Reporting dividends in arrears.
c	47.	Issued vs. outstanding common stock.
b	48.	Timing of entry to record dividends.
c	49.	Shares entitled to receive a cash dividend.
c	50.	Accounting for a property dividend.
a	51.	Distribution of a property dividend.
a	52.	Liquidating dividend.
b	53.	Entry to record a liquidating dividend.
b	54.	Effects of a stock dividend.
b	55.	Effects of a stock dividend.
b	56.	Effect of a large stock dividend.
b	57.	Large stock dividend.
a	58.	Small stock dividend.
a	59.	Small stock dividend.
b	60.	Classification of stock dividends distributable.
b	61.	Effect of stock splits and stock dividends.
c	62.	Effect of a stock split.
b	63.	Disclosures in the balance sheet.
a	64.	Return on common stock equity calculation.
b	65.	Payout ratio calculation.
c	66.	Book value per share.
a	[P]67.	Computing book value per share.
c	*68.	Dividends and treasury stock.
a	*69.	Noncumulative preferred stock and dividends in arrears.
a	*70.	Disclosure of preferred dividends in arrears.

[P] These questions also appear in the Problem-Solving Survival Guide.
[S] These questions also appear in the Study Guide.
*This topic is dealt with in an Appendix to the chapter.

MULTIPLE CHOICE—Computational

Answer	No.	Description
a	71.	Composition of stockholders' equity.
b	72.	Calculation of total paid-in capital.
b	73.	Allocating proceeds in lump sum sales.
c	74.	Allocating proceeds in lump sum sales.
d	75.	Computing total paid-in capital.
b	76.	Allocating proceeds in lump sum sales.
c	77.	Allocating proceeds in lump sum sales.

MULTIPLE CHOICE—Computational (cont.)

Answer	No.	Description
d	78.	Computing paid-in capital from treasury stock transactions.
d	79.	Recording purchase of treasury stock.
b	80.	Reissue treasury stock—above acquisition cost.
c	81.	Reissue treasury stock—cost method.
c	82.	Additional paid-in capital with treasury stock transactions.
d	83.	Calculation of additional paid-in capital.
c	84.	Calculation of additional paid-in capital.
a	85.	Total stockholders' equity with treasury stock transactions.
c	86.	Total stockholders' equity with treasury stock exchange.
c	87.	Calculate dividends for cumulative preferred shares.
a	88.	Calculate dividends for common shares.
a	89.	Calculate dividends for common shares.
c	90.	Reduction in retained earnings from property dividends.
d	91.	Reduction in retained earnings from property dividends.
b	92.	Reduction in retained earnings caused by a property dividend.
d	93.	Reduction in retained earnings from property dividends.
d	94.	Reduction in retained earnings from property dividends.
a	95.	Decrease in retained earnings from cash and stock dividends.
c	96.	Calculation of a large stock dividend.
a	97.	Calculation of a small stock dividend.
b	98.	Calculation of a small stock dividend.
b	99.	Small stock dividend's effect on retained earnings.
b	100.	Balance of retained earnings after a small stock dividend.
a	101.	Calculate retained earnings available for dividends.
a	102.	Calculate decrease in retained earnings.
c	103.	Calculate the payout ratio.
a	104.	Calculate book value per share.
d	105.	Calculate retained earnings available for dividends.
d	106.	Calculate decrease in retained earnings.
c	107.	Calculate rate of return on common stock equity.
c	108.	Calculate price-earnings ratio.
a	109.	Calculate dividends paid to common stockholders.
b	110.	Rate of return on common stock equity.
c	111.	Determine the rate of return on common stock equity.
a	112.	Determine book value per share.
b	113.	Computation of payout ratio.
b	114.	Computation of book value per share.
b	*115.	Allocation of cash dividend to common and preferred shares.
d	*116.	Cash dividends for cumulative preferred shares.
b	*117.	Cash dividends for cumulative participating preferred shares.
c	*118.	Cash dividend allocation with participating preferred shares.
b	*119.	Cash dividend for cumulative preferred shares.

MULTIPLE CHOICE—CPA Adapted

Answer	No.	Description
d	120.	Capital stock issued in payment of services.
b	121.	Proceeds from preferred stock in lump sum issue.
c	122.	Determine paid-in capital from treasury stock.
b	123.	Reissue treasury stock—cost method.
c	124.	Effect of the reissuance of treasury stock.
d	125.	Entry to record property dividends declared.
b	126.	Effect of a liquidating dividend.
d	127.	Effect of a stock dividend.
d	128.	Stock dividend when market price exceeds par value.
a	129.	Balance of retained earnings following stock dividend.
c	*130.	Allocation of cash dividend to common and preferred shares.

EXERCISES

Item	Description
E15-131	Lump sum issuance of stock.
E15-132	Treasury stock.
E15-133	Treasury stock.
E15-134	Treasury stock.
E15-135	Treasury stock.
E15-136	Stockholders' equity.
E15-137	Stock dividends.
E15-138	Stock dividends and stock splits.
E15-139	Computation of selected ratios.
*E15-140	Dividends on preferred stock.
*E15-141	Dividends on preferred stock.

PROBLEMS

Item	Description
P15-142	Equity transactions.
P15-143	Treasury stock transactions.
P15-144	Stock dividends.
P15-145	Equity transactions.
*P15-146	Dividends on preferred and common stock.

CHAPTER LEARNING OBJECTIVES

1. Discuss the characteristics of the corporate form of organization.

2. Identify the key components of stockholders' equity.

3. Explain the accounting procedures for issuing shares of stock.

4. Describe the accounting for treasury stock.

5. Explain the accounting for and reporting of preferred stock.

6. Describe the policies used in distributing dividends.

7. Identify the various forms of dividend distributions.

8. Explain the accounting for small and large stock dividends, and for stock splits.

9. Indicate how to present and analyze stockholders' equity.

*10. Explain the different types of preferred stock dividends and their effect on book value per share.

SUMMARY OF LEARNING OBJECTIVES BY QUESTIONS

Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type
Learning Objective 1													
1.	TF	2.	TF	3.	TF	21.	MC	22.	MC	23.	MC	[S]24.	MC
Learning Objective 2													
4.	TF	[S]25.	MC	26.	MC	27.	MC	28.	MC				
Learning Objective 3													
5.	TF	29.	MC	32.	MC	[S]35.	MC	73.	MC	76.	MC	121.	MC
6.	TF	30.	MC	[P]33.	MC	71.	MC	74.	MC	77.	MC	131.	E
7.	TF	31.	MC	[S]34.	MC	72.	MC	75.	MC	120.	MC	142.	P
Learning Objective 4													
8.	TF	[P]37.	MC	41.	MC	80.	MC	84.	MC	123.	MC	134.	E
9.	TF	38.	MC	42.	MC	81.	MC	85.	MC	124.	MC	135.	E
10.	TF	39.	MC	78.	MC	82.	MC	86.	MC	132.	E	143.	P
[S]36.	MC	40.	MC	79.	MC	83.	MC	122.	MC	133.	E		
Learning Objective 5													
11.	TF	43.	MC	[P]45.	MC	87.	MC	89.	MC				
12.	TF	44.	MC	[S]46.	MC	88.	MC						
Learning Objective 6													
13.	TF	14.	TF										
Learning Objective 7													
15.	TF	48.	MC	51.	MC	54.	MC	91.	MC	94.	MC	136.	E
16.	TF	49.	MC	52.	MC	55.	MC	92.	MC	125.	MC	144.	P
47.	MC	50.	MC	53.	MC	90.	MC	93.	MC	126.	MC	145.	P
Learning Objective 8													
17.	TF	59.	MC	96.	MC	101.	MC	106.	MC	129.	MC		
18.	TF	60.	MC	97.	MC	102.	MC	107.	MC	137.	E		
56.	MC	61.	MC	98.	MC	103.	MC	108.	MC	138.	E		
57.	MC	62.	MC	99.	MC	104.	MC	127.	MC	144.	P		
58.	MC	95.	MC	100.	MC	105.	MC	128.	MC	145.	P		
Learning Objective 9													
19.	TF	63.	MC	65.	MC	[P]67.	MC	110.	MC	112.	MC	114.	MC
20.	TF	64.	MC	66.	MC	109.	MC	111.	MC	113.	MC	139.	E
Learning Objective *10													
68.	MC	70.	MC	116.	MC	118.	MC	130.	MC	141.	E		
69.	MC	115.	MC	117.	MC	119.	MC	140.	E	146.	P		

Note: TF = True-False
MC = Multiple Choice
E = Exercise
P = Problem

TRUE-FALSE—Conceptual

1. A corporation is incorporated in only one state regardless of the number of states in which it operates.

2. The preemptive right allows stockholders the right to vote for directors of the company.

3. Common stock is the residual corporate interest that bears the ultimate risks of loss.

4. Earned capital consists of additional paid-in capital and retained earnings.

5. True no-par stock should be carried in the accounts at issue price without any additional paid-in capital reported.

6. Companies allocate the proceeds received from a lump-sum sale of securities based on the securities' par values.

7. Companies should record stock issued for services or noncash property at either the fair value of the stock issued or the fair value of the consideration received.

8. Treasury stock is a company's own stock that has been reacquired and retired.

9. The cost method records all transactions in treasury shares at their cost and reports the treasury stock as a deduction from capital stock.

10. When a corporation sells treasury stock below its cost, it usually debits the difference between cost and selling price to Paid-in Capital from Treasury Stock.

11. Participating preferred stock requires that if a company fails to pay a dividend in any year, it must make it up in a later year before paying any common dividends.

12. Callable preferred stock permits the corporation at its option to redeem the outstanding preferred shares at stipulated prices.

13. The laws of some states require that corporations restrict their legal capital from distribution to stockholders.

14. The SEC requires companies to disclose their dividend policy in their annual report.

15. All dividends, except for liquidating dividends, reduce the total stockholders' equity of a corporation.

16. Dividends payable in assets of the corporation other than cash are called property dividends or dividends in kind.

17. When a stock dividend is less than 20-25 percent of the common stock outstanding, a company is required to transfer the fair value of the stock issued from retained earnings.

18. Stock splits and large stock dividends have the same effect on a company's retained earnings and total stockholders' equity.

19. The rate of return on common stock equity is computed by dividing net income by the average common stockholders' equity.

20. The payout ratio is determined by dividing cash dividends paid to common stockholders by net income available to common stockholders.

True-False Answers—Conceptual

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
1.	T	6.	F	11.	F	16.	T
2.	F	7.	T	12.	T	17.	T
3.	T	8.	F	13.	T	18.	F
4.	F	9.	F	14.	F	19.	F
5.	T	10.	T	15.	F	20.	T

MULTIPLE CHOICE—Conceptual

21. The residual interest in a corporation belongs to the
    a. management.
    b. creditors.
    c. common stockholders.
    d. preferred stockholders.

22. The pre-emptive right of a common stockholder is the right to
    a. share proportionately in corporate assets upon liquidation.
    b. share proportionately in any new issues of stock of the same class.
    c. receive cash dividends before they are distributed to preferred stockholders.
    d. exclude preferred stockholders from voting rights.

23. The pre-emptive right enables a stockholder to
    a. share proportionately in any new issues of stock of the same class.
    b. receive cash dividends before other classes of stock without the pre-emptive right.
    c. sell capital stock back to the corporation at the option of the stockholder.
    d. receive the same amount of dividends on a percentage basis as the preferred stockholders.

S24. In a corporate form of business organization, legal capital is best defined as
    a. the amount of capital the state of incorporation allows the company to accumulate over its existence.
    b. the par value of all capital stock issued.
    c. the amount of capital the federal government allows a corporation to generate.
    d. the total capital raised by a corporation within the limits set by the Securities and Exchange Commission.

S25. Stockholders of a business enterprise are said to be the residual owners. The term residual owner means that shareholders
a. are entitled to a dividend every year in which the business earns a profit.
b. have the rights to specific assets of the business.
c. bear the ultimate risks and uncertainties and receive the benefits of enterprise ownership.
d. can negotiate individual contracts on behalf of the enterprise.

26. Total stockholders' equity represents
a. a claim to specific assets contributed by the owners.
b. the maximum amount that can be borrowed by the enterprise.
c. a claim against a portion of the total assets of an enterprise.
d. only the amount of earnings that have been retained in the business.

27. A primary source of stockholders' equity is
a. income retained by the corporation.
b. appropriated retained earnings.
c. contributions by stockholders.
d. both income retained by the corporation *and* contributions by stockholders.

28. Stockholders' equity is generally classified into two major categories:
a. contributed capital and appropriated capital.
b. appropriated capital and retained earnings.
c. retained earnings and unappropriated capital.
d. earned capital and contributed capital.

29. The accounting problem in a lump sum issuance is the allocation of proceeds between the classes of securities. An acceptable method of allocation is the
a. pro forma method.
b. proportional method.
c. incremental method.
d. either the proportional method or the incremental method.

30. When a corporation issues its capital stock in payment for services, the *least* appropriate basis for recording the transaction is the
a. market value of the services received.
b. par value of the shares issued.
c. market value of the shares issued.
d. Any of these provides an appropriate basis for recording the transaction.

31. Direct costs incurred to sell stock such as underwriting costs should be accounted for as

1. a reduction of additional paid-in capital.
2. an expense of the period in which the stock is issued.
3. an intangible asset.

a. 1
b. 2
c. 3
d. 1 or 3

32. A "secret reserve" will be created if
    a. inadequate depreciation is charged to income.
    b. a capital expenditure is charged to expense.
    c. liabilities are understated.
    d. stockholders' equity is overstated.

P33. Which of the following represents the total number of shares that a corporation may issue under the terms of its charter?
    a. authorized shares
    b. issued shares
    c. unissued shares
    d. outstanding shares

S34. Stock that has a fixed per-share amount printed on each stock certificate is called
    a. stated value stock.
    b. fixed value stock.
    c. uniform value stock.
    d. par value stock.

S35. Which of the following is not a legal restriction related to profit distributions by a corporation?
    a. The amount distributed to owners must be in compliance with the state laws governing corporations.
    b. The amount distributed in any one year can never exceed the net income reported for that year.
    c. Profit distributions must be formally approved by the board of directors.
    d. Dividends must be in full agreement with the capital stock contracts as to preferences and participation.

S36. In January 2012, Finley Corporation, a newly formed company, issued 10,000 shares of its $10 par common stock for $15 per share. On July 1, 2012, Finley Corporation reacquired 1,000 shares of its outstanding stock for $12 per share. The acquisition of these treasury shares
    a. decreased total stockholders' equity.
    b. increased total stockholders' equity.
    c. did not change total stockholders' equity.
    d. decreased the number of issued shares.

P37. Treasury shares are
    a. shares held as an investment by the treasurer of the corporation.
    b. shares held as an investment of the corporation.
    c. issued and outstanding shares.
    d. issued but not outstanding shares.

38. When treasury stock is purchased for more than the par value of the stock and the cost method is used to account for treasury stock, what account(s) should be debited?
    a. Treasury stock for the par value and paid-in capital in excess of par for the excess of the purchase price over the par value.
    b. Paid-in capital in excess of par for the purchase price.
    c. Treasury stock for the purchase price.
    d. Treasury stock for the par value and retained earnings for the excess of the purchase price over the par value.

39. "Gains" on sales of treasury stock (using the cost method) should be credited to
    a. paid-in capital from treasury stock.
    b. capital stock.
    c. retained earnings.
    d. other income.

40. Porter Corp. purchased its own par value stock on January 1, 2012 for $20,000 and debited the treasury stock account for the purchase price. The stock was subsequently sold for $12,000. The $8,000 difference between the cost and sales price should be recorded as a deduction from
    a. additional paid-in capital to the extent that previous net "gains" from sales of the same class of stock are included therein; otherwise, from retained earnings.
    b. additional paid-in capital without regard as to whether or not there have been previous net "gains" from sales of the same class of stock included therein.
    c. retained earnings.
    d. net income.

41. How should a "gain" from the sale of treasury stock be reflected when using the cost method of recording treasury stock transactions?
    a. As ordinary earnings shown on the income statement.
    b. As paid-in capital from treasury stock transactions.
    c. As an increase in the amount shown for common stock.
    d. As an extraordinary item shown on the income statement.

42. Which of the following best describes a possible result of treasury stock transactions by a corporation?
    a. May increase but not decrease retained earnings.
    b. May increase net income if the cost method is used.
    c. May decrease but not increase retained earnings.
    d. May decrease but not increase net income.

43. Which of the following features of preferred stock makes the security more like debt than an equity instrument?
    a. Participating
    b. Voting
    c. Redeemable
    d. Noncumulative

44. The cumulative feature of preferred stock
    a. limits the amount of cumulative dividends to the par value of the preferred stock.
    b. requires that dividends not paid in any year must be made up in a later year before dividends are distributed to common shareholders.
    c. means that the shareholder can accumulate preferred stock until it is equal to the par value of common stock at which time it can be converted into common stock.
    d. enables a preferred stockholder to accumulate dividends until they equal the par value of the stock and receive the stock in place of the cash dividends.

P45. According to the FASB, redeemable preferred stock should be
    a. included with common stock.
    b. included as a liability.
    c. excluded from the stockholders' equity heading.
    d. included as a contra item in stockholders' equity.

S46. Cumulative preferred dividends in arrears should be shown in a corporation's balance sheet as
a. an increase in current liabilities.
b. an increase in stockholders' equity.
c. a footnote.
d. an increase in current liabilities for the current portion and long-term liabilities for the long-term portion.

47. At the date of the financial statements, common stock shares issued would exceed common stock shares outstanding as a result of the
a. declaration of a stock split.
b. declaration of a stock dividend.
c. purchase of treasury stock.
d. payment in full of subscribed stock.

48. An entry is *not* made on the
a. date of declaration.
b. date of record.
c. date of payment.
d. An entry is made on all of these dates.

49. Cash dividends are paid on the basis of the number of shares
a. authorized.
b. issued.
c. outstanding.
d. outstanding less the number of treasury shares.

50. Which of the following statements about property dividends is *not* true?
a. A property dividend is usually in the form of securities of other companies.
b. A property dividend is also called a dividend in kind.
c. The accounting for a property dividend should be based on the carrying value (book value) of the nonmonetary assets transferred.
d. All of these statements are true.

51. Houser Corporation owns 4,000,000 shares of stock in Baha Corporation. On December 31, 2012, Houser distributed these shares of stock as a dividend to its stockholders. This is an example of a
a. property dividend.
b. stock dividend.
c. liquidating dividend.
d. cash dividend.

52. A dividend which is a return to stockholders of a portion of their original investments is a
a. liquidating dividend.
b. property dividend.
c. liability dividend.
d. participating dividend.

53. A mining company declared a liquidating dividend. The journal entry to record the declaration must include a debit to
    a. Retained Earnings.
    b. a paid-in capital account.
    c. Accumulated Depletion.
    d. Accumulated Depreciation.

54. If management wishes to "capitalize" part of the earnings, it may issue a
    a. cash dividend.
    b. stock dividend.
    c. property dividend.
    d. liquidating dividend.

55. Which dividends do *not* reduce stockholders' equity?
    a. Cash dividends
    b. Stock dividends
    c. Property dividends
    d. Liquidating dividends

56. The declaration and issuance of a stock dividend larger than 25% of the shares previously outstanding
    a. increases common stock outstanding and increases total stockholders' equity.
    b. decreases retained earnings but does not change total stockholders' equity.
    c. may increase or decrease paid-in capital in excess of par but does not change total stockholders' equity.
    d. increases retained earnings and increases total stockholders' equity.

57. Quirk Corporation issued a 100% stock dividend of its common stock which had a par value of $10 before and after the dividend. At what amount should retained earnings be capitalized for the additional shares issued?
    a. There should be no capitalization of retained earnings.
    b. Par value
    c. Fair value on the declaration date
    d. Fair value on the payment date

58. The issuer of a 5% common stock dividend to common stockholders preferably should transfer from retained earnings to contributed capital an amount equal to the
    a. fair value of the shares issued.
    b. book value of the shares issued.
    c. minimum legal requirements.
    d. par or stated value of the shares issued.

59. At the date of declaration of a small common stock dividend, the entry should *not* include
    a. a credit to Common Stock Dividend Payable.
    b. a credit to Paid-in Capital in Excess of Par.
    c. a debit to Retained Earnings.
    d. All of these are acceptable.

60. The balance in Common Stock Dividend Distributable should be reported as a(n)
    a. deduction from common stock issued.
    b. addition to capital stock.
    c. current liability.
    d. contra current asset.

61. A feature common to both stock splits and stock dividends is
    a. a transfer to earned capital of a corporation.
    b. that there is no effect on total stockholders' equity.
    c. an increase in total liabilities of a corporation.
    d. a reduction in the contributed capital of a corporation.

62. What effect does the issuance of a 2-for-1 stock split have on each of the following?

	Par Value per Share	Retained Earnings
a.	No effect	No effect
b.	Increase	No effect
c.	Decrease	No effect
d.	Decrease	Decrease

63. Which one of the following disclosures should be made in the equity section of the balance sheet, rather than in the notes to the financial statements?
    a. Dividend preferences
    b. Liquidation preferences
    c. Call prices
    d. Conversion or exercise prices

64. The rate of return on common stock equity is calculated by dividing
    a. net income less preferred dividends by average common stockholders' equity.
    b. net income by average common stockholders' equity.
    c. net income less preferred dividends by ending common stockholders' equity.
    d. net income by ending common stockholders' equity.

65. The payout ratio can be calculated by dividing
    a. dividends per share by earnings per share.
    b. cash dividends by net income less preferred dividends.
    c. cash dividends by market price per share.
    d. dividends per share by earnings per share and dividing cash dividends by net income less preferred dividends.

66. Younger Company has outstanding both common stock and nonparticipating, non-cumulative preferred stock. The liquidation value of the preferred is equal to its par value. The book value per share of the common stock is *unaffected* by
    a. the declaration of a stock dividend on preferred payable in preferred stock when the market price of the preferred is equal to its par value.
    b. the declaration of a stock dividend on common stock payable in common stock when the market price of the common is equal to its par value.
    c. the payment of a previously declared cash dividend on the common stock.
    d. a 2-for-1 split of the common stock.

P67. Assume common stock is the only class of stock outstanding in the Manley Corporation. Total stockholders' equity divided by the number of common stock shares outstanding is called
a. book value per share.
b. par value per share.
c. stated value per share.
d. fair value per share.

*68. Dividends are not paid on
a. noncumulative preferred stock.
b. nonparticipating preferred stock.
c. treasury common stock.
d. Dividends are paid on all of these.

*69. Noncumulative preferred dividends in arrears
a. are not paid or disclosed.
b. must be paid before any other cash dividends can be distributed.
c. are disclosed as a liability until paid.
d. are paid to preferred stockholders if sufficient funds remain after payment of the current preferred dividend.

*70. How should cumulative preferred dividends in arrears be shown in a corporation's statement of financial position?
a. Note disclosure
b. Increase in stockholders' equity
c. Increase in current liabilities
d. Increase in current liabilities for the amount expected to be declared within the year or operating cycle, and increase in long-term liabilities for the balance

Multiple Choice Answers—Conceptual

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
21.	c	29.	d	37.	d	45.	b	53.	b	61.	b	*69.	a
22.	b	30.	b	38.	c	46.	c	54.	b	62.	c	*70.	a
23.	a	31.	a	39.	a	47.	c	55.	b	63.	b		
24.	b	32.	b	40.	a	48.	b	56.	b	64.	a		
25.	c	33.	a	41.	b	49.	c	57.	b	65.	b		
26.	c	34.	d	42.	c	50.	c	58.	a	66.	c		
27.	d	35.	b	43.	c	51.	a	59.	a	67.	a		
28.	d	36.	a	44.	b	52.	a	60.	b	*68.	c		

MULTIPLE CHOICE—Computational

Use the following information for questions 71 and 72.

Presented below is information related to Hale Corporation:

Common Stock, $1 par	$4,800,000
Paid-in Capital in Excess of Par—Common Stock	550,000
Preferred 8 1/2% Stock, $50 par	2,000,000
Paid-in Capital in Excess of Par—Preferred Stock	400,000
Retained Earnings	1,500,000
Treasury Common Stock (at cost)	150,000

71. The total stockholders' equity of Hale Corporation is
a. $9,100,000.
b. $9,250,000.
c. $7,600,000.
d. $7,750,000.

72. The total paid-in capital (cash collected) related to the common stock is
a. $4,800,000.
b. $5,350,000.
c. $5,750,000.
d. $5,200,000.

73. Manning Company issued 10,000 shares of its $5 par value common stock having a fair value of $25 per share and 15,000 shares of its $15 par value preferred stock having a fair value of $20 per share for a lump sum of $520,000. How much of the proceeds would be allocated to the common stock?
a. $54,167
b. $236,364
c. $270,833
d. $276,250

74. Norton Company issues 4,000 shares of its $5 par value common stock having a fair value of $25 per share and 6,000 shares of its $15 par value preferred stock having a fair value of $20 per share for a lump sum of $204,000. What amount of the proceeds should be allocated to the preferred stock?
a. $182,750
b. $127,500
c. $111,273
d. $95,625

75. Berry Corporation has 50,000 shares of $10 par common stock authorized. The following transactions took place during 2012, the first year of the corporation's existence:

Sold 10,000 shares of common stock for $18 per share.
Issued 10,000 shares of common stock in exchange for a patent valued at $200,000.

At the end of the Berry's first year, total paid-in capital amounted to
a. $80,000.
b. $180,000.
c. $200,000.
d. $380,000.

76. Glavine Company issues 6,000 shares of its $5 par value common stock having a fair value of $25 per share and 9,000 shares of its $15 par value preferred stock having a fair value of $20 per share for a lump sum of $312,000. The proceeds allocated to the common stock is
    a. $32,500
    b. $141,818
    c. $162,500
    d. $170,182

77. Wheeler Company issued 5,000 shares of its $5 par value common stock having a fair value of $25 per share and 7,500 shares of its $15 par value preferred stock having a fair value of $20 per share for a lump sum of $260,000. The proceeds allocated to the preferred stock is
    a. $232,917
    b. $162,500
    c. $141,818
    d. $118,182

78. Pember Corporation started business in 2007 by issuing 200,000 shares of $20 par common stock for $36 each. In 2012, 30,000 of these shares were purchased for $52 per share by Pember Corporation and held as treasury stock. On June 15, 2013, these 30,000 shares were exchanged for a piece of property that had an assessed value of $810,000. Perber's stock is actively traded and had a market price of $60 on June 15, 2013. The cost method is used to account for treasury stock. The amount of paid-in capital from treasury stock transactions resulting from the above events would be
    a. $1,200,000.
    b. $720,000.
    c. $585,000.
    d. $240,000.

79. On September 1, 2012, Valdez Company reacquired 16,000 shares of its $10 par value common stock for $15 per share. Valdez uses the cost method to account for treasury stock. The journal entry to record the reacquisition of the stock should debit
    a. Treasury Stock for $160,000.
    b. Common Stock for $160,000.
    c. Common Stock for $160,000 and Paid-in Capital in Excess of Par for $60,000.
    d. Treasury Stock for $240,000.

80. Gannon Company acquired 8,000 shares of its own common stock at $20 per share on February 5, 2012, and sold 4,000 of these shares at $27 per share on August 9, 2013. The fair value of Gannon's common stock was $24 per share at December 31, 2012, and $25 per share at December 31, 2013. The cost method is used to record treasury stock transactions. What account(s) should Gannon credit in 2013 to record the sale of 4,000 shares?
    a. Treasury Stock for $108,000.
    b. Treasury Stock for $80,000 and Paid-in Capital from Treasury Stock for $28,000.
    c. Treasury Stock for $80,000 and Retained Earnings for $28,000.
    d. Treasury Stock for $96,000 and Retained Earnings for $12,000.

81. Long Co. issued 100,000 shares of $10 par common stock for $1,200,000. Long acquired 10,000 shares of its own common stock at $15 per share. Three months later Long sold 5,000 of these shares at $19 per share. If the cost method is used to record treasury stock transactions, to record the sale of the 5,000 treasury shares, Long should credit
   a. Treasury Stock for $95,000.
   b. Treasury Stock for $50,000 and Paid-in Capital from Treasury Stock for $45,000.
   c. Treasury Stock for $75,000 and Paid-in Capital from Treasury Stock for $20,000.
   d. Treasury Stock for $75,000 and Paid-in Capital in Excess of Par for $20,000.

82. An analysis of stockholders' equity of Hahn Corporation as of January 1, 2012, is as follows:

Common stock, par value $20; authorized 100,000 shares; issued and outstanding 90,000 shares	$1,800,000
Paid-in capital in excess of par	700,000
Retained earnings	760,000
Total	$3,260,000

Hahn uses the cost method of accounting for treasury stock and during 2012 entered into the following transactions:
   Acquired 2,500 shares of its stock for $75,000.
   Sold 2,000 treasury shares at $35 per share.
   Sold the remaining treasury shares at $20 per share.

Assuming no other equity transactions occurred during 2012, what should Hahn report at December 31, 2012, as total additional paid-in capital?
   a. $695,000
   b. $700,000
   c. $705,000
   d. $715,000

83. Percy Corporation was organized on January 1, 2012, with an authorization of 1,200,000 shares of common stock with a par value of $6 per share. During 2012, the corporation had the following capital transactions:

January 5	issued 900,000 shares @ $10 per share
July 28	purchased 120,000 shares @ $11 per share
December 31	sold the 120,000 shares held in treasury @ $18 per share

Percy used the cost method to record the purchase and reissuance of the treasury shares. What is the total amount of additional paid-in capital as of December 31, 2012?
   a. $-0-.
   b. $2,760,000.
   c. $3,600,000.
   d. $4,440,000.

84. Sosa Co.'s stockholders' equity at January 1, 2012 is as follows:

Common stock, $10 par value; authorized 300,000 shares; Outstanding 225,000 shares	$2,250,000
Paid-in capital in excess of par	700,000
Retained earnings	2,190,000
Total	$5,140,000

During 2012, Sosa had the following stock transactions:

Acquired 6,000 shares of its stock for $270,000.
Sold 3,600 treasury shares at $50 a share.
Sold the remaining treasury shares at $41 per share.

No other stock transactions occurred during 2012. Assuming Sosa uses the cost method to record treasury stock transactions, the total amount of all additional paid-in capital accounts at December 31, 2012 is
a. $691,600.
b. $670,000.
c. $708,400.
d. $727,600.

85. Presented below is the stockholders' equity section of Oaks Corporation at December 31, 2012:

Common stock, par value $20; authorized 75,000 shares;	
issued and outstanding 45,000 shares	$ 900,000
Paid-in capital in excess of par value	250,000
Retained earnings	300,000
	$1,450,000

During 2013, the following transactions occurred relating to stockholders' equity:

3,000 shares were reacquired at $28 per share.
3,000 shares were reacquired at $35 per share.
1,800 shares of treasury stock were sold at $30 per share.

For the year ended December 31, 2013, Oaks reported net income of $450,000. Assuming Oaks accounts for treasury stock under the cost method, what should it report as total stockholders' equity on its December 31, 2013, balance sheet?
a. $1,765,000.
b. $1,761,400.
c. $1,757,800.
d. $1,315,000.

86. On December 1, 2012, Abel Corporation exchanged 30,000 shares of its $10 par value common stock held in treasury for a used machine. The treasury shares were acquired by Abel at a cost of $40 per share, and are accounted for under the cost method. On the date of the exchange, the common stock had a fair value of $55 per share (the shares were originally issued at $30 per share). As a result of this exchange, Abel's total stockholders' equity will increase by
a. $300,000.
b. $1,200,000.
c. $1,650,000.
d. $1,350,000.

87. Luther Inc., has 3,000 shares of 6%, $50 par value, cumulative preferred stock and 100,000 shares of $1 par value common stock outstanding at December 31, 2013, and December 31, 2012. The board of directors declared and paid a $7,500 dividend in 2012. In 2013, $36,000 of dividends are declared and paid. What are the dividends received by the preferred stockholders in 2013?
    a. $25,500
    b. $18,000
    c. $ 10,500
    d. $ 9,000

88. Anders, Inc., has 10,000 shares of 5%, $100 par value, cumulative preferred stock and 40,000 shares of $1 par value common stock outstanding at December 31, 2013. There were no dividends declared in 2011. The board of directors declares and pays a $90,000 dividend in 2012 and in 2013. What is the amount of dividends received by the common stockholders in 2013?
    a. $30,000
    b. $50,000
    c. $90,000
    d. $0

89. Colson Inc. declared a $240,000 cash dividend. It currently has 9,000 shares of 7%, $100 par value cumulative preferred stock outstanding. It is one year in arrears on its preferred stock. How much cash will Colson distribute to the common stockholders?
    a. $114,000.
    b. $126,000.
    c. $177,000.
    d. None.

90. Pierson Corporation owned 10,000 shares of Hunter Corporation. These shares were purchased in 2009 for $90,000. On November 15, 2013, Pierson declared a property dividend of one share of Hunter for every ten shares of Pierson held by a stockholder. On that date, when the market price of Hunter was $21 per share, there were 90,000 shares of Pierson outstanding. What unrealized gain and net reduction in retained earnings would result from this property dividend?

	Unrealized Gain	Net Reduction in Retained Earnings
a.	$0	$189,000
b.	$0	$ 81,000
c.	$108,000	$ 81,000
d.	$108,000	$ 27,000

91. Stinson Corporation owned 30,000 shares of Matile Corporation. These shares were purchased in 2009 for $270,000. On November 15, 2013, Stinson declared a property dividend of one share of Matile for every ten shares of Stinson held by a stockholder. On that date, when the market price of Matile was $21 per share, there were 270,000 shares of Stinson outstanding. What unrealized gain and net reduction in retained earnings would result from this property dividend?

	Unrealized Gain	Net Reduction in Retained Earnings
a.	$0	$243,000
b.	$0	$567,000
c.	$324,000	$81,000
d.	$324,000	$243,000

92. Winger Corporation owned 300,000 shares of Fegan Corporation stock. On December 31, 2012, when Winger's account "Equity Investment (Fegan Corporation") had a carrying value of $5 per share, Winger distributed these shares to its stockholders as a dividend. Winger originally paid $8 for each share. Fegan has 1,000,000 shares issued and outstanding, which are traded on a national stock exchange. The quoted market price for a Fegan share was $7 on the declaration date and $9 on the distribution date.

What would be the reduction in Winger's stockholders' equity as a result of the above transactions?

a. $1,200,000.
b. $1,500,000.
c. $2,400,000.
d. $2,700,000.

93. Gibbs Corporation owned 20,000 shares of Oliver Corporation's $5 par value common stock. These shares were purchased in 2009 for $240,000. On September 15, 2013, Gibbs declared a property dividend of one share of Oliver for every ten shares of Gibbs held by a stockholder. On that date, when the market price of Oliver was $21 per share, there were 180,000 shares of Gibbs outstanding. What NET reduction in retained earnings would result from this property dividend?

a. $162,000
b. $378,000
c. $108,000
d. $216,000

94. Melvern's Corporation has an investment in 10,000 shares of Wallace Company common stock with a cost of $436,000. These shares are used in a property dividend to stockholders of Melvern's. The property dividend is declared on May 25 and scheduled to be distributed on July 31 to stockholders of record on June 15. The fair value per share of Wallace stock is $63 on May 25, $66 on June 15, and $68 on July 31. The net effect of this property dividend on retained earnings is a reduction of

a. $680,000.
b. $660,000.
c. $630,000.
d. $436,000.

95. Hernandez Company has 490,000 shares of $10 par value common stock outstanding. During the year, Hernandez declared a 10% stock dividend when the market price of the stock was $30 per share. Four months later Hernandez declared a $.50 per share cash dividend. As a result of the dividends declared during the year, retained earnings decreased by
    a. $1,739,500.
    b. $735,000.
    c. $269,500.
    d. $245,000.

96. On June 30, 2012, when Ermler Co.'s stock was selling at $65 per share, its equity accounts were as follows:

Common stock (par value $50; 80,000 shares issued)	$4,000,000
Paid-in capital in excess of par	600,000
Retained earnings	4,200,000

    If a 100% stock dividend were declared and distributed, common stock would be
    a. $4,000,000.
    b. $4,600,000.
    c. $8,000,000.
    d. $8,800,000.

97. The stockholders' equity section of Gunkel Corporation as of December 31, 2012, was as follows:

Common stock, par value $2; authorized 20,000 shares; issued and outstanding 10,000 shares	$ 20,000
Paid-in capital in excess of par	30,000
Retained earnings	95,000
	$145,000

    On March 1, 2013, the board of directors declared a 15% stock dividend, and accordingly 1,500 additional shares were issued. On March 1, 2011, the fair value of the stock was $6 per share. For the two months ended February 28, 2013, Gunkel sustained a net loss of $10,000.

    What amount should Gunkel report as retained earnings as of March 1, 2013?
    a. $76,000.
    b. $82,000.
    c. $86,000.
    d. $92,000.

98. The stockholders' equity of Howell Company at July 31, 2012 is presented below:

Common stock, par value $20, authorized 400,000 shares; issued and outstanding 160,000 shares	$3,200,000
Paid-in capital in excess of par	160,000
Retained earnings	650,000
	$4,010,000

On August 1, 2012, the board of directors of Howell declared a 10% stock dividend on common stock, to be distributed on September 15th. The market price of Howell's common stock was $35 on August 1, 2012, and $38 on September 15, 2012. What is the amount of the debit to retained earnings as a result of the declaration and distribution of this stock dividend?

a. $320,000.
b. $560,000.
c. $608,000.
d. $400,000.

99. On January 1, 2012, Dodd, Inc., declared a 15% stock dividend on its common stock when the fair value of the common stock was $20 per share. Stockholders' equity before the stock dividend was declared consisted of:

Common stock, $10 par value, authorized 200,000 shares; issued and outstanding 120,000 shares	$1,200,000
Additional paid-in capital on common stock	150,000
Retained earnings	700,000
Total stockholders' equity	$2,050,000

What was the effect on Dodd's retained earnings as a result of the above transaction?

a. $180,000 decrease
b. $360,000 decrease
c. $600,000 decrease
d. $300,000 decrease

100. On January 1, 2012, Culver Corporation had 110,000 shares of its $5 par value common stock outstanding. On June 1, the corporation acquired 10,000 shares of stock to be held in the treasury. On December 1, when the market price of the stock was $8, the corporation declared a 15% stock dividend to be issued to stockholders of record on December 16, 2012. What was the impact of the 15% stock dividend on the balance of the retained earnings account?

a. $ 75,000 decrease
b. $120,000 decrease
c. $132,000 decrease
d. No effect

101. At the beginning of 2013, Flaherty Company had retained earnings of $250,000. During the year Flaherty reported net income of $100,000, sold treasury stock at a “gain” of $36,000, declared a cash dividend of $60,000, and declared and issued a small stock dividend of 3,000 shares ($10 par value) when the fair value of the stock was $20 per share. The amount of retained earnings available for dividends at the end of 2013 was
    a. $230,000.
    b. $260,000.
    c. $266,000.
    d. $296,000.

102. Masterson Company has 420,000 shares of $10 par value common stock outstanding. During the year Masterson declared a 10% stock dividend when the market price of the stock was $36 per share. Three months later Masterson declared a $.60 per share cash dividend. As a result of the dividends declared during the year, retained earnings decreased by
    a. $1,789,200
    b. $1,512,000
    c. $277,200
    d. $264,000

Questions 103 and 104 are based on the following information.

Layne Corporation had the following information in its financial statements for the years ended 2012 and 2013:

Cash dividends for the year 2013	$ 8,000
Net income for the year ended 2013	83,000
Market price of stock, 12/31/12	10
Market price of stock, 12/31/13	12
Common stockholders’ equity, 12/31/12	1,600,000
Common stockholders’ equity, 12/31/13	1,800,000
Outstanding shares, 12/31/13	180,000
Preferred dividends for the year ended 2013	15,000

103. What is the payout ratio for Layne Corporation for the year ended 2013?
    a. 27.7%
    b. 18.1%
    c. 11.8%
    d. 9.6%

104. What is the book value per share for Layne Corporation for the year ended 2013?
    a. $10.00
    b. $9.92
    c. $9.44
    d. $8.89

105. At the beginning of 2013, Hamilton Company had retained earnings of $180,000. During the year Hamilton reported net income of $75,000, sold treasury stock at a "gain" of $27,000, declared a cash dividend of $45,000, and declared and issued a small stock dividend of 1,500 shares ($10 par value) when the fair value of the stock was $30 per share. The amount of retained earnings available for dividends at the end of 2013 was:
    a. $214,500.
    b. $192,000.
    c. $187,500.
    d. $165,000.

106. Mingenback Company has 560,000 shares of $10 par value common stock outstanding. During the year Mingenback declared a 10% stock dividend when the market price of the stock was $48 per share. Two months later Mingenback declared a $.60 per share cash dividend. As a result of the dividends declared during the year, retained earnings decreased by:
    a. $352,000.
    b. $369,600.
    c. $2,688,000.
    d. $3,057,600.

Questions 107 and 108 are based on the following information.

Sealy Corporation had the following information in its financial statements for the years ended 2012 and 2013:

Cash dividends for the year 2013	$ 5,000
Net income for the year ended 2013	78,000
Market price of stock, 12/31/12	10
Market price of stock, 12/31/13	12
Common stockholders' equity, 12/31/12	1,000,000
Common stockholders' equity, 12/31/13	1,200,000
Outstanding shares, 12/31/13	100,000
Preferred dividends for the year ended 2013	10,000

107. What is the rate of return on common stock equity for Sealy Corporation for the year ended 2013?
    a. 7.1%
    b. 6.5%
    c. 6.2%
    d. 5.7%

108. What is the price-earnings ratio for Sealy Corporation for the year ended 2013?
    a. 14.7
    b. 15.4
    c. 17.6
    d. 19.0

109. Mays, Inc. had net income for 2012 of $3,180,000 and earnings per share on common stock of $5. Included in the net income was $450,000 of bond interest expense related to its long-term debt. The income tax rate for 2012 was 30%. Dividends on preferred stock were $600,000. The payout ratio on common stock was 25%. What were the dividends on common stock in 2012?
   a. $645,000.
   b. $795,000.
   c. $723,750.
   d. $967,500.

110. Presented below is information related to Orender, Inc.:

	December 31,	
	2013	2012
Common stock	$ 75,000	$ 60,000
4% Preferred stock	350,000	350,000
Retained earnings (includes net income for current year)	90,000	75,000
Net income for year	40,000	32,000

   What is Orender's rate of return on common stock equity for 2013?
   a. 26.7%
   b. 17.3%
   c. 15.8%
   d. 24.2%

Use the following information for questions 111 and 112.

The following data are provided:

	December 31,	
	2013	2012
10% Cumulative preferred stock, $50 par	$100,000	$100,000
Common stock, $10 par	160,000	90,000
Additional paid-in capital	80,000	65,000
Retained earnings (includes current year net income)	240,000	215,000
Net income	70,000	

Additional information:
On May 1, 2013, 7,000 shares of common stock were issued. The preferred dividends were *not* declared during 2013. The market price of the common stock was $50 at December 31, 2013.

111. The rate of return on common stock equity for 2013 is
   a. 70 ÷ 420.
   b. 70 ÷ 480.
   c. 60 ÷ 420.
   d. 60 ÷ 480.

112. The book value per share of common stock at 12/31/13 is
   a. 470 ÷ 16.
   b. 240 ÷ 16.
   c. 370 ÷ 16.
   d. 480 ÷ 15.

Use the following information for questions 113 and 114.

Turner Corporation had the following information in its financial statements for the year ended 2012 and 2013:

Cash dividends for the year 2013	$ 15,000
Net income for the year ended 2013	155,000
Market price of stock, 12/31/13	24
Common stockholders' equity, 12/31/12	2,200,000
Common stockholders' equity, 12/31/13	2,400,000
Outstanding shares, 12/31/13	160,000
Preferred dividends for the year ended 2013	30,000

113. What is the payout ratio for Turner Corporation for the year ended 2013?
   a. 9.7%
   b. 12.0%
   c. 19.4%
   d. 29.0%

114. What is the book value per share for Turner Corporation for the year ended 2013?
   a. $14.81
   b. $15.00
   c. $13.75
   d. $14.38

Use the following information for questions 115 through 117.

Written, Inc. has outstanding 500,000 shares of $2 par common stock and 100,000 shares of no-par 8% preferred stock with a stated value of $5. The preferred stock is cumulative and nonparticipating. Dividends have been paid in every year except the past two years and the current year.

*115. Assuming that $250,000 will be distributed as a dividend in the current year, how much will the common stockholders receive?
   a. Zero.
   b. $130,000.
   c. $170,000.
   d. $210,000.

*116. Assuming that $105,000 will be distributed as a dividend in the current year, how much will the preferred stockholders receive?
   a. $35,000.
   b. $40,000.
   c. $80,000.
   d. $105,000.

*117. Assuming that $305,000 will be distributed, and the preferred stock is *also* participating, how much will the common stockholders receive?
a. $185,000.
b. $150,000.
c. $155,000.
d. $80,000.

*118. Yoder, Inc. has 100,000 shares of $10 par value common stock and 50,000 shares of $10 par value, 6%, cumulative, participating preferred stock outstanding. Dividends on the preferred stock are one year in arrears. Assuming that Yoder wishes to distribute $270,000 as dividends, the common stockholders will receive
a. $60,000.
b. $110,000.
c. $160,000.
d. $210,000.

*119. Mann Co. has outstanding 60,000 shares of 8% preferred stock with a $10 par value and 150,000 shares of $3 par value common stock. Dividends have been paid every year except last year and the current year. If the preferred stock is cumulative and nonparticipating and $300,000 is distributed, the common stockholders will receive
a. $0.
b. $204,000.
c. $252,000.
d. $300,000.

Multiple Choice Answers—Computational

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
71.	a	78.	d	85.	a	92.	b	99.	b	106.	d	113.	b
72.	b	79.	d	86.	c	93.	d	100.	b	107.	c	114.	b
73.	b	80.	b	87.	c	94.	d	101.	a	108.	c	*115.	b
74.	c	81.	c	88.	a	95.	a	102.	a	109.	a	*116.	d
75.	d	82.	c	89.	a	96.	c	103.	c	110.	b	*117.	b
76.	b	83.	d	90.	c	97.	a	104.	a	111.	c	*118.	c
77.	c	84.	c	91.	d	98.	b	105.	d	112.	a	*119.	b

MULTIPLE CHOICE—CPA Adapted

120. A corporation was organized in January 2009 with authorized capital of $10 par value common stock. On February 1, 2012, shares were issued at par for cash. On March 1, 2012, the corporation's attorney accepted 7,000 shares of common stock in settlement for legal services with a fair value of $90,000. Additional paid-in capital would increase on

	February 1, 2012	March 1, 2012
a.	Yes	No
b.	Yes	Yes
c.	No	No
d.	No	Yes

121. On July 1, 2012, Nall Co. issued 2,500 shares of its $10 par common stock and 5,000 shares of its $10 par convertible preferred stock for a lump sum of $140,000. At this date Nall's common stock was selling for $24 per share and the convertible preferred stock for $18 per share. The amount of the proceeds allocated to Nall's preferred stock should be
a. $70,000.
b. $84,000.
c. $90,000.
d. $77,000.

122. Horton Co. was organized on January 2, 2012, with 500,000 authorized shares of $10 par value common stock. During 2012, Horton had the following capital transactions:

January 5—issued 375,000 shares at $14 per share.
July 27—purchased 25,000 shares at $11 per share.
November 25—sold 20,000 shares of treasury stock at $13 per share.

Horton used the cost method to record the purchase of the treasury shares. What would be the balance in the Paid-in Capital from Treasury Stock account at December 31, 2012?
a. $0.
b. $20,000.
c. $40,000.
d. $60,000.

123. In 2012, Hobbs Corp. acquired 9,000 shares of its own $1 par value common stock at $18 per share. In 2013, Hobbs issued 6,000 of these shares at $25 per share. Hobbs uses the cost method to account for its treasury stock transactions. What accounts and what amounts should Hobbs credit in 2013 to record the issuance of the 6,000 shares?

	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Common Stock
a.	$108,000		$105,000	
b.	$108,000	$42,000		
c.		$144,000		$6,000
d.		$102,000	$42,000	$6,000

124. At its date of incorporation, Sauder, Inc. issued 100,000 shares of its $10 par common stock at $11 per share. During the current year, Sauder acquired 20,000 shares of its common stock at a price of $16 per share and accounted for them by the cost method. Subsequently, these shares were reissued at a price of $12 per share. There have been no other issuances or acquisitions of its own common stock. What effect does the reissuance of the stock have on the following accounts?

	Retained Earnings	Additional Paid-in Capital
a.	Decrease	Decrease
b.	No effect	Decrease
c.	Decrease	No effect
d.	No effect	No effect

125. Farmer Corp. owned 20,000 shares of Eaton Corp. purchased in 2009 for $300,000. On December 15, 2012, Farmer declared a property dividend of all of its Eaton Corp. shares on the basis of one share of Eaton for every 10 shares of Farmer common stock held by its stockholders. The property dividend was distributed on January 15, 2013. On the declaration date, the aggregate market price of the Eaton shares held by Farmer was $500,000. The entry to record the declaration of the dividend would include a debit to Retained Earnings of
    a. $0.
    b. $200,000.
    c. $300,000.
    d. $500,000.

126. A corporation declared a dividend, a portion of which was liquidating. How would this distribution affect each of the following?

	Additional Paid-in Capital	Retained Earnings
a.	Decrease	No effect
b.	Decrease	Decrease
c.	No effect	Decrease
d.	No effect	No effect

127. On May 1, 2012, Ziek Corp. declared and issued a 10% common stock dividend. Prior to this dividend, Ziek had 100,000 shares of $1 par value common stock issued and outstanding. The fair value of Ziek 's common stock was $20 per share on May 1, 2012. As a result of this stock dividend, Ziek's total stockholders' equity
    a. increased by $200,000.
    b. decreased by $200,000.
    c. decreased by $10,000.
    d. did *not* change.

128. How would the declaration and subsequent issuance of a 10% stock dividend by the issuer affect each of the following when the fair value of the shares exceeds the par value of the stock?

	Common Stock	Additional Paid-in Capital
a.	No effect	No effect
b.	No effect	Increase
c.	Increase	No effect
d.	Increase	Increase

129. On December 31, 2012, the stockholders' equity section of Arndt, Inc., was as follows:

Common stock, par value $10; authorized 30,000 shares; issued and outstanding 9,000 shares	$ 90,000
Additional paid-in capital	116,000
Retained earnings	154,000
Total stockholders' equity	$360,000

On March 31, 2013, Arndt declared a 10% stock dividend, and accordingly 900 additional shares were issued, when the fair value of the stock was $18 per share. For the three months ended March 31, 2013, Arndt sustained a net loss of $32,000. The balance of Arndt's retained earnings as of March 31, 2013, should be

a. $105,800.
b. $113,000.
c. $114,800.
d. $122,000.

*130. At December 31, 2012 and 2013, Plank Corp. had outstanding 3,000 shares of $100 par value 8% cumulative preferred stock and 15,000 shares of $10 par value common stock. At December 31, 2012, dividends in arrears on the preferred stock were $12,000. Cash dividends declared in 2013 totaled $45,000. What amounts were payable on each class of stock?

	Preferred Stock	Common Stock
a.	$24,000	$21,000
b.	$33,000	$12,000
c.	$36,000	$9,000
d.	$45,000	$0

Multiple Choice Answers—CPA Adapted

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
120.	d	122.	c	124.	c	126.	b	128.	d	*130.	c
121.	b	123.	b	125.	d	127.	d	129.	a		

DERIVATIONS — Computational

No.	Answer	Derivation
71.	a	$4,800,000 + $400,000 + $550,000 + $2,000,000 + $1,500,000 – $150,000 = $9,100,000.
72.	b	$4,800,000 + $550,000 = $5,350,000.
73.	b	(10,000 × $25) + (15,000 × $20) = $550,000 ($250,000 ÷ $550,000) × $520,000 = $236,364.
74.	c	(4,000 × $25) + (6,000 × $20) = $220,000 ($120,000 ÷ $220,000) × $204,000 = $111,273.
75.	d	(10,000 × $18) + $200,000 = $380,000.

76.	b	$[(6,000 \times \$25) \div [(6,000 \times \$25) + (9,000 \times \$20)]] \times \$312,000 = \$141,818.$
77.	c	$[(7,500 \times \$20) \div [(5,000 \times \$25) + (7,500 \times \$20)]] \times \$260,000 = \$141,818.$
78.	d	($60 – $52) × 30,000 = $240,000.
79.	d	16,000 × $15 = $240,000.
80.	b	4,000 × $20 = $80,000; 4,000 × $7 = $28,000.
81.	c	5,000 × $15 = $75,000; 5,000 × $4 = $20,000.
82.	c	$700,000 + (2,000 × $5) – (500 × $10) = $705,000.
83.	d	(900,000 × $4) + (120,000 × $7) = $4,440,000.
84.	c	$700,000 + (3,600 × $5) – (2,400 × $4) = $708,400.
85.	a	$1,450,000 – (3,000 × $28) – (3,000 × $35) + (1,800 × $30) + $450,000 = $1,765,000.
86.	c	30,000 × $55 = $1,650,000.
87.	c	3,000 × $50 × .06 = $9,000 ($9,000 – $7,500) + $9,000 = $10,500.
88.	a	10,000 × $100 × .05 = $50,000 ($90,000 × 2) – ($50,000 × 3) = $30,000.
89.	a	9,000 × $100 × .07 = $63,000 $240,000 – ($63,000 × 2) = $114,000.
90.	c	($90,000 ÷ $10) × $21 = $189,000 [$21 – ($90,000 ÷ 10,000)] × 9,000 = $108,000 $189,000 – $108,000 = $81,000.
91.	d	($270,000 ÷ $10) × $21 = $567,000 [$21 – ($270,000 ÷ 30,000)] × 27,000 = $324,000 $567,000 – $324,000 = $243,000.
92.	b	(300,000 × $7) – [($7 – $5) × 300,000] = $1,500,000.
93.	d	(180,000 ÷ 10) × $21 = $378,000 $378,000 – [$378,000 – ($240,000 × 18/20)] = $216,000.
94.	d	(10,000 × $63) = $630,000 $630,000 – ($630,000 – $436,000) = $436,000.

95.	a	490,000 × .10 × \$30 = \$1,470,000 \$1,470,000 + (490,000 × 1.10 × \$.50) = \$1,739,500.
96.	c	(80,000 × \$50) + \$4,000,000 = \$8,000,000.
97.	a	\$95,000 – \$10,000 – (1,500 × \$6) = \$76,000.
98.	b	160,000 × .10 × \$35 = \$560,000.
99.	b	120,000 × .15 × \$20 = \$360,000.
100.	b	100,000 × .15 × \$8 = \$120,000.
101.	a	\$250,000 + \$100,000 – \$60,000 – (3,000 × \$20) = \$230,000.
102.	a	(420,000 × .10 × \$36) + (420,000 × 1.10 × \$.60) = \$1,789,200.
103.	c	\$8,000 ÷ (\$83,000 – \$15,000) = 11.8%.
104.	a	\$1,800,000 ÷ 180,000 = \$10.00.
105.	d	\$180,000 + \$75,000 – \$45,000 – (1,500 × \$30) = \$165,000.
106.	d	(560,000 × .10 × \$48) + (560,000 × 1.10 × \$.60) = \$3,057,600.
107.	c	(\$78,000 – \$10,000) ÷ [(\$1,000,000 + \$1,200,000 ÷ 2)] = 6.2%.
108.	c	(\$78,000 – \$10,000) ÷ 100,000 = \$.68. \$12 ÷ .68 = 17.6.
109.	a	$\frac{X}{(\$3{,}180{,}000 - \$600{,}000)} = .25$, X = \$645,000.
110.	b	$\frac{\$40,000 - (.04 \times \$350,000)}{[(\$60,000 + \$75,000) + (\$75,000 + \$90,000)] \div 2} = .173 = 17.3\%$.
111.	c	$\frac{\$70,000 - (\$100,000 \times .10)}{[(\$160,000 + \$80,000 + \$240,000 - \$10,000) + (\$90,000 + \$65,000 + \$215,000)] \div 2}$ = \$60 ÷ 420.
112.	a	$\frac{\$160,000 + \$80,000 + (240,000 - \$10,000)}{16,000} = \$470 \div 16$.
113.	b	\$15,000 ÷ (\$155,000 – \$30,000) = 12.0%.
114.	b	\$2,400,000 ÷ 160,000 = \$15.00.

*115. b $250,000 – (100,000 × $5 × .08 × 3) = $130,000.

*116. d 100,000 × $5 × .08 × 3 = $120,000 > $105,000.

*117. b

8% × $1,000,000 =	$80,000	(current year)
7%* × $1,000,000 =	70,000	(participating)
	$150,000	

*$500,000 × 8% × 3 =	$120,000	(preferred dividends)
$1,000,000 × 8% =	80,000	(common current dividends)
	$200,000	

$$\frac{\$305,000 - \$200,000}{\$1,000,000 + \$500,000} = 7\%.$$

*118. c

		Common Stock	
$1,000,000 × 6%	=	$ 60,000	(current year)
$1,000,000 × 10%*	=	100,000	(participating)
		$160,000	

*$270,000 – $60,000 – ($500,000 × 6% × 2) = $150,000

$$\frac{\$150,000}{\$1,500,000} = 10\%.$$

*119. b $300,000 – ($600,000 × 8% × 2) = $204,000.

DERIVATIONS — CPA Adapted

No.	Answer	Derivation
120.	d	Conceptual.
121.	b	($24 × 2,500) + ($18 × 5,000) = $150,000. $\frac{\$90,000}{\$150,000} \times \$140,000 = \$84,000.$
122.	c	20,000 × $2 = $40,000.
123.	b	(6,000 × $18) = $108,000; (6,000 × $7) = $42,000.
124.	c	Conceptual.
125.	d	$500,000 (fair value).

126. b Conceptual.

127. d Conceptual.

128. d Conceptual.

129. a $154,000 – $32,000 – (900 × $18) = $105,800.

*130. c ($300,000 × .08) + $12,000 = $36,000
$45,000 – $36,000 = $9,000.

EXERCISES

Ex. 15-131—Lump sum issuance of stock.

Parker Corporation has issued 2,000 shares of common stock and 400 shares of preferred stock for a lump sum of $76,000 cash.

Instructions

(a) Give the entry for the issuance assuming the par value of the common was $5 and the fair value $30, and the par value of the preferred was $40 and the fair value $50. (Each valuation is on a per share basis and there are ready markets for each stock.)

(b) Give the entry for the issuance assuming the same facts as (a) above except the preferred stock has no ready market and the common stock has a fair value of $26 per share.

Solution 15-131

(a) Cash	76,000	
Common Stock		10,000
Paid-in Capital in Excess of Par—Common		47,000
Preferred Stock		16,000
Paid-in Capital in Excess of Par—Preferred		3,000

(common $30 × 2,000	$60,000	
preferred $50 × 400	20,000	
	$80,000	fair value
60/80 × $76,000 =	$57,000	common
20/80 × $76,000 =	19,000	preferred
	$76,000)	

(b) Cash	76,000	
Common Stock		10,000
Paid-in Capital in Excess of Par—Common		42,000
Preferred Stock		16,000
Paid-in Capital in Excess of Par—Preferred		8,000

Ex. 15-132—Treasury stock.

For numerous reasons, a corporation may reacquire shares of its own capital stock. When a company purchases treasury stock, it usually accounts for the stock using the cost method.

Instructions

Explain how a company would account for each of the following:

1. Purchase of shares at a price less than par value.
2. Subsequent resale of treasury shares at a price less than purchase price, but more than par value.
3. Subsequent resale of treasury shares at a price greater than both purchase price and par value.
4. Effect on net income.

Solution 15-132

1. Treasury stock is debited for the purchase price of the shares even though the purchase price is less than par value.

2. Treasury stock is credited for the original cost (purchase price) of the shares, and the excess of the original cost (purchase price) over the sales price first is debited to paid-in capital from treasury stock from earlier sales of treasury stock and any remainder then is debited to retained earnings.

3. Treasury stock is credited for the original cost (purchase price) of the shares, and the excess of the sales price over the original cost (purchase price) is credited to paid-in capital from treasury stock.

4. There is no effect on net income as a result of treasury stock transactions.

Ex. 15-133—Treasury stock.

Agler Corporation's balance sheet reported the following:

Capital stock outstanding, 5,000 shares, par $30 per share	$150,000
Paid-in capital in excess of par	80,000
Retained earnings	100,000

The following transactions occurred this year:

(a) Purchased 160 shares of capital stock to be held as treasury stock, paying $60 per share.
(b) Sold 120 of the shares of treasury stock at $65 per share.
(c) Sold the remaining shares of treasury stock at $50 per share.

Instructions

Prepare the journal entry for these transactions under the cost method of accounting for treasury stock.

Solution 15-133

(a) Treasury Stock	9,600	
Cash		9,600
(b) Cash	7,800	
Treasury Stock		7,200
Paid-in Capital from Treasury Stock		600
(c) Cash	2,000	
Paid-in Capital from Treasury Stock	400	
Treasury Stock		2,400

Ex. 15-134—Treasury stock.

Ellison Company's balance sheet shows:

Common stock, $20 par	$3,000,000
Paid-in capital in excess of par	1,050,000
Retained earnings	750,000

Instructions
Record the following transactions by the cost method.
(a) Bought 6,000 shares of its common stock at $29 a share.
(b) Sold 3,000 treasury shares at $30 a share.
(c) Sold 1,500 shares of treasury stock at $26 a share.

Solution 15-134

(a) Treasury Stock	174,000	
Cash		174,000
(b) Cash	90,000	
Treasury Stock		87,000
Paid-in Capital from Treasury Stock		3,000
(c) Cash	39,000	
Paid-in Capital from Treasury Stock	3,000	
Retained Earnings	1,500	
Treasury Stock		43,500

Ex. 15-135—Treasury stock.

In 2012, Mordica Co. issued 300,000 of its 500,000 authorized shares of $10 par value common stock at $35 per share. In January, 2013, Mordica repurchased 20,000 shares at $30 per share. Assume these are the only stock transactions the company has ever had.

Instructions
(a) What are the two methods of accounting for treasury stock?
(b) Prepare the journal entry to record the purchase of treasury stock by the cost method.
(c) 7,000 shares of treasury stock are reissued at $33 per share. Prepare the journal entry to record the reissuance by the cost method.

Solution 15-135

(a) The two methods of accounting for treasury stock are the cost method and the par value method.

		Debit	Credit
(b)	Treasury Stock	600,000	
	Cash		600,000
(c)	Cash	231,000	
	Paid-in Capital from Treasury Stock		21,000
	Treasury Stock		210,000

Ex. 15-136—Stockholders' Equity.

Indicate the effect of each of the following transactions on *total* stockholders' equity by placing an "X" in the appropriate column.

	Increase	Decrease	No Effect
1. Treasury stock is resold at more than cost.	________	________	________
2. Operating loss for the period.	________	________	________
3. Retirement of bonds payable at more than book value.	________	________	________
4. Declaration of a stock dividend.	________	________	________
5. Acquisition of machinery for common stock.	________	________	________
6. Conversion of bonds payable into common stock.	________	________	________
7. Not declaring a dividend on cumulative preferred stock.	________	________	________
8. Declaration of cash dividend.	________	________	________
9. Payment of cash dividend.	________	________	________

Solution 15-136

	Increase	Decrease	No Effect
1. Treasury stock is resold at more than cost.	X		
2. Operating loss for the period.		X	
3. Retirement of bonds payable at more than book value.		X	
4. Declaration of a stock dividend.			X
5. Acquisition of machinery for common stock.	X		
6. Conversion of bonds payable into common stock.	X		
7. Not declaring a dividend on cumulative preferred stock.			X
8. Declaration of cash dividend.		X	
9. Payment of cash dividend.			X

Ex. 15-137—Stock dividends.

Describe the journal entry for a stock dividend on common stock (which has a par value).

Solution 15-137

A stock dividend results in the transfer from retained earnings to paid-in capital of an amount equal to the fair value of each share, if the dividend is less than 20-25%, or par value of each share, if the dividend is greater than 20-25%. Retained Earnings is debited for the total amount transferred, Common Stock Dividend Distributable is credited for the total par value of the shares, and, for a small stock dividend, the excess of fair value over par value is credited to Paid-in Capital in Excess of Par.

Ex. 15-138—Stock dividends and stock splits.

Indicate the principal effects of a stock dividend versus a stock split as they affect the issuing corporation. Respond in the spaces as follows: "C" for change; "NC" for no change.

	Stock Dividend	Stock Split
Number of Shares Outstanding	________	________
Par Value per Share	________	________
Total Par Outstanding	________	________
Retained Earnings	________	________
Total Stockholders' Equity	________	________
Composition of Stockholders' Equity	________	________

Solution 15-138

	Stock Dividend	Stock Split
Number of Shares Outstanding	C	C
Par Value per Share	NC	C
Total Par Outstanding	C	NC
Retained Earnings	C	NC
Total Stockholders' Equity	NC	NC
Composition of Stockholders' Equity	C	NC

Ex. 15-139—Computation of selected financial ratios.

The following information pertains to Parsons Co.:

Preferred stock, cumulative:	
Par per share	$100
Dividend rate	8%
Shares outstanding	10,000
Dividends in arrears	none
Common stock:	
Par per share	$10
Shares issued	120,000
Dividends paid per share	$2.70
Market price per share	$48.00
Additional paid-in capital	$400,000
Unappropriated retained earnings (after closing)	$270,000
Retained earnings appropriated for contingencies	$300,000
Common treasury stock:	
Number of shares	10,000
Total cost	$250,000
Net income	$740,000

Instructions

Compute (assume no changes in balances during the past year):

(a) Total amount of stockholders' equity in the balance sheet
(b) Earnings per share of common stock
(c) Book value per share of common stock
(d) Payout ratio of common stock
(e) Return on common stock equity

Solution 15-139

(a) (10,000 × $100) + (120,000 × $10) + $400,000 + $270,000 + $300,000 – $250,000 = $2,920,000.

(b) [$740,000 – (10,000 × $100 × 8%)] ÷ (120,000 – 10,000) = 660,000 ÷ 110,000 = $6.00 per share.

(c) ($2,920,000 – $1,000,000) ÷ (120,000 – 10,000) = $1,920,000 ÷ 110,000 = $17.45 per share.

(d) $2.70 ÷ $6 = 45% or [($2.70 × 110,000) ÷ ($740,000 – $80,000)].

(e) ($740,000 – $80,000) ÷ ($2,920,000 – $1,000,000) = 34.4%.

***Ex. 15-140**—Dividends on preferred stock.

The stockholders' equity section of Lemay Corporation shows the following on December 31, 2013:

Preferred stock—6%, $100 par, 5,000 shares outstanding	$ 500,000
Common stock—$10 par, 60,000 shares outstanding	600,000
Paid-in capital in excess of par	200,000
Retained earnings	118,000
Total stockholders' equity	$1,418,000

Instructions

Assuming that all of the company's retained earnings are to be paid out in dividends on 12/31/13 and that preferred dividends were last paid on 12/31/11, show how much the preferred and common stockholders should receive if the preferred stock is cumulative and fully participating.

***Solution 15-140**

	Preferred	Common	Total
Dividends in arrears (6% of $500,000)	$30,000	$ —	$ 30,000
Current year's dividends	30,000	36,000	66,000
Participating dividend (2%)			
[($22,000 ÷ $1,100,000) x $500,000]	10,000	12,000	22,000
	$70,000	$48,000	$118,000

***Ex. 15-141**—Dividends on preferred stock.

In each of the following independent cases, it is assumed that the corporation has $600,000 of 6% preferred stock and $2,400,000 of common stock outstanding, each having a par value of $10. No dividends have been declared for 2011 and 2012.

(a) As of 12/31/13, it is desired to distribute $250,000 in dividends. How much will the preferred stockholders receive if their stock is cumulative and nonparticipating?

(b) As of 12/31/13, it is desired to distribute $600,000 in dividends. How much will the preferred stockholders receive if their stock is cumulative and participating up to 11% in total?

(c) On 12/31/13, the preferred stockholders received a $180,000 dividend on their stock which is cumulative and fully participating. How much money was distributed in total for dividends during 2013?

***Solution 15-141**

(a) $108,000 ($600,000 x .06 x 3 yrs.).
(b) $138,000 ($600,000 x .06 x 3 yrs.) + [$600,000 x (.11 -.06)].
(c) $612,000 ($432,000* to common and $180,000 to preferred).

* ($2,400,000 x .06) + [($180,000 - $108,000) ÷ $600,000) x $2,400,000].

PROBLEMS

Pr. 15-142—Equity transactions.

Presented below is information related to Wyrick Company:

1. The company is granted a charter that authorizes issuance of 15,000 shares of $100 par value preferred stock and 40,000 shares of no-par common stock.
2. 8,000 shares of common stock are issued to the founders of the corporation for land valued by the board of directors at $300,000. The board establishes a stated value of $10 a share for the common stock.
3. 5,000 shares of preferred stock are sold for cash at $110 per share.
4. The company issues 100 shares of common stock to its attorneys for costs associated with starting the company. At that time, the common stock was selling at $60 per share.

Instructions
Prepare the general journal entries necessary to record these transactions.

Solution 15-142

1. No entry necessary.

2. Land	300,000	
Common Stock		80,000
Paid-in Capital in Excess of Stated Value		220,000
3. Cash	550,000	
Preferred Stock		500,000
Paid-in Capital in Excess of Par—Preferred Stock		50,000
4. Organization Expense	6,000	
Common Stock		1,000
Paid-in Capital in Excess of Stated Value		5,000

Pr. 15-143—Treasury stock transactions.
The original sale of the $50 par value common shares of Gray Company was recorded as follows:

Cash	290,000	
Common Stock		250,000
Paid-in Capital in Excess of Par		40,000

Instructions
Record the treasury stock transactions (given below) under the cost method:

Transactions:
(a) Bought 350 shares of common stock as treasury shares at $62.
(b) Sold 100 shares of treasury stock at $60.
(c) Sold 50 treasury shares at $68.

Solution 15-143

(a) Treasury Stock	21,700	
Cash		21,700
(b) Cash	6,000	
Retained Earnings	200	
Treasury Stock		6,200
(c) Cash	3,400	
Paid-in Capital from Treasury Stock		300
Treasury Stock		3,100

Pr. 15-144—Stock dividends.

The stockholders' equity section of Benton Corporation's balance sheet as of December 31, 2012 is as follows:

Stockholders' Equity	
Common stock, $5 par value; authorized, 2,000,000 shares; issued, 400,000 shares	$2,000,000
Paid-in capital in excess of par	850,000
Retained earnings	3,000,000
	$5,850,000

The following events occurred during 2013:

1. Jan. 5 — 20,000 shares of authorized and unissued common stock were sold for $8 per share.

2. Jan. 16 — Declared a cash dividend of 20 cents per share, payable February 15 to stockholders of record on February 5.

3. Feb. 10 — 30,000 shares of authorized and unissued common stock were sold for $12 per share.

4. March 1 — A 30% stock dividend was declared and issued. Fair value per share is currently $15.

5. April 1 — A two-for-one split was carried out. The par value of the stock was to be reduced to $2.50 per share. Fair value on March 31 was $18 per share.

6. July 1 — A 15% stock dividend was declared and issued. Fair value is currently $10 per share.

7. Aug. 1 — A cash dividend of 20 cents per share was declared, payable September 1 to stockholders of record on August 21.

Instructions

Enter the above events into the following work sheet showing how each event affects the column. Event No. 1 will serve as an example.

	Common Stock			
Item	No. of Shares Issued	Total Par Value	Paid-in Capital In Excess of Par	Retained Earnings
Beginning Balance—1/1/13	400,000	$2,000,000	$850,000	$3,000,000
Event #1—Jan. 5	20,000	100,000	60,000	-0-
Balance	420,000	$2,100,000	$910,000	$3,000,000

Event # 2—Jan. 16 (and events 3 through 7)

Solution 15-144

Event #2—Jan. 16	-0-	-0-	-0-	(84,000)
Balance	420,000	$2,100,000	$910,000	$2,916,000
#3—Feb. 10	30,000	150,000	210,000	-0-
Balance	450,000	$2,250,000	$1,120,000	$2,916,000
#4—March 1	135,000	675,000	-0-	(675,000)
Balance	585,000	$2,925,000	$1,120,000	$2,241,000
#5—April 1	585,000	-0-	-0-	-0-
Balance	1,170,000	$2,925,000	$1,120,000	$2,241,000
#6—July 1	175,500	438,750	1,316,250	(1,755,000)
Balance	1,345,500	$3,363,750	$2,436,250	$486,000
#7—Aug. 1	-0-	-0-	-0-	(269,100)
Balance	1,345,500	$3,363,750	$2,436,250	$216,900

Pr. 15-145—Equity transactions.

Foley Corporation has the following capital structure at the beginning of the year:

5% Preferred stock, $50 par value, 20,000 shares authorized, 6,000 shares issued and outstanding	$ 300,000
Common stock, $10 par value, 60,000 shares authorized, 40,000 shares issued and outstanding	400,000
Paid-in capital in excess of par	110,000
Total paid-in capital	810,000
Retained earnings	440,000
Total stockholders' equity	$1,250,000

Instructions

(a) Record the following transactions which occurred consecutively (show all calculations).

1. A total cash dividend of $90,000 was declared and payable to stockholders of record. Record dividends payable on common and preferred stock in separate accounts.
2. A 15% common stock dividend was declared. The average fair value of the common stock is $18 a share.
3. Assume that net income for the year was $120,000 (record the closing entry) and the board of directors appropriated $70,000 of retained earnings for plant expansion.

(b) Construct the stockholders' equity section incorporating all the above information.

Solution 15-145

(a) 1.

Retained Earnings	90,000	
Dividends Payable—Preferred ($300,000 × .05)		15,000
Dividends Payable—Common		75,000

2.

40,000	shares
15%	
6,000	shares as stock dividend
$18	
$108,000	total dividend

Retained Earnings	108,000	
Common Stock Dividend Distributable		60,000
Paid-in Capital in Excess of Par		48,000

3.

Income Summary	120,000	
Retained Earnings		120,000
Retained Earnings	70,000	
Retained Earnings Appropriated for Plant Expansion		70,000

(b) Stockholders' equity

5% Preferred stock, $50 par value, 20,000 shares authorized, 6,000 shares issued and outstanding		$ 300,000
Common stock, $10 par value, 60,000 shares authorized, 40,000 shares issued and outstanding		400,000
Common stock dividend distributable		60,000
Paid-in capital in excess of par		158,000
Total paid-in capital		918,000
Retained earnings—unappropriated*	$292,000	
Appropriated for plant expansion	70,000	
Total retained earnings		362,000
Total stockholders' equity		$1,280,000

*$440,000 – $90,000 – $108,000 + $120,000 – $70,000 = $292,000

***Pr. 15-146**—Dividends on preferred and common stock.

Rensing, Inc., has $800,000 of 6% preferred stock and $1,200,000 of common stock outstanding, each having a par value of $10 per share. No dividends have been paid or declared during 2011 and 2012. As of December 31, 2013, it is desired to distribute $396,000 in dividends.

Instructions

How much will the preferred and common stockholders receive under each of the following assumptions:

(a) The preferred is noncumulative and nonparticipating.

(b) The preferred is cumulative and nonparticipating.

(c) The preferred is cumulative and fully participating.

(d) The preferred is cumulative and participating to 10% total.

***Solution 15-146**

(a)

	Preferred	Common	Total
Current year's dividend (6% of $800,000)	$ 48,000	$ —	$ 48,000
Remainder to common		348,000	348,000
	$ 48,000	$348,000	$396,000

(b)

	Preferred	Common	Total
Dividends in arrears, 6% of $800,000 for two years	$96,000	$ —	$96,000
Current year's dividend	48,000	—	48,000
Remainder to common		252,000	252,000
	$144,000	$252,000	$396,000

(c)

	Preferred	Common	Total
Dividends in arrears, 6% of $800,000 for two years	$96,000	$ —	$96,000
Current year's dividend	48,000	72,000	120,000
Participating dividend 9% ($180,000 ÷ $2,000,000)	72,000	108,000	180,000
	$216,000	$180,000	$396,000

(d)

	Preferred	Common	Total
Dividends in arrears, 6% of $800,000 for two years	$96,000	$ —	$96,000
Current year's dividend	48,000	72,000	120,000
Participating dividend (4%)	32,000	48,000	80,000
Remainder to common	—	100,000	100,000
	$176,000	$220,000	$396,000

IFRS QUESTIONS

True/False

1. In the United States, like many other countries, banks are major creditors as well as the largest investors.

2. The IFRS statement of recognized income and expenses is identical to the U.S. GAAP statement of retained earnings – beginning balance retained earnings, plus net income, less dividends, equals ending balance retained earnings.

3. When the statement of recognized income and expenses is utilized the requirement for additional note disclosure is reduced.

4. Under IFRS compliance requirements the U.S. GAAP formatted income statement need not be replaced with the IFRS statement of recognized income and expenses.

5. Under IFRS compliance requirements the revaluation surplus is not considered contributed capital.

Answers to True/False:
1. False
2. False
3. False
4. True
5. True

Multiple Choice

1. The accounting for treasury share retirements under IFRS
   a. is to charge the entire amount to share premium.
   b. may have the excess charged to share premium, depending on the original transaction related to the issuance of the shares.
   c. is to charge the excess of the cost of treasury shares over par value to retained earnings.
   d. is to allocate the difference between share premium and retained earnings.

2. The Revaluation Surplus of IFRS is
   a. similar to U.S. GAAP in that it allows both increases and decreases in valuation.
   b. similar to U.S. GAAP in that it only allows for the decrease in valuation.
   c. similar to U.S. GAAP in that it only allows for the increase in valuation.
   d. different than U.S. GAAP in that it allows the increase in valuation.

3. The IFRS statement of recognized income and expenses
   a. does not recognize charges to equity such as revaluation surplus values.
   b. is a required report under IFRS reporting requirements.
   c. reports the items that were charged directly to equity such as revaluation surplus.
   d. is similar to the U.S. GAAP income statement in that it only reports revenues and expenses of the period.

4. Under IFRS compliance requirements the Revaluation Surplus is
   a. only utilized to record the changes in depreciable items – plant and equipment.
   b. considered as revenue when utilizing the U.S. GAAP formatted income statement.
   c. utilized to record the changes in property, plant, and equipment.
   d. reported as contributed capital.

5. The current project of the IASB and the FASB related to financial statement presentation indicates
   a. that the IFRS statement of recognized income and expenses will most likely be adopted by the FASB as a U.S. requirement in the near future.
   b. that the IFRS statement of recognized income and expenses will probably be eliminated.
   c. that the U.S. GAAP standard for reporting comprehensive income will most likely be adopted by the IASB for IFRS.
   d. that hybrid financial instruments are unacceptable.

Answers to Multiple Choice:

1. b
2. d
3. c
4. c
5. b

Short Answer

1. Briefly describe some of the similarities and differences between U.S. GAAP and IFRS with respect to the accounting for stockholders' equity.

   1**.** **<u>Key similarities</u>** between IFRS and U.S. GAAP for transactions related to stockholders' equity pertain to (1) issuance of shares, (2) purchase of treasury stock, (3) declaration and payment of dividends, (4) the accounting for start up costs—that is, they should be expensed as incurred, (5) the costs associated with issuing stock reduce the proceeds from the issuance and reduce paid in capital, and (6) the accounting for par, no par and no par stock with a stated value.

   <u>Major differences</u> relate to terminology used, introduction of items such as revaluation surplus, and presentation of stockholder equity information. In addition, the accounting for treasury stock retirements differs between IFRS and U.S. GAAP. Under U.S. GAAP a company has the option of charging the excess of the cost of treasury stock over par value to (1) retained earnings, (2) allocate the difference between paid-in capital and retained earnings, or (3) charge the entire amount to paid-in capital. Under IFRS, the excess may have to be charged to paid-in capital, depending on the original transaction related to the issuance of the stock. An IFRS/U.S. GAAP difference relates to the account Revaluation Surplus. Revaluation surplus arises under IFRS because companies are permitted to revalue their property, plant and equipment to fair value under certain circumstances. This account is part of general reserves under IFRS and is not considered contributed capital. While both IFRS and U.S. GAAP consider the statement of stockholders' equity a primary financial statement, under IFRS, a company has the option of preparing a statement of stockholders' equity similar to U.S. GAAP or preparing a statement of recognized income and expense (SoRIE).

The statement of SoRIE reports the items that were charged directly to equity such as revaluation surplus and then adds the net income for the period to arrive at total recognized income and expense. In this situation, additional note disclosure is required to provide reconciliations of other equity items.

2. Briefly discuss the implications of the financial statement presentation project for the reporting of stockholders' equity.

2. It is likely that the statement of stockholders' equity and its presentation will be examined closely in the financial statement presentation project. The statement of recognized income and expense now permitted under IFRS will probably be eliminated. In addition the options of how to present other comprehensive income under U.S. GAAP will change in any converged standard in this area. Also, the FASB has been working on a standard that will likely converge to IFRS in the area of hybrid financial instruments.