Chapter 11
Corporate Reporting and Analysis

True / False Questions

1. A corporation is a separate legal entity from its owners.
True False

2. Authorized stock is the total number of shares outstanding.
True False

3. Minimum legal capital requirements often prohibit dividends when the dividends reduce stockholders' equity below the minimum specified amount.
True False

4. A corporation can issue both common and preferred stock.
True False

5. Common stock always carries a preference for receiving dividends over preferred stock.
True False

6. Changes in accounting estimates are accounted for in current and future periods.
True False

7. Earnings per share is the amount of income earned per share of a company's outstanding (weighted-average) common stock.
True False

8. A stock option is also called a stock dividend.
True False

9. Earnings per share is calculated by dividing the total number of common shares outstanding by net income.
True False

10. The price-earnings ratio reveals information about the stock market's expectations for a company's future growth in earnings, dividends and economic opportunities.
True False

11. Dividend yield is defined as the market price per share of a company's stock divided by its earnings per share.
True False

12. A discount on stock occurs when a corporation sells its stock for a price greater than par value.
True False

13. A debit balance in retained earnings is often referred to as a retained earnings deficit.
True False

14. When a company declares of cash dividends retained earnings is reduced.
True False

Multiple Choice Questions

15. The costs of bringing a corporation into existence, including legal fees, promoter fees and amounts paid to obtain a charter are called:
A. Minimum legal capital
B. Stock subscriptions
C. Organization costs
D. Cumulative costs
E. Prepaid fees

16. The right of common shareholders to protect their proportionate interest in a corporation by having the first opportunity to buy additional proportionate shares of common stock issued by the corporation is called a:
A. Preemptive right
B. Proxy right
C. Right to call
D. Financial leverage
E. Voting right

17. A proxy is:
A. A legal document that gives a designated agent of a stockholder the power to vote the stock
B. A contractual commitment by an investor to purchase unissued shares of stock
C. An amount of assets defined by state law that stockholders must invest and leave invested in a corporation
D. The right of common stockholders to protect their proportionate interests in a corporation by having the first opportunity to purchase additional shares of common stock issued by the corporation
E. An arbitrary amount assigned to no-par stock by the corporation's board of directors

18. The board of directors of a corporation:
A. Are elected by the corporate registrar
B. Are responsible for day-to-day operations of the business
C. Do not have the power to bind the corporation to contracts, due to lack of mutual agency
D. May not also be executive officers of the corporation, due to the separate entity principle
E. Are responsible for and have final authority for managing corporate activities

19. The total amount of stock that a corporation's charter allows it to issue is referred to as:
A. Issued stock
B. Outstanding stock
C. Common stock
D. Preferred stock
E. Authorized Stock

20. Par value of a stock refers to the:
A. Issue price of the stock
B. Value assigned to a share of stock by the corporate charter
C. Market value of the stock on the date of the financial statements
D. Maximum selling price of the stock
E. Dividend value of the stock

21. When all of the authorized shares have the same rights and characteristics, the stock is called:
A. Preferred stock
B. Common stock
C. Par value stock
D. Stated value stock
E. No-par value stock

22. An amount of assets defined by state law that stockholders must invest and leave invested in a corporation is called the:
A. Par value of preferred
B. Minimum legal capital
C. Premium capital
D. Stated value
E. Working capital

23. The total amount of cash and other assets received by a corporation from its stockholders in exchange for common stock is:
A. Always equal to its par value
B. Always equal to its stated value
C. Referred to as contributed capital
D. Referred to as retained earnings
E. Always below its stated value

24. Stated value of no-par stock is:
A. Another name for redemption value
B. An amount assigned to par value stock by the state of incorporation
C. The market value of the stock on the date of issuance
D. The difference between the par value of stock and the amount below or above par value contributed by the stockholder
E. An amount assigned to no-par stock by the corporation's board of directors

25. Stockholders' equity consists of:
A. Long-term assets
B. Contributed capital and retained earnings
C. Contributed capital and par value
D. Retained earnings and cash
E. Premiums and discounts

26. A class of stock that does not have a par value and can usually be issued at any price without creating a minimum legal capital deficiency is called:
A. Convertible stock
B. No-par stock
C. Callable stock
D. Noncumulative stock
E. Discounted stock

27. A corporation's minimum legal capital is often defined to be the total par value of the shares:
A. Issued
B. Authorized
C. Subscribed
D. Outstanding
E. In treasury

28. Owners of preferred stock often do not have:
A. Ownership rights to assets of the corporation
B. Voting rights
C. Preference to dividends
D. The right to sell their stock on the open market
E. Preference to assets at liquidation

29. Preferred stock on which the right to receive dividends is forfeited for any year that the dividends are not declared is referred to as:
A. Participating preferred stock
B. Callable preferred stock
C. Cumulative preferred stock
D. Convertible preferred stock
E. Noncumulative preferred stock

30. A dividend preference for preferred stock means that:
A. Preferred stockholders receive their dividends before common shareholders
B. Preferred shareholders are guaranteed dividends
C. Dividends are paid quarterly
D. Preferred stockholders prefer dividends more than common stockholders
E. Dividends must be declared on preferred stock

31. A company issued 7% preferred stock with a $100 par value. This means that:
A. Preferred shareholders have a guaranteed dividend
B. The amount of the potential dividend is $7 per year per preferred share
C. Preferred shareholders are entitled to 7% of the annual income
D. The market price per share will approximate $100 per share
E. Only 7% of the total contributed capital can be preferred stock

32. Prior period adjustments to financial statements can result from:
A. Changes in estimates
B. Using unacceptable accounting principles
C. Discontinued operations
D. Changes in tax law
E. Extraordinary items

33. Prior period adjustments are reported in the:
A. Income statement
B. Balance sheet
C. Statement of retained earnings
D. Statement of cash flows
E. Notes to the financial statements

34. Changes in accounting estimates are:
A. Considered accounting errors
B. Reported as prior period adjustments
C. Accounted for with a cumulative "catch-up" adjustment
D. Extraordinary items
E. Accounted for in current and future periods

35. A company had a beginning balance in retained earnings of $43,000. It had net income of $6,000 and paid out cash dividends of $5,625 in the current period. The ending balance in retained earnings account is equal to:
A. $108,625
B. $(12,625)
C. $11,375
D. $43,375
E. $(11,375)

36. The statement of changes in stockholders' equity:
A. Is part of the statement of retained earnings
B. Shows only the ending balances in stockholders' equity
C. Describes changes in contributed capital and retained earnings subcategories
D. Does not include changes in treasury stock
E. Is reported by very few companies

37. When all of the authorized shares have the same rights and characteristics, the stock is referred to as:
A. "Preferred Shares" under both IFRS and GAAP
B. "Common Shares" under both IFRS and GAAP
C. "Plain Shares" under IFRS and "Common Shares" under GAAP
D. "Simple Shares" under IFRS and "Pure Shares" under GAAP
E. "Ordinary Shares" under IFRS and "Common Shares" under GAAP

38. A company has 2,000 shares of $1 par value common stock and 200 shares of 5%, $110 par, non-cumulative preferred stock outstanding. The balance in Retained Earnings at the *beginning* of the year was $500,000. Net income for the current year was $300,000. If the company paid a dividend of $2 per share on its common stock, what is the balance in Retained Earnings at the *end* of the year?
A. $800,000
B. $805,100
C. $794,900
D. $494,900
E. $194,900

39. A company has 3,000 shares of $2 par value common stock and 1,500 shares of 8%, $150 par, non-cumulative preferred stock outstanding. The balance in Retained Earnings at the *beginning* of the year was $400,000. The Net Loss for the current year was $30,000. If the company paid a dividend of $1 per share on its common stock, what is the balance in Retained Earnings at the *end* of the year?
A. $349,000
B. $365,800
C. $451,000
D. $400,000
E. $409,000

40. A company has 5,000 shares of $1 par value common stock and 6,000 shares of 2%, $98 par, non-cumulative preferred stock outstanding. The balance in Retained Earnings at the *beginning* of the year was $750,000. Net income for the current year was $400,000. If the company paid a dividend of $3 per share on its common stock, what is the balance in Retained Earnings at the *end* of the year?
A. $1,123,240
B. $1,135,000
C. $1,150,000
D. $735,000
E. $723,240

41. The amount of income earned per share of a company's common stock is known as:
A. Restricted retained earnings per share
B. Earnings per share
C. Continuing operations per share
D. Dividends per share
E. Book value per share

42. Shamrock Company had net income of $30,000. On January 1, there were 8.000 shares of common stock outstanding. On April 1, the company issued an additional 2,000 shares of common stock. There were no other stock transactions. The company has an earnings per share of:
A. $3.75
B. $3.00
C. $3.33
D. $15.00
E. $3.16

43. Shamrock Company had net income of $30,000. On January 1, there were 8,000 share of common stock outstanding. On April 1, the company issued an additional 2,000 shares of common stock. The company declared a $2,700 dividend on its noncumulative, nonparticipating preferred stock. There were no other stock transactions. The company has an earnings per share of:
A. $2.87
B. $2.73
C. $3.41
D. $3.16
E. $3.75

44. A company had net income of $250,000. On January 1, there were 12,000 shares of common stock outstanding. On May 1, the company issued an additional 9,000 shares of common stock. The company declared a $7,900 dividend on its noncumulative, nonparticipating preferred stock. There were no other stock transactions. The company had an earnings per share of:
A. $13.45
B. $13.89
C. $11.53
D. $26.90
E. Amount cannot be determined as problem does not state if there are any dividends in arrears

45. The price-earnings ratio is calculated by dividing:
A. Market value per share by earnings per share
B. Earnings per share by market value per share
C. Dividends per share by earnings per share
D. Dividends per share by market value per share
E. Market value per share by dividends per share

46. A company has a market value per share of $73.00. Its net income is $1,750,000 and the weighted-average number of shares outstanding is 350,000. The company's price-earnings ratio is equal to:
A. 20.9
B. 4.2
C. 14.6
D. 20.0
E. 6.8

47. A company has net income of $850,000. It also has 125,000 weighted-average common shares outstanding and a market value per share of $115. The company's price-earnings ratio is equal to:
A. 16.9
B. 14.7
C. 92.0
D. 13.5
E. 8.0

48. A company has net income of $2,800,000. It also has 400,000 weighted-average common shares outstanding and a price-earnings ratio of 20. What is the market value per share of this company's stock?
A. $2.85
B. $140
C. $20,000
D. $.35
E. $2,857.14

49. A company has net income of $3,000,000. It has 600,000 weighted-average common shares outstanding and a price-earnings ratio of 17. What is the market value per share of this company's stock?
A. $5
B. $85
C. $176,470.58
D. $84.90
E. $17

50. Dividend yield is the percent of cash dividends paid to common shareholders relative to the:
A. Common stock's market value
B. Earnings per share
C. Investors' purchase price of the stock
D. Amount of retained earnings
E. Amount of cash

51. The annual amount of cash dividends distributed to common shareholders relative to the common stock's market value is the:
A. Dividend payout ratio
B. Dividend yield
C. Price-earnings ratio
D. Current yield
E. Earnings per share

52. Stocks that pay relatively large cash dividends on a regular basis are referred to as:
A. Small capital stocks
B. Mid capital stocks
C. Growth stocks
D. Large capital stocks
E. Income stocks

53. The dividend yield is computed by dividing:
A. Cash dividends per share by earnings per share
B. Earnings per share by cash dividends per share
C. Cash dividends per share by the market price per share
D. Market price per share by cash dividends per share
E. Cash dividends per share by retained earnings

54. A company paid $0.48 in cash dividends per share. It has an earnings per share of $4.20 and a market price per share of $30.00. Its dividend yield equals:
A. 1.60%
B. 6.25%
C. 8.75%
D. 11.40%
E. 14.00%

55. A company paid $0.75 in cash dividends per share. It has an earnings per share of $3.50 and a market price per share of $37.50. Its dividend yield equals:
A. 11.7%
B. 2.0%
C. 10.9%
D. 21.4%
E. 46.7%

56. Book value per share:
A. Reflects the value per share if a company is liquidated at balance sheet amounts
B. Is assets divided by equity
C. Is assets divided by the number of common share outstanding
D. Measures the worth of assets
E. Is equal to par value per share

57. Book value per common share is computed by:
A. Multiplying the number of common shares outstanding times the market price per common share
B. Dividing total assets by the number of shares outstanding
C. Dividing stockholders' equity applicable to common shares by the number of common shares outstanding
D. Multiplying the number of common shares outstanding by par value per share
E. Dividing the number of common shares outstanding by stockholders' equity applicable to common shares

58. A company has 40,000 shares of common stock outstanding. The stockholders' equity applicable to common shares is $470,000 and the par value per common share is $10. The book value per share is:
A. $0.09
B. $1.75
C. $10.00
D. $11.75
E. $47.50

59. A company has 1,000 shares of $100 par preferred stock. It also has 25,000 shares of common stock outstanding and its total stockholders' equity equals $500,000. The book value per common share is:
A. $15.38
B. $16.00
C. $19.23
D. $20.00
E. $100.00

60. A company has 500 shares of $50 par value preferred stock outstanding and the call price of its preferred stock is $60 per share. It also has 20,000 shares of common stock outstanding and the total value of its stockholders' equity is $680,000. The company's book value per common share equals:
A. $31.71
B. $32.50
C. $32.75
D. $33.17
E. $60.00

61. The Discount on Common Stock account reflects:
A. The difference between the par value of stock and its issue price when the issue price is below par value.
B. One share's portion of the issued corporation's net assets recorded in its accounts
C. The difference between the par value of the stock and the amount contributed by stockholders when the amount contributed is more than par value
D. An amount of assets defined by state law that stockholders must invest and leave invested in a corporation
E. The amount a corporation must pay in addition to dividends in arrears if and when it exercises its right to retire a share of callable preferred stock

62. A corporation was formed on January 1. The corporate charter authorized 100,000 shares of $10 par value common stock. During the first month of operation, the corporation issued 300 shares to its attorneys in payment of a $5,000 charge for drawing up the articles of incorporation. The entry to record this transaction would include:
A. A debit to Organization Expenses for $3,000
B. A debit to Organization Expenses for $5,000
C. A credit to Common Stock for $5,000
D. A credit to Contributed Capital in Excess of Par Value, Common Stock for $5,000
E. A debit to Contributed Capital in Excess of Par Value, Common Stock for $2,000

63. A corporation sold 14,000 shares of its $10 par value common stock at a cash price of $13 per share. The entry to record this transaction would include:
A. A debit to Contributed Capital in Excess of Par Value, Common Stock for $42,000
B. A debit to Cash for $140,000
C. A credit to Common Stock for $182,000
D. A credit to Common Stock for $140,000
E. A credit to Contributed Capital in Excess of Par Value, Common Stock for $182,000

64. A corporation issued 6,000 shares of its $10 par value common stock in exchange for land that has a market value of $84,000. The entry to record this transaction would include:
A. A debit to Common Stock for $60,000
B. A debit to Land for $60,000
C. A credit to Land for $60,000
D. A credit to Contributed Capital in Excess of Par Value, Common Stock for $24,000
E. A credit to Common Stock for $84,000

65. A corporation issued 300 shares of its $5 par value common stock in payment of a $1,800 charge from its accountant for assistance in filing its charter with the state. The entry to record this transaction will include:
A. A $1,800 credit to Common Stock
B. A $1,500 debit to Organization Expenses
C. A $300 credit to Contributed Capital in Excess of Par Value, Common Stock
D. A $1,800 debit to Legal Expenses
E. A $1,800 credit to Cash

66. A company issued 60 shares of $100 par value stock for $7,000 cash. The total amount of contributed capital is:
A. $100
B. $600
C. $1,000
D. $6,000
E. $7,000

67. A company issued 60 shares of $100 par value stock for $7,000 cash. The total amount of contributed capital in excess of par is:
A. $100
B. $600
C. $1,000
D. $6,000
E. $7,000

68. A corporation issued 5,000 shares of $10 par value common stock in exchange for some land with a market value of $60,000. The entry to record this exchange is:

A.

Land	60,000	
Common Stock		50,000
Contributed Capital in Excess of Par Value, Common Stock		10,000

B.

Land	60,000	
Common Stock		60,000

C.

Land	50,000	
Common Stock		50,000

D.

Common Stock	50,000	
Contributed Capital in Excess of Par Value, Common Stock	10,000	
Land		60,000

E.

Common Stock	60,000	
Land		60,000

69. A premium on common stock:
A. Is the amount paid in excess of par by purchasers of newly issued stock
B. Is the difference between par value and issue price when the amount paid is below par
C. Represents profit from issuing stock
D. Represents capital gain on sale of stock
E. Is prohibited in most states

70. The date the board of directors votes to pay a dividend is called the:
A. Date of stockholders' meeting
B. Date of declaration
C. Date of record
D. Date of payment
E. Liquidating date

71. A liquidating dividend is:
A. Only declared when a corporation closes down
B. A return of a part of the original investment back to the stockholders
C. Not allowed under federal law
D. Only paid in assets other than cash
E. Only paid in shares of stock

72. A company's board of directors' votes to declare a cash dividend of $0.75 per share. The company has 15,000 shares authorized, 10,000 issued and 9,500 shares outstanding. The total amount of the cash dividend is:
A. $375
B. $4,125
C. $7,125
D. $7,500
E. $11,250

73. A company declared a $0.50 per share cash dividend. The company has 20,000 shares authorized, 9,000 shares issued and 8,000 shares of common stock outstanding. The journal entry to record the dividend declaration is:

A.

Retained Earnings	4,000	
Common Dividends Payable		4,000

B.

Common Dividends Payable	4,000	
Cash		4,000

C.

Retained Earnings	4,500	
Common Dividends Payable		4,500

D.

Common Dividends Payable	4,500	
Cash		4,500

E.

Retained Earnings	5,000	
Common Dividends Payable		5,000

74. Assume Garrison Guitar Company declared a $0.28 per share cash dividend and that the company has 25,000 shares authorized, 19,000 shares issued and 12,000 shares of common stock outstanding. The general journal entry to record the dividend declaration is:

A.

Retained Earnings	3,360	
Common Dividends Payable		3,360

B.

Common Dividends Payable	5,320	
Cash		5,320

C.

Retained Earnings	5,320	
Common Dividends Payable		5,320

D.

Common Dividends Payable	7,000	
Cash		7,000

E.

Retained Earnings	7,000	
Common Dividends Payable		7,000

75. A corporation's distribution of additional shares of its own stock to its stockholders without the receipt of any payment in return is called a:

A. Stock dividend
B. Stock subscription
C. Premium on stock
D. Discount on stock
E. Treasury stock

76. A stock dividend transfers:
A. Contributed capital to retained earnings
B. Retained earnings to contributed capital
C. Retained earnings to assets
D. Contributed capital to assets
E. Assets to contributed capital

77. On September 1, a corporation had 50,000 shares of $5 par value common stock and $1,000,000 of retained earnings. On that date, when the market price of the stock is $15 per share, the corporation issues a 2-for-1 stock split. The general journal entry to record this transaction is:

A.

Retained earnings	750,000	
Common Stock Split Distributable		750,000

B.

Retained earnings	750,000	
Common Stock		750,000

C.

Retained Earnings	250,000	
Common Stock		250,000

D.

Retained earnings	250,000	
Stock split payable		250,000

E. No entry is made for this transaction

78. A corporation declared and issued a 15% stock dividend on November 1. The following up-to-date information was available immediately prior to the dividend:

Retained earnings	$750,000
Shares issued and outstanding	60,000
Market value per share	$15
Par value per share	$5

The amount that total stockholders' equity will increase (decrease) as a result of recording this stock dividend is:
A. $45,000
B. $135,000
C. $(90,000)
D. $(135,000)
E. $0

79. A corporation had 50,000 shares of $20 par value common stock outstanding on July 1. Later that day the board of directors declared a 10% stock dividend when the market value of each share was $27. The entry to record this dividend is:

A.

Retained Earnings	135,000	
Common Stock Dividend Distributable		135,000

B.

Retained Earnings	135,000	
Cash		135,000

C.

Retained Earnings	135,000	
Common Stock Dividend Distributable		100,000
Contributed Capital in Excess of		
Par Value, Common Stock		35,000

D.

Retained Earnings	100,000	
Common Stock Dividend Distributable		100,000

E. No entry is made until the stock is issued

80. A corporation had 20,000 shares of $10 par value common stock outstanding on Jan 10. Later that day the board of directors declared a 30% stock dividend when the market value of each share was $40. The entry to record this dividend is:

A.

Retained Earnings	60,000	
Common Stock Dividend Distributable		60,000

B.

Retained Earnings	60,000	
Cash..		60,000

C.

Retained Earnings	240,000	
Common Stock Dividend Distributable		60,000
Contributed Capital in Excess of		
Par Value, Common Stock...........................		180,000

D.

Retained Earnings	240,000	
Common Stock Dividend Distributable		240,000

E. No entry is made until the stock is issued

81. A corporation had 40,000 shares of $10 par value common stock outstanding on August 1. Later that day, the board of directors declared a 9% stock dividend when the market value of each share was $72. The entry to record this dividend is:

A.

Retained Earnings	259,200	
Common Stock Dividend Distributable		259,200

B.

Retained Earnings	259,200	
Common Stock Dividend Distributable		259,200

C.

Retained Earnings	259,200	
Common Stock Dividend Distributable		36,000
Contributed Capital in Excess of		
Par Value, Common Stock..........................		223,200

D.

Retained Earnings	36,000	
Common Stock Dividend Distributable		36,000

E. No entry is made until the stock is issued

82. Preferred stock on which the right to receive dividends is forfeited for any year that the dividends are not declared is called:
A. Noncumulative preferred stock
B. Participating preferred stock
C. Callable preferred stock
D. Cumulative preferred stock
E. Convertible preferred stock

83. Preferred stock that the issuing corporation at its option may retire by paying a specified amount to the preferred stockholders plus any dividends in arrears is called:
A. Convertible preferred stock
B. Callable preferred stock
C. Premium stock
D. Cumulative preferred stock
E. Participating preferred stock

84. Achieving an increased return on common stock by paying dividends on preferred stock at a rate that is less than the rate of return earned with the assets invested from the preferred stock issuance is called:
A. Financial leverage
B. Discount on stock
C. Premium on stock
D. Preemptive right
E. Capital gain

85. Preferred stock with a feature allowing preferred stockholders to share with common shareholders in any dividends in excess of the percent or dollar amount stated on the preferred stock is called:
A. Cumulative preferred stock
B. Callable preferred stock
C. Participating preferred stock
D. Convertible preferred stock
E. Preferential preferred stock

86. Xtreme Sports has $100,000 of 8% noncumulative, nonparticipating, preferred stock outstanding. Xtreme Sports also has $500,000 of common stock outstanding. In the company's first year of operation, no dividends were paid. During the second year, Xtreme Sports paid cash dividends of $30,000. This dividend should be distributed as follows:
A. $8,000 preferred; $22,000 common
B. $16,000 preferred; $14,000 common
C. $7,500 preferred; $22,500 common
D. $15,000 preferred; $15,000 common
E. $0 preferred; $30,000 common

87. A company has 1,000 shares of $50 par value, 4.5% cumulative and nonparticipating preferred stock and 10,000 shares of $10 par value common stock outstanding. The company paid total cash dividends of $1,000 in its first year of operation. The cash dividend that must be paid to preferred stockholders in the second year before any dividend is paid to common stockholders is:
A. $1,000
B. $1,250
C. $2,250
D. $3,500
E. $4,500

88. A company's board of directors' votes to declare a total cash dividend of $25,000. The company has 2,500 shares of $1 par common stock and 400 shares of 4%, $200 par preferred stock outstanding. What is the total amount that will be paid to preferred shareholders?
A. $1,000
B. $22,500
C. $400
D. $3,200
E. $25,000

89. A company has 200,000 shares of $1 par value common stock and 20,000 shares of 7%, $100 par, cumulative preferred stock outstanding. The balance in Retained Earnings account at the *beginning* of the year was $1,500,000 and one year's dividends were in arrears. Net income for the current year was $2,000,000. If the company paid a dividend of $3 per share on its common stock, what is the balance in Retained Earnings account at the *end* of the year?
A. $3,500,000
B. $2,900,000
C. $2,760,000
D. $2,620,000
E. $620,000

90. Stock that was reacquired by the company and is still held by the issuing corporation is called:
A. Capital stock
B. Treasury stock
C. Redeemed stock
D. Preferred stock
E. Callable stock

91. Treasury stock is classified as:
A. An asset account
B. A contra asset account
C. A revenue account
D. A contra equity account
E. A liability account

92. The following data were reported by a corporation:

Authorized shares	20,000
Issued shares	15,000
Treasury shares	3,000

The number of outstanding shares is:
A. 12,000
B. 15,000
C. 17,000
D. 20,000
E. 23,000

93. The following data has been collected about a company's stockholders' equity accounts:

Common stock $10 par value 20,000 shares	
authorized and 10,000 shares issued	$100,000
Contributed capital in excess of par value, common stock	50,000
Retained earnings	25,000
Treasury stock, 1,000 shares	11,500

The treasury shares were all purchased at the same price.
The cost per share of the treasury stock is:
A. $1.15
B. $1.28
C. $11.50
D. $10.50
E. $10.00

94. Prior to June 1, a company has never had any treasury stock transactions. A company repurchased 100 shares of its common stock on June 1 for $5,000. On July 1, it reissued 50 of these shares at $52 per share. On August 1, it reissued the remaining treasury shares at $49 per share. What is the balance in the Contributed Capital, Treasury Stock account on August 2?
A. $5,050
B. $2,600
C. $100
D. $50
E. $0

95. On August 31, 2010 Victory Corporation's common stock is priced at $30 per share before any stock dividend or split, and the stockholders' equity section of its balance sheet appears as follows. Assume that the company declares and immediately distributes a 100% stock dividend.

Common stock—$7 par value, 95,000 shares authorized, 38,000 shares issued and outstanding	$ 266,000
Paid-in capital in excess of par value, common stock	100,000
Retained earnings	366,000
Total stockholders' equity	$732,000

What is the total amount in the Common Stock account immediately after the stock dividend?
A. $266,000
B. $532,000
C. $1,140,000
D. $874,000
E. $0

96. On August 31, 2010 Victory Corporation's common stock is priced at $30 per share before any stock dividend or split, and the stockholders' equity section of its balance sheet appears as follows. Assume that the company declares and immediately distributes a 100% stock dividend.

Common stock—$7 par value, 95,000 shares authorized, 38,000 shares issued and outstanding	$ 266,000
Paid-in capital in excess of par value, common stock	100,000
Retained earnings	366,000
Total stockholders' equity	$732,000

What is the total amount in the Retained Earnings account immediately after the stock dividend?
A. $266,000
B. $532,000
C. $366,000
D. $100,000
E. $0

97. On August 31, 2010 Victory Corporation's common stock is priced at $30 per share before any stock dividend or split, and the stockholders' equity section of its balance sheet appears as follows. Assume that the company declares and immediately distributes a 15% stock dividend.

Common stock—$7 par value, 95,000 shares authorized, 38,000 shares issued and outstanding	$ 266,000
Paid-in capital in excess of par value, common stock	100,000
Retained earnings	366,000
Total stockholders' equity	$732,000

What is the total amount in the Retained Earnings account immediately after the stock dividend?
A. $537,000
B. $195,000
C. $366,000
D. $100,000
E. $0

98. On August 31, 2010 Victory Corporation's common stock is priced at $30 per share before any stock dividend or split, and the stockholders' equity section of its balance sheet appears as follows. Assume that the company declares and immediately distributes a 15% stock dividend.

Common stock—$7 par value, 95,000 shares authorized, 38,000 shares issued and outstanding	$ 266,000
Paid-in capital in excess of par value, common stock	100,000
Retained earnings	366,000
Total stockholders' equity	$732,000

What is the total amount in the Paid in Capital account immediately after the stock dividend?
A. $537,000
B. $195,000
C. $366,000
D. $100,000
E. $231,000

99. On August 31, 2010 Victory Corporation's common stock is priced at $30 per share before any stock dividend or split, and the stockholders' equity section of its balance sheet appears as follows. Assume that the company declares and immediately distributes a 35% stock dividend.

Common stock—$7 par value, 95,000 shares authorized, 38,000 shares issued and outstanding	$ 266,000
Paid-in capital in excess of par value, common stock	100,000
Retained earnings	366,000
Total stockholders' equity	$732,000

What is the total amount in the Paid in Capital account immediately after the stock dividend?
A. $193,100
B. $195,000
C. $366,000
D. $100,000
E. $231,000

100. Pete's outstanding stock consists of (*a*) 17,000 shares of noncumulative 7.50% preferred stock with a $10 par value and (*b*) 42,500 shares of common stock with a $1 par value. During its first four years of operation, the corporation declared and paid the following total cash dividends.

2010	$ 0
2011	28,000
2012	100,000
2013	198,000

What is the amount of dividends that the Common Stockholders receive in 2011?
A. $26,725
B. $15,250
C. $2,500
D. $0
E. $28,000

101. Pete's outstanding stock consists of (*a*) 17,000 shares of noncumulative 7.50% preferred stock with a $10 par value and (*b*) 42,500 shares of common stock with a $1 par value. During its first four years of operation, the corporation declared and paid the following total cash dividends.

2010	$ 0
2011	28,000
2012	100,000
2013	198,000

What is the amount of dividends that the Common Stockholders receive for all years presented?
A. $177,000
B. $276,000
C. $214,250
D. $326,000
E. $287,750

102. Premier's outstanding stock consists of (*a*) 57,000 shares of cumulative 4.25% preferred stock with a $18 par value and (*b*) 75,000 shares of common stock with a $1 par value. During its first four years of operation, the corporation declared and paid the following total cash dividends.

2010	$ 0
2011	38,000
2012	150,000
2013	175,000

What is the amount of dividends that the Common Stockholders receive for all years presented?

A. $177,000
B. $188,580
C. $214,250
D. $326,000
E. $363,000

103. Duke Corporation reports the following components of stockholders' equity on December 31, 2010.

Common stock—$25 par value, 100,000 shares authorized, 45,000 shares issued and outstanding	$1,125,000
Paid-in capital in excess of par value, common stock	60,000
Retained earnings	460,000
Total stockholders' equity	$1,645,000

In year 2011, the following transactions affected its stockholders' equity accounts.

Jan. 1	Purchased 4,500 shares of its own stock at $27 cash per share.
Jan. 5	Directors declared a $3 per share cash dividend payable on Feb. 28 to the Feb. 5 stockholders of record.
Feb. 28	Paid the dividend declared on January 5.

What is the amount of the dividend declared?
A. $177,000
B. $135,000
C. $121,500
D. $326,000
E. $338,500

104. Duke Corporation reports the following components of stockholders' equity on December 31, 2010.

Common stock—$25 par value, 100,000 shares authorized, 45,000 shares issued and outstanding	$1,125,000
Paid-in capital in excess of par value, common stock	60,000
Retained earnings	460,000
Total stockholders' equity	$1,645,000

In year 2011, the following transactions affected its stockholders' equity accounts.

Jan. 1	Purchased 4,500 shares of its own stock at $27 cash per share.
Jan. 5	Directors declared a $3 per share cash dividend payable on Feb. 28 to the Feb. 5 stockholders of record.
Feb. 28	Paid the dividend declared on January 5.

Mar. 3 Sold 1,000 shares of treasury stock for $28 per share
What is the journal entry required for the March 3rd transaction?

A.
Cash……………………….28,000
Treasury Stock……………………25,000
Paid in Capital, Treasury Stock…….3,000

B.
Cash………………………...28,000
Treasury Stock…………………...28,000

C.
Cash…………………………28,000
Treasury Stock…………………….27,000
Paid in Capital, Treasury Stock…….1,000

D.
Cash……………......………28,000
Common Stock……………………25,000
Paid in Capital, Common Stock…...3,000

E.
Cash…………………………28,000
Retained Earnings………………..28,000

105. Duke Corporation reports the following components of stockholders' equity on December 31, 2010.

Common stock—$25 par value, 100,000 shares authorized, 45,000 shares issued and outstanding	$1,125,000
Paid-in capital in excess of par value, common stock	60,000
Retained earnings	460,000
Total stockholders' equity	$1,645,000

In year 2011, the following transactions affected its stockholders' equity accounts.

Jan. 1	Purchased 4,500 shares of its own stock at $27 cash per share.
Jan. 5	Directors declared a $3 per share cash dividend payable on Feb. 28 to the Feb. 5 stockholders of record.
Feb. 28	Paid the dividend declared on January 5.

Mar. 3 Sold 1,000 shares of treasury stock for $28 per share
May 25 Sold 1,000 shares of treasury stock for $16 per share
What is the amount in the Retained Earnings account immediately after the May 2nd sale?
A. $460,000
B. $328,500
C. $444,000
D. $433,000
E. E.$338,500

106. Duke Corporation reports the following components of stockholders' equity on December 31, 2010.

Common stock—$25 par value, 100,000 shares authorized, 45,000 shares issued and outstanding	$1,125,000
Paid-in capital in excess of par value, common stock	60,000
Retained earnings	460,000
Total stockholders' equity	$1,645,000

In year 2011, the following transactions affected its stockholders' equity accounts.

Jan. 1	Purchased 4,500 shares of its own stock at $27 cash per share.
Jan. 5	Directors declared a $3 per share cash dividend payable on Feb. 28 to the Feb. 5 stockholders of record.
Feb. 28	Paid the dividend declared on January 5.

Mar. 3	Sold 1,000 shares of treasury stock for $28 per share
May 25	Sold 1,000 shares of treasury stock for $16 per share
June 15	Directors declared a $1.50 per share cash dividend payable on July 15 to the June 30 stockholders of record
July 15	Paid the dividend declared on June 15

What is the amount in the Retained Earnings account immediately after the dividend on July 15?

A. $264,750
B. $392,500
C. $460,000
D. $338,500
E. $470,000

107. Victory Corporation issues 17,000 shares of its $2 par value common stock for $152,025 cash on February 20. What is the appropriate journal entry to record this transaction?

A.
Cash……………………….152,025
Preferred Stock………………………34,000
Paid in Capital, Common Stock…….118,025

B.
Common Stock……………...152,025
Cash………………………………...152,025

C.
Cash………………………….152,025
Common Stock……………………….34,000

D.
Cash……………......……….152,025
Common Stock……………………...152,025

E.
Cash………………………….118,025
Paid in Capital, Common Stock……..34,000
Common Stock……………………..152,025

108. A company sold stock for $545,000. The shares had a par value of $5 each. After the transaction, the paid in capital, common stock account had a balance of $215,000. How many shares did the company sell?

A. 62,000
B. 152,000
C. 43,000
D. 109,000
E. 66,000

Matching Questions

109. Match each of the following terms with the appropriate definitions.

1. Preferred stock giving the holder the option of exchanging it for common stock at a specified rate	Minimum legal capital	____
2. A corporation's distribution of its own stock to its stockholders without the receipt of any payment	Stock dividend	____
3. The basic stock of a corporation that usually carries voting rights for controlling the corporation	Authorized stock	____
4. Preferred stock that gives the issuing corporation the right to purchase or retire it at specified future prices and dates	Callable preferred stock	____
5. The least amount that buyers of stock must contribute to the corporation or be subject to paying at a future date	Organization expenses	____
6. The number of shares of stock that a corporation's charter allows it to sell	Stock split	____
7. The distribution of additional shares of stock to stockholders according to their present ownership	Preemptive right	____
8. A class of stock that has not been assigned a par value by the corporate charter	No-par value stock	____
9. The right of common stockholders to maintain their proportionate interest in a corporation by having the first opportunity to buy additional proportionate shares of stock issued	Convertible preferred stock	____
10. The costs of bringing a corporation into existence that include legal fees, promoters' fees and amounts paid to obtain a charter	Common stock	____

110. Match each of the following terms with the appropriate definitions.

1. A preferred stock that has the right to be paid both the current and all prior periods' unpaid dividend before any dividend is paid to common stockholders	Call price	____
2. Stock that gives its owners a priority status over common stockholders in one or more ways, such as the payment of dividends or the distribution of assets	Financial leverage	____
3. The value assigned to a share of stock by the corporate charter when the stock is authorized	Market value per share	____
4. No-par stock to which the directors assign a stated value per share; this amount becomes the minimum legal capital	Premium on stock	____
5. The earning of a higher return on common stock by paying dividends on preferred stock or interest on debt at a rate that is less than the rate of return earned with the assets from issuing preferred stock or debt	Stated value stock	____
6. The amount that must be paid to call and retire a preferred share	Cumulative preferred stock	____
7. Stockholders equity applicable to common shares divided by the number of common shares outstanding	Stockholders' equity	____
8. The price at which stock is bought or sold in the market	Par value	____
9. The difference between the par value of stock and its issue price when it is issued at a price above par value	Preferred stock	____
10. The equity of a corporation	Book value per common share	____

111. Match each of the following terms with the appropriate definitions.

1. A abnormal debit balance in retained earnings	Stock option	____
2. A financial statement that lists the beginning and ending balances of each equity account and describes the changes in these accounts during the period	Treasury stock	____
3. A part of operations that serves a particular line of business or class of customers and that has assets, activities and operating results distinguished from other parts	Date of declaration	____
4. The right to purchase common stock at a fixed price over a specified period	Prior period adjustment	____
5. Income earned by each share of a company's outstanding common stock	Statement of changes in stockholders' equity	____
6. A stock dividend that is more than 25% of the previously outstanding shares	Earnings per share	____
7. A corporation's own stock that was reacquired and is still held by the corporation	Cash dividend	____
8. A distribution of cash to the owners of a corporation	Business segment	____
9. A correction of an error in a prior year that is reported in the statement of retained earnings or changes in stockholders' equity net of any income tax effects	Large stock dividend	____
10. The date a corporation's directors vote to issue a dividend	Deficit	____

112. Match each of the following terms with the appropriate definitions.

1. The ratio of a company's current market value per share to its earnings per share	Appropriated retained earnings	____
2. A stock dividend that is 25% or less of the previously outstanding shares	Reverse stock split	____
3. Net income less preferred dividends divided by weighted-average common shares outstanding	Basic earnings per share	____
4. Retained earnings reported separately as a way to inform stockholders of funding needs	Transfer agent	____
5. A document that gives a designated agent the right to vote a stockholder's stock	Date of record	____
6. A bank or trust company that assists with purchases and sales of shares by receiving and issuing certificates as necessary	Dividend yield	____
7. Occurs when a corporation calls its stock and replaces each share with less than one new share; increases both the market value per share and the par or stated value per share	Proxy	____
8. A ratio of the annual amount of cash dividends distributed to common shareholders relative to the stock's market value	Price-earnings ratio	____
9. The date specified by directors of a corporation for identifying stockholders to receive dividends	Small stock dividend	____
10. Occurs when a corporation calls in its stock and replaces each share with more than one new share; decreases both the market value per share and the par or stated value per share	Stock split	____

Essay Questions

113. What is a corporation? Identify the key advantages and disadvantages of corporations.

114. What are the rights generally granted to common stockholders?

115. The entrepreneurs who founded Medsite, Inc. experienced problems as they had limited capital. What were some of the serious corporate accounting-related issues they had to face?

116. Identify and describe the two main components of stockholders' equity.

117. Identify and discuss the key differences between common and preferred stock.

118. What is an extraordinary gain or loss? How is it presented on a complete income statement? Be sure to include examples of extraordinary items.

119. Explain the components of the statements retained earnings and identify the special items that are reported in it.

120. Explain how both a stock split and a stock dividend affect the computation of the weighted average number of shares outstanding.

121. Explain how to calculate the price-earnings ratio and describe how it is used in analysis of a company's financial condition and performance.

122. Explain how to compute dividend yield and discuss how it is used in analysis of a company's financial condition.

123. Explain how to compute book value per share and discuss how it can be used to analyze the financial condition of a corporation.

124. Explain the preparation of journal entries to record the issuance of par value, stated value and no-par value common stock.

125. What are the journal entries recorded for cash dividends on the declaration date, the date of record and the payment date?

126. What is a stock split? How is a stock split different from a stock dividend?

127. Explain the difference between a large stock dividend and a small stock dividend. In addition, explain how to record these two types of stock dividends.

128. What is the effect of dividend preferences on preferred stock? Explain how a dividend is distributed in the case of cumulative preferred stock with dividends in arrears.

129. What is treasury stock? How is the purchase and sale of treasury stock recorded?

130. How is the retirement of stock recorded?

Short Answer Questions

131. A company is authorized to issue 50,000 shares of $50 par value, 8%, cumulative, fully participating preferred stock and 750,000 shares of $5 par value common stock. Prepare journal entries to record the following selected transactions that occurred during the company's first year of operations:

132. A corporation received its charter and began business this year. The company is authorized to issue 50,000 shares of $100 par, 10%, noncumulative, nonparticipating preferred stock and 500,000 shares of no-par common stock. The following selected transactions occurred during this year:

Apr. 5	Issued 250 shares of preferred stock for $104 cash per share.
June 15	Exchanged 750 shares of common stock for $15,000 in legal Services incurred in the organization of the company.

Prepare journal entries to record these transactions.

133. A company is authorized to issue 50,000 shares of $50 par, 10%, noncumulative, nonparticipating preferred stock and 500,000 shares of no-par common stock. Prepare journal entries to record the following selected transactions that occurred during this year:

Mar. 1	Issued 1,000 shares of common stock for $30 cash per share.
15	Exchanged 2,000 shares of preferred stock for equipment and Merchandise inventory with market values of $90,000 and $20,000, respectively.

134. Dawls Corporation reported stockholders' equity on December 31 of the prior year as follows:

Common stock, $5 par value, 1,000,000 shares authorized, 500,000 shares issued	$2,500,000
Contributed capital in excess of par, common stock	1,000,000
Retained earnings	3,000,000

The following selected transactions occurred during the current year:

Feb. 15	The board of directors declared a 5% stock dividend to stockholders of record on March 1, payable March 20. The stock was selling for $8 per share.
Mar. 9	Paid the stock dividend.
May 1	A cash dividend of $0.30 per share was declared by the board of directors to stockholders of record on May 20, payable June 1.
June 1	Paid the cash dividend.
Aug. 20	The board decided to split the stock 4-for-1, effective on September 1.
Sept. 1	Stock split 4-for-1.
Dec. 31	Earned a net income of $800,000 for the current year.

Prepare a statement of retained earnings as of December 31 of the current year.

135. A company had stockholders' equity on January 1 as follows: Common Stock, $10 par value, 1,000,000 shares authorized, 250,000 shares issued; Contributed Capital in excess of Par Value, Common Stock, $750,000 and Retained Earnings of $2,700,000. On May 20, $1,500,000 worth of retained earnings was appropriated for a plant expansion to be constructed next year. Prepare the journal entry to record the appropriation.

136. A corporation began the current year with $250,000 of unappropriated retained earnings. During the current year it earned $120,000 of net (after-tax) income, declared $75,000 of cash dividends, paid $50,000 of the cash dividends and purchased treasury stock costing $40,000. Calculate the current year-end balance in retained earnings.

137. Marble Corporation had the following balances in its stockholders' equity accounts at December 31, 2009:

Common Stock, $10 par, 50,000 shares authorized,		
20,000 shares issued	$200,000	
Contributed Capital in Excess of Par Value, Common	250,000	
Retained Earnings	500,000	
Treasury Stock, 1,000 shares..........	(20,000	)
Total stockholders' equity	$930,000	

The following transactions occurred during 2010:

February 3	Sold and issued 3,000 shares of common stock for $22 per share.
May 10	Declared a $0.50 per share dividend on common stock.
October 12	Sold 500 shares of the treasury stock for $20 per share.
December 31	Net income for the year was determined to be $75,000.

Based on the above information, prepare a statement of stockholders' equity for 2010. Use the form below.

Marble Corporation Statement of Stockholders' Equity					
	Common Stock	Contributed Capital in Excess of Par Value, Common	Retained Earnings	Treasury Stock	Total
Balance, December 31, 2008	$200,000	$250,000	$500,000	$(20,000)	$930,000
Balance, December 31, 2009					

138. During the current year, Quark Company earned $90,000 in income and paid cash dividends of $10,000 to preferred shareholders. Quark had 12,500 weighted-average shares of common stock outstanding for the year. Calculate the company's earnings per share.

139. A corporation had current year net income of $2,375,000. It paid preferred dividends of $80,000 cash and had 500,000 weighted-average shares of common stock outstanding. Calculate the corporation's earnings per share.

140. On January 1, Style Corporation had 15,000 shares of common stock outstanding. On May 1, the corporation sold and issued another 6,000 shares. On December 1, the corporation executed a 2-for-1 stock split. Style Corporation earned $55,000 in net income for the year and declared and paid $4,000 in preferred stock dividends. Calculate the earnings per share.

141. A company's stock is selling for $67.20 per share and its earnings per share is $3.50 for the current year. Calculate the price-earnings ratio.

142. A company reported net income of $850,000 for the current year. The year-end market price per common share was $12 and there were 425,000 weighted-average shares of common stock outstanding. Calculate the company's price-earnings ratio.

143. A company reported $990,000 in net income for the current year. Total weighted-average number of common shares outstanding is equal to 150,000 shares and the year-end market price is $79.20 per common share. Calculate the company's price earnings ratio.

144. A corporation reported net income of $3,730,000 and paid preferred cash dividends of $100,000 during the current year. There were 600,000 shares of common stock outstanding and the market price per common share was $88.33 at year-end. Calculate the company's price-earnings ratio.

145. A company reported net income of $478,000 and paid $5,500 in preferred cash dividends during the current year. The company had 100,000 common shares issued and 10,000 common shares in treasury. The year-end market price per common share was $43.05. Calculate the company's price-earnings ratio.

146. A company's stock is selling for $35 per share at year-end. This current year it paid shareholders a $2.45 per share cash dividend, reported earnings per share of $12.00 and had 750,000 common shares outstanding at year-end. Calculate the company's dividend yield.

147. A corporation paid a cash dividend of $0.07 per share during the current year. It had 550,000 common shares outstanding at year-end, the current year earnings per share was $3.85 and the stock's year-end market price was $17.50 per share. Calculate the company's dividend yield.

148. A company reported earnings per share of $9.75, paid an $6.00 cash dividend per share to preferred shareholders and paid a $0.54 cash dividend per share to common shareholders. There were 1,000 shares of preferred stock outstanding and 6,000 shares of common stock outstanding during the year and the market price per share of common stock was $45. Calculate the company's dividend yield for common stock.

149. A company paid a cash dividend of $0.44 per share during the current year and reported 18,000 shares of common stock issued and 2,000 common shares in treasury stock during the current year. The year-end market price per share was $27.50. Calculate the following: (1) total amount of cash dividends paid to common shareholders and (2) dividend yield.

150. A company has 500,000 common shares authorized, 400,000 common shares issued and 15,000 common shares in treasury stock at the current year-end. It paid $0.24 per share in cash dividends during the year. The year-end market price of the stock is $15. Calculate (1) the total dividends paid and (2) the dividend yield.

151. A corporation has $1,750,000 in stockholders' equity and 350,000 shares of common stock outstanding. Calculate the book value per common share.

152. A company has $2,400,000 in stockholders' equity, that includes 500 shares of $50 par value noncallable preferred stock outstanding and 250,000 shares of common stock outstanding. Calculate the book value per (1) preferred share and (2) common share.

153. A company reports the following stockholders' equity:
Contributed capital:

Common stock, $10 par, 500,000 shares authorized	$3,000,000
Contributed capital in excess of par, Common stock	1,300,000
Total contributed capital..	$4,300,000
Retained earnings..	1,400,000
Total stockholders' equity..	$5,700,000

Compute the (1) number of common shares outstanding and (2) book value per common share.

154. The stockholders' equity section of a company's year-end balance sheet follows:

Preferred stock, $100 par value, 9%		
cumulative and nonparticipating, 5,000		
shares outstanding	$500,000	
Contributed capital in excess of		
par value, preferred stock	50,000	
Total capital contributed by preferred		
Stockholders		$550,000
Common stock, $5 par value, 150,000 shares		
outstanding	$750,000	
Contributed capital in excess of par value,		
common stock	150,000	
Total capital contributed by common		
Stockholders		900,000
Total contributed capital		$1,450,000
Retained earnings		1,660,000
Total stockholders' equity		$3,110,000

The preferred stock has a call price of $103 per share plus dividends in arrears. One entire year's dividends are in arrears. Calculate the book value per (1) preferred share and (2) common share.

155. A corporation reports the following year-end stockholders' equity:

Contributed capital:	
Preferred stock, 8%, 100,000 shares	
authorized, 50,000 shares issued	$ 2,500,000
Contributed capital in excess of par, Preferred	125,000
Common stock, $10 par, 500,000 shares	
authorized, 400,000 shares issued	4,000,000
Contributed capital in excess of par, Common	1,200,000
Total contributed capital	$ 7,825,000
Retained earnings	10,775,000
Total stockholders' equity	$18,600,000

Determine the following:
(1) Par value for the preferred stock.
(2) Book value per share for both preferred stock and common stock assuming a call price per share of $52 for preferred and no dividends in arrears.

156. The stockholders' equity section of a corporation's balance sheet follows:

Preferred stock, $25 par value, 6%, cumulative, 10,000 shares	
authorized, 5,000 shares issued and outstanding	$125,000
Contributed capital in excess of par value, Preferred stock	50,000
Common stock, $10 par value, 50,000 shares authorized,	
10,000 shares issued and outstanding	100,000
Contributed capital in excess of par value, Common stock	40,000
Retained earnings	95,000
Total stockholders' equity	$410,000

(1) Assuming that the preferred stock is not callable and no dividends are in arrears, compute the book values per preferred share and per common share.
(2) Assuming that the preferred stock has a call price of $30 per share and there is one year of cumulative preferred dividends is in arrears, compute the book values per preferred share and per common share.

157. A company is authorized to issue 750,000 shares of $5 par value common stock. Prepare journal entries to record the following selected transactions that occurred during the company's first year of operations:

Jan.	10	Sold 102,000 shares of common stock for $8 cash per share.
	15	Exchanged 10,000 shares of common stock for equipment with a market value of $80,000.
Feb.	1	Exchanged 500 shares of common stock for $3,000 of legal services Incurred during the company's organization.

158. On August 1, a corporation issued 15,000 shares of no-par common stock in exchange for a tract of land with a market value of $215,000. The common stock has a stated value of $10 per share. Prepare the general journal entry to record this transaction.

159. On July 31, a company declared a cash dividend of $0.25 per common share to the shareholders of record on August 15. The cash dividend will be paid on August 25. This company has 500,000 shares authorized and 100,000 shares outstanding. Prepare the journal entries required on July 31, August 15 and August 25.

160. The following selected transactions took place during the current year for a company:

March	25	Declared a $2 per share cash dividend on 20,000 shares of common Stock outstanding
April	20	Paid the cash dividends declared on March 25.
Dec	31	Closed the $52,000 credit balance in Income Summary that reflects net income to Retained Earnings.

(a) Prepare the journal entries for these transactions.
(b) If Retained Earnings had a $75,000 credit balance on January 1, calculate its year-end balance as of December 31.

161. A company reported stockholders' equity on January 1 of the current year as follows: Common Stock, $5 par value, 1,000,000 shares authorized, 600,000 shares issued; Contributed Capital in Excess of Par Value, Common Stock, $1,025,000; Retained Earnings, $2,850,000. Prepare journal entries to record the following transactions:

May 1	A cash dividend of $1.10 per common share was declared by the board of directors to stockholders of record on May 20, payable June 1.
May 20	The date of record.
June 1	Paid the cash dividend.

162. For each of the following independent transactions a through d, prepare the necessary journal entry:
(a) Declared a $0.40 per share cash dividend on 200,000 shares of preferred stock outstanding.
(b) Declared and distributed a 12% stock dividend on 800,000 shares of $5 par value common stock outstanding. Market price per common share on this date was $25.
(c) Declared and distributed a 2-for-1 stock split on 500,000 shares of $10 par value common stock outstanding.
(d) Declared and distributed a 30% stock dividend on 400,000 common shares of $5 par value common stock outstanding. Market price per common share on this date was $20.

163. A corporation has 200,000 shares of $10 par value common stock outstanding. The following selected transactions related to the company's stock took place during the current year:

Apr. 15	Declared a 40% stock dividend to stockholders of record on May 1, to be issued May 10. The current market value is $15 per common share.
May 1	Date of record.
May 10	Issued the common stock dividend.

Prepare the journal entries to record these transactions.

164. On May 1, a company's board of directors declared a 10% stock dividend to be distributed on June 1 to the stockholders of record on May 21. The company had 250,000 shares of $10 par value common stock outstanding with a market value of $22 per share. Prepare the journal entries required on May 1, May 21 and June 1.

165. A corporation had stockholders' equity on January 1 as follows: Common Stock, $5 par value, 1,000,000 shares authorized, 500,000 shares issued; Contributed Capital in Excess of Par Value, Common Stock, $1,000,000; Retained Earnings, $3,000,000. Prepare journal entries to record the following transactions:

Feb. 15	The board of directors declared a 5% stock dividend to stockholders of record on March 1,to be issued on March 20.The stock was trading at $6 per share prior to the dividend.
Mar. 1	The date of record
Mar. 20	Issued the stock dividend.

166. On July 31, a corporation reported the following stockholders' equity:

Common stock, $10 par value, 200,000 shares	
Authorized, 100,000 shares issued and outstanding...	$1,000,000
Retained earnings	350,000
Total stockholders' equity	$1,350,000

On July 31, the market value of the corporation's stock was $15 per share. The directors were considering declaring a 10% or 30% stock dividend but wanted to know what effect each stock dividend would have on stockholders' equity. Calculate the balances in the following accounts for each proposed stock dividend distribution.

	Balances after 10% Stock Dividend	Balances after 30% Stock Dividend
Common stock	______	______
Contributed capital in Excess of par value, Common stock	______	______
Retained earnings	______	______
Total Stockholders' Equity	______	______

167. A company had the following stockholders' equity on January 1:

Common Stock - $1 par value; 1,000,000 shares authorized,	$ 400,000
400,000 shares issued and outstanding	
Contributed capital in excess of par value, common stock	300,000
Retained earnings........	364,000
Total stockholders' equity........	$1,064,000

On January 10, the company declared a 40% stock dividend to holders of record on January 25, to be distributed January 31. The market value of the stock on January 10 prior to the dividend was $20 per share. What is the book value per common share on February 1?

168. A corporation had the following stock outstanding when the company's board of directors declared a $95,000 cash dividend in the current year:

Preferred stock, $100 par, 6%, 5,000 shares issued........	$ 500,000
Common stock, $10 par, 70,000 shares issued................	700,000
Total...	$1,200,000

Allocate the cash dividend between the preferred and common stockholders assuming the preferred stock is noncumulative and nonparticipating.

169. A corporation had the following stock outstanding when the company's board of directors declared a $95,000 cash dividend during the current year:

Preferred stock, $100 par, 6%, 5,000 shares issued........	$ 500,000
Common stock, $10 par, 75,000 shares issued................	750,000
Total...	$1,250,000

Allocate the cash dividend between the preferred and common stockholders assuming the preferred stock is cumulative and nonparticipating and dividends are one year in arrears.

170. A company has $100,000 of 10% noncumulative, nonparticipating, preferred stock outstanding and $150,000 of common stock outstanding. In the company's first year of operation, no dividends were paid, but during the second year, it paid cash dividends of $25,000. Compute the dividends to be distributed to (1) preferred shares and (2) common shares.

171. A company was organized in January 2009 and has 2,000 shares of $100 par value, 10%, nonparticipating preferred stock outstanding and 30,000 shares of $10 par value common stock outstanding. It has declared and paid cash dividends each year as shown below. Calculate the total dividends distributed to each class of stockholder under each of the assumptions given.

		Assuming Preferred Stock Is Not Cumulative		Assuming Preferred Stock Is Cumulative	
Year	Cash Dividends Declared and Paid	Preferred Dividend	Common Dividend	Preferred Dividend	Common Dividend
2008	$15,000	_______	_________	________	________
2009	$36,000	_______	_________	________	________
2010	$60,000	_______	_________	________	________

172. A company reported the following stockholders' equity on January 1 of the current year:

Common stock, $10 par, 1,000,000 shares	
authorized, 400,000 shares issued	$4,000,000
Contributed capital in excess of par, common	1,200,000
Retained earnings	1,600,000
Total stockholders' equity	$6,800,000

Prepare journal entries for the following selected transactions related to this company's stock during the current year:

Mar. 1	Purchased 10,000 shares of treasury stock for $17 per share.
May 5	Sold 4,000 shares of treasury stock for $16 per share.
Oct. 12	Sold 2,000 shares of treasury stock for $18 per share.

173. A company's only treasury stock transactions for the current year are as follows: (1) 1,000 shares of its common stock were purchased on June 1 for $40,000; (2) On July 1 it reissued 500 of these shares at $45 per share; (3) On August 1 it reissued the 500 remaining treasury shares at $38 per share.
1) Prepare the journal entries required to record these transactions.
2) Calculate the balance in Contributed Capital, Treasury Stock, on September 1 assuming its beginning-year balance is zero.

174. On January 10, a corporation purchased 5,000 shares of its own common stock at $17.50 per share. On August 4, a total of 1,000 treasury shares were sold at $19.00 per share. These are the only treasury stock transactions ever made by the corporation. Prepare the journal entries required on January 10 and August 4.

175. Record the following transactions of a company in general journal form:
(a) Reacquired 8,000 of its own $10 par value common stock at $40 cash per share. The stock was originally issued at $15 per share.
(b) Sold 2,000 shares of the stock reacquired under part (a) at $43 cash per share.
(c) Sold 3,000 shares of the stock reacquired under part (a) at $39 cash per share.

176. Polly's outstanding stock consists of (a) 67,000 shares of cumulative 5% preferred stock with a $20 par value and (b) 95,000 shares of common stock with a $1 par value. During its first four years of operation, the corporation declared and paid the following total cash dividends.

2010	$ 0
2011	50,000
2012	180,000
2013	205,000

What is the amount of dividends that the Common Stockholders receive for all years presented?

177. A company sold stock for $733,000. The shares had a par value of $6.26 each. After the transaction, the paid in capital, common stock account had a balance of $420,000. How many shares did the company sell?

178. On August 31, 2010 Gilliam Corporation's common stock is priced at $50 per share before any stock dividend, and the stockholders' equity section of its balance sheet appears as follows. Assume that the company declares and immediately distributes a 35% stock dividend.

Common stock—$7 par value, 95,000 shares authorized, 44,000 shares issued and outstanding	$ 308,000
Paid-in capital in excess of par value, common stock	100,000
Retained earnings	375,000
Total stockholders' equity	$783,000

What is the total amount in the Retained Earnings account immediately after the stock dividend?

179. On August 31, 2010 Gilliam Corporation's common stock is priced at $50 per share before any stock dividend, and the stockholders' equity section of its balance sheet appears as follows. Assume that the company declares and immediately distributes a 10% stock dividend.

Common stock—$7 par value, 95,000 shares authorized, 44,000 shares issued and outstanding	$ 308,000
Paid-in capital in excess of par value, common stock	100,000
Retained earnings	375,000
Total stockholders' equity	$783,000

What is the total amount in the Retained Earning account immediately after the stock dividend?

Fill in the Blank Questions

180. Stockholders who are not officers or managers of a corporation do not have the power to bind the corporation to contracts. This is called ________________________.

____

181. ________________________ are responsible for and have final authority for managing a corporation's activities.

____

182. A corporation is responsible for its; own acts and debts as the corporation is considered a ____.

____

183. A document that gives a designated agent the right to vote a stockholder's stock is called a ________________.

____

184. The _________________________ protects stockholders' proportional interest in a corporation by allowing them to purchase their proportional share of any common stock later issued by the corporation.

____

185. A stock ___________________ keeps stockholder records and prepares official lists of stockholders for stockholder meetings and dividend payments.

____

186. A stock ______________________ assists with purchases and sales of shares of stock by receiving and issuing certificates as necessary.

____

187. ___________________________ is the number of shares that a corporation's charter allows it to sell.

____

188. _______________________ is a general term that refers to any shares issued to obtain owner financing in a corporation.

____

189. _______________________ is the price at which a stock is bought and sold.

____

190. ______________________ is a class of stock assigned a value by the corporation in its charter.

____

191. Stock that is not assigned a value per share by the corporate charter is called ___________________.

____

192. No-par stock to which the directors assign a value per share is called ________________________.

____

193. The total amount of cash and other assets the corporation receives from its stockholders in exchange for common stock is called ___________________________.

____

194. The cumulative net income and loss retained by a corporation is called ______________________.

____

195. ________________________________ is the total amount of cash and other assets received by the corporation from its stockholders in exchange for common stock.

____

196. The least amount that the buyers of stock must contribute to the corporation or be subject to paying at a future date is called _____________________________.

____

197. ________________________ has special rights that give it priority or senior status over common stock in one or more areas such as receiving dividends or for the distribution of assets if the corporation is liquidated.

____

198. ______________________ generally consists of a company's cumulative net income less any net losses and dividends declared since its inception.

____

199. __________________________ are corrections of material errors in prior period financial statements.

____

200. If a company discovers a mistake in 2010 that was made in 2009, the company records the adjustment in the year ________.

____

201. _____________ is the amount of income earned per share of a company's outstanding common stock.

____

202. The price-earnings (PE) ratio is calculated by dividing __________________________ by ______________________________.

____

203. _________________________ is the annual amount of cash dividends distributed to common shareholders relative to the stock's market price.

____

204. ____ is the stockholders' equity applicable to common shares divided by the number of common shares outstanding.

____

205. The account used to record a premium on issued stock is titled ____.

____

206. Dividend payment involves three important dates. They are _______________________, __________________________ and _____________________________.

____

207. The journal entry to record distribution of a cash dividend to common shareholders includes a debit to ________________________ and a credit to __________.

____

208. A stock dividend is never a _________________ on the balance sheet because it will never reduce ________________.

____

209. Holders of _______________________________ have a right to be paid both current and all prior periods' unpaid dividends before any dividend is paid to common shareholders.

____

210. When preferred stock is cumulative and the directors either do not declare a dividend to preferred stockholders or declare one that does not cover the total amount of cumulative dividends, the unpaid amount is called _____________________________.

____

211. ____________________ preferred stock has a feature that allows preferred stockholders to share with common stockholders in any dividends paid in excess of the percent or dollar amount stated on the preferred stock.

____

212. ____________________ preferred stock gives holders the option to exchange their preferred shares for common shares at a specified rate.

____

213. ____________________ preferred stock gives the issuing corporation the right to purchase or retire the stock from its holders at specified future prices and dates.

____

214. ________________ is a corporation's own stock that has been reacquired.

____

Chapter 11 Corporate Reporting and Analysis Answer Key

True / False Questions

1. A corporation is a separate legal entity from its owners.
TRUE

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: C1 Identify characteristics of corporations and their organization.

2. Authorized stock is the total number of shares outstanding.
FALSE

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

3. Minimum legal capital requirements often prohibit dividends when the dividends reduce stockholders' equity below the minimum specified amount.
TRUE

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Hard
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

4. A corporation can issue both common and preferred stock.
TRUE

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Easy
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

5. Common stock always carries a preference for receiving dividends over preferred stock.
FALSE

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Easy
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

6. Changes in accounting estimates are accounted for in current and future periods.
TRUE

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Hard
Learning Objective: C3 Explain the items reported in retained earnings.

7. Earnings per share is the amount of income earned per share of a company's outstanding (weighted-average) common stock.
TRUE

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: A1 Compute earnings per share and describe its use.

8. A stock option is also called a stock dividend.
FALSE

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: A1 Compute earnings per share and describe its use.

9. Earnings per share is calculated by dividing the total number of common shares outstanding by net income.
FALSE

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium
Learning Objective: A1 Compute earnings per share and describe its use.

10. The price-earnings ratio reveals information about the stock market's expectations for a company's future growth in earnings, dividends and economic opportunities.
TRUE

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Easy
Learning Objective: A2 Compute price earnings ratio and describe its use in analysis.

11. Dividend yield is defined as the market price per share of a company's stock divided by its earnings per share.
FALSE

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: A3 Compute dividend yield and explain its use in analysis.

12. A discount on stock occurs when a corporation sells its stock for a price greater than par value.
FALSE

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Easy
Learning Objective: P1 Record the issuance of corporate stock.

13. A debit balance in retained earnings is often referred to as a retained earnings deficit.
TRUE

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Easy
Learning Objective: P2 Record transactions involving cash dividends; stock dividends; and stock splits.

14. When a company declares of cash dividends retained earnings is reduced.
TRUE

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: P2 Record transactions involving cash dividends; stock dividends; and stock splits.

Multiple Choice Questions

15. The costs of bringing a corporation into existence, including legal fees, promoter fees and amounts paid to obtain a charter are called:
A. Minimum legal capital
B. Stock subscriptions
C. Organization costs
D. Cumulative costs
E. Prepaid fees

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA BB: Resource Management
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: C1 Identify characteristics of corporations and their organization.

16. The right of common shareholders to protect their proportionate interest in a corporation by having the first opportunity to buy additional proportionate shares of common stock issued by the corporation is called a:
A. Preemptive right
B. Proxy right
C. Right to call
D. Financial leverage
E. Voting right

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AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA BB: Resource Management
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: C1 Identify characteristics of corporations and their organization.

17. A proxy is:
A. A legal document that gives a designated agent of a stockholder the power to vote the stock
B. A contractual commitment by an investor to purchase unissued shares of stock
C. An amount of assets defined by state law that stockholders must invest and leave invested in a corporation
D. The right of common stockholders to protect their proportionate interests in a corporation by having the first opportunity to purchase additional shares of common stock issued by the corporation
E. An arbitrary amount assigned to no-par stock by the corporation's board of directors

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA BB: Resource Management
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium
Learning Objective: C1 Identify characteristics of corporations and their organization.

18. The board of directors of a corporation:
A. Are elected by the corporate registrar
B. Are responsible for day-to-day operations of the business
C. Do not have the power to bind the corporation to contracts, due to lack of mutual agency
D. May not also be executive officers of the corporation, due to the separate entity principle
E. Are responsible for and have final authority for managing corporate activities

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA BB: Resource Management
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: C1 Identify characteristics of corporations and their organization.

19. The total amount of stock that a corporation's charter allows it to issue is referred to as:
A. Issued stock
B. Outstanding stock
C. Common stock
D. Preferred stock
E. Authorized Stock

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA BB: Resource Management
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

20. Par value of a stock refers to the:
A. Issue price of the stock
B. Value assigned to a share of stock by the corporate charter
C. Market value of the stock on the date of the financial statements
D. Maximum selling price of the stock
E. Dividend value of the stock

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA BB: Resource Management
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

21. When all of the authorized shares have the same rights and characteristics, the stock is called:
A. Preferred stock
B. Common stock
C. Par value stock
D. Stated value stock
E. No-par value stock

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA BB: Resource Management
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

22. An amount of assets defined by state law that stockholders must invest and leave invested in a corporation is called the:
A. Par value of preferred
B. Minimum legal capital
C. Premium capital
D. Stated value
E. Working capital

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA BB: Resource Management
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

23. The total amount of cash and other assets received by a corporation from its stockholders in exchange for common stock is:
A. Always equal to its par value
B. Always equal to its stated value
C. Referred to as contributed capital
D. Referred to as retained earnings
E. Always below its stated value

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Resource Management
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

24. Stated value of no-par stock is:
A. Another name for redemption value
B. An amount assigned to par value stock by the state of incorporation
C. The market value of the stock on the date of issuance
D. The difference between the par value of stock and the amount below or above par value contributed by the stockholder
E. An amount assigned to no-par stock by the corporation's board of directors

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Resource Management
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

25. Stockholders' equity consists of:
A. Long-term assets
B. Contributed capital and retained earnings
C. Contributed capital and par value
D. Retained earnings and cash
E. Premiums and discounts

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Resource Management
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

26. A class of stock that does not have a par value and can usually be issued at any price without creating a minimum legal capital deficiency is called:
A. Convertible stock
B. No-par stock
C. Callable stock
D. Noncumulative stock
E. Discounted stock

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA BB: Resource Management
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Hard
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

27. A corporation's minimum legal capital is often defined to be the total par value of the shares:
A. Issued
B. Authorized
C. Subscribed
D. Outstanding
E. In treasury

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA BB: Resource Management
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Hard
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

28. Owners of preferred stock often do not have:
A. Ownership rights to assets of the corporation
B. Voting rights
C. Preference to dividends
D. The right to sell their stock on the open market
E. Preference to assets at liquidation

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA BB: Resource Management
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Easy
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

29. Preferred stock on which the right to receive dividends is forfeited for any year that the dividends are not declared is referred to as:
A. Participating preferred stock
B. Callable preferred stock
C. Cumulative preferred stock
D. Convertible preferred stock
E. Noncumulative preferred stock

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Resource Management
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

30. A dividend preference for preferred stock means that:
A. Preferred stockholders receive their dividends before common shareholders
B. Preferred shareholders are guaranteed dividends
C. Dividends are paid quarterly
D. Preferred stockholders prefer dividends more than common stockholders
E. Dividends must be declared on preferred stock

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Resource Management
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Hard
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

31. A company issued 7% preferred stock with a $100 par value. This means that:
A. Preferred shareholders have a guaranteed dividend
B. The amount of the potential dividend is $7 per year per preferred share
C. Preferred shareholders are entitled to 7% of the annual income
D. The market price per share will approximate $100 per share
E. Only 7% of the total contributed capital can be preferred stock

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Resource Management
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Apply
Difficulty: Hard
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

32. Prior period adjustments to financial statements can result from:
A. Changes in estimates
B. Using unacceptable accounting principles
C. Discontinued operations
D. Changes in tax law
E. Extraordinary items

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Resource Management
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Easy
Learning Objective: C3 Explain the items reported in retained earnings.

33. Prior period adjustments are reported in the:
A. Income statement
B. Balance sheet
C. Statement of retained earnings
D. Statement of cash flows
E. Notes to the financial statements

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Resource Management
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: C3 Explain the items reported in retained earnings.

34. Changes in accounting estimates are:
A. Considered accounting errors
B. Reported as prior period adjustments
C. Accounted for with a cumulative "catch-up" adjustment
D. Extraordinary items
E. Accounted for in current and future periods

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Resource Management
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Apply
Difficulty: Medium
Learning Objective: C3 Explain the items reported in retained earnings.

35. A company had a beginning balance in retained earnings of $43,000. It had net income of $6,000 and paid out cash dividends of $5,625 in the current period. The ending balance in retained earnings account is equal to:
A. $108,625
B. $(12,625)
C. $11,375
D. $43,375
E. $(11,375)

Beginning balance	$43,000
Plus net income	6,000
Less dividends	(5,625)
Ending balance	$43,375

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Bloom's: Analyze
Difficulty: Medium
Learning Objective: C3 Explain the items reported in retained earnings.

36. The statement of changes in stockholders' equity:
A. Is part of the statement of retained earnings
B. Shows only the ending balances in stockholders' equity
C. Describes changes in contributed capital and retained earnings subcategories
D. Does not include changes in treasury stock
E. Is reported by very few companies

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Bloom's: Understand
Difficulty: Hard
Learning Objective: C3 Explain the items reported in retained earnings.

37. When all of the authorized shares have the same rights and characteristics, the stock is referred to as:
A. "Preferred Shares" under both IFRS and GAAP
B. "Common Shares" under both IFRS and GAAP
C. "Plain Shares" under IFRS and "Common Shares" under GAAP
D. "Simple Shares" under IFRS and "Pure Shares" under GAAP
E. "Ordinary Shares" under IFRS and "Common Shares" under GAAP

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Bloom's: Understand
Difficulty: Hard
Learning Objective: C3 Explain the items reported in retained earnings.

38. A company has 2,000 shares of $1 par value common stock and 200 shares of 5%, $110 par, non-cumulative preferred stock outstanding. The balance in Retained Earnings at the *beginning* of the year was $500,000. Net income for the current year was $300,000. If the company paid a dividend of $2 per share on its common stock, what is the balance in Retained Earnings at the *end* of the year?

A. $800,000
B. $805,100
C. $794,900
D. $494,900
E. $194,900

Beginning balance	$500,000	
Plus net income	300,000	
Less current year preferred dividends	(1,100)	200 shares x $110 par x .05
Less current year common dividends	(4,000)	2,000 shares x $2
Ending balance	$794,900	

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AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Hard
Learning Objective: C3 Explain the items reported in retained earnings.

39. A company has 3,000 shares of $2 par value common stock and 1,500 shares of 8%, $150 par, non-cumulative preferred stock outstanding. The balance in Retained Earnings at the *beginning* of the year was $400,000. The Net Loss for the current year was $30,000. If the company paid a dividend of $1 per share on its common stock, what is the balance in Retained Earnings at the *end* of the year?

A. $349,000
B. $365,800
C. $451,000
D. $400,000
E. $409,000

Beginning balance	$400,000	
Less net loss	(30,000)	
Less current year preferred dividends	(18,000)	1,500 shares x $150 par x .08
Less current year common dividends	(3,000)	3,000 shares x $1
Ending balance	$349,000	

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AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Hard
Learning Objective: C3 Explain the items reported in retained earnings.

40. A company has 5,000 shares of $1 par value common stock and 6,000 shares of 2%, $98 par, non-cumulative preferred stock outstanding. The balance in Retained Earnings at the *beginning* of the year was $750,000. Net income for the current year was $400,000. If the company paid a dividend of $3 per share on its common stock, what is the balance in Retained Earnings at the *end* of the year?
A. $1,123,240
B. $1,135,000
C. $1,150,000
D. $735,000
E. $723,240

Beginning balance	$400,000	
Less net loss	(30,000)	
Less current year preferred dividends	(18,000)	1,500 shares x $150 par x .08
Less current year common dividends	(3,000)	3,000 shares x $1
Ending balance	$349,000	

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Bloom's: Analyze
Difficulty: Hard
Learning Objective: C3 Explain the items reported in retained earnings.

41. The amount of income earned per share of a company's common stock is known as:
A. Restricted retained earnings per share
B. Earnings per share
C. Continuing operations per share
D. Dividends per share
E. Book value per share

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Bloom's: Remember
Difficulty: Easy
Learning Objective: A1 Compute earnings per share and describe its use.

42. Shamrock Company had net income of $30,000. On January 1, there were 8.000 shares of common stock outstanding. On April 1, the company issued an additional 2,000 shares of common stock. There were no other stock transactions. The company has an earnings per share of:
A. $3.75
B. $3.00
C. $3.33
D. $15.00
E. $3.16

{$30,000/[(8,000 x 3/12) + (10,000 x 9/12)]} = $3.16

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AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Medium
Learning Objective: A1 Compute earnings per share and describe its use.

43. Shamrock Company had net income of $30,000. On January 1, there were 8,000 share of common stock outstanding. On April 1, the company issued an additional 2,000 shares of common stock. The company declared a $2,700 dividend on its noncumulative, nonparticipating preferred stock. There were no other stock transactions. The company has an earnings per share of:
A. $2.87
B. $2.73
C. $3.41
D. $3.16
E. $3.75

{$30,000 - $2,700/[(8,000 x 3/12) + (10,000 x 9/12)]} = $2.87

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Bloom's: Analyze
Difficulty: Hard
Learning Objective: A1 Compute earnings per share and describe its use.

44. A company had net income of $250,000. On January 1, there were 12,000 shares of common stock outstanding. On May 1, the company issued an additional 9,000 shares of common stock. The company declared a $7,900 dividend on its noncumulative, nonparticipating preferred stock. There were no other stock transactions. The company had an earnings per share of:
A. $13.45
B. $13.89
C. $11.53
D. $26.90
E. Amount cannot be determined as problem does not state if there are any dividends in arrears

{$250,000 - $7,900/[(12,000 x 4/12) + (21,000 x 8/12)]} = $13.45

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Difficulty: Hard
Learning Objective: A1 Compute earnings per share and describe its use.

45. The price-earnings ratio is calculated by dividing:
A. Market value per share by earnings per share
B. Earnings per share by market value per share
C. Dividends per share by earnings per share
D. Dividends per share by market value per share
E. Market value per share by dividends per share

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Bloom's: Remember
Difficulty: Medium
Learning Objective: A2 Compute price earnings ratio and describe its use in analysis.

46. A company has a market value per share of $73.00. Its net income is $1,750,000 and the weighted-average number of shares outstanding is 350,000. The company's price-earnings ratio is equal to:
A. 20.9
B. 4.2
C. 14.6
D. 20.0
E. 6.8

$73/($1,750,000/350,000 shares) = 14.6

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Bloom's: Analyze
Difficulty: Hard
Learning Objective: A2 Compute price earnings ratio and describe its use in analysis.

47. A company has net income of $850,000. It also has 125,000 weighted-average common shares outstanding and a market value per share of $115. The company's price-earnings ratio is equal to:
A. 16.9
B. 14.7
C. 92.0
D. 13.5
E. 8.0

$115/($850,000/125,000 shares) = 16.9

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Bloom's: Analyze
Difficulty: Hard
Learning Objective: A2 Compute price earnings ratio and describe its use in analysis.

48. A company has net income of $2,800,000. It also has 400,000 weighted-average common shares outstanding and a price-earnings ratio of 20. What is the market value per share of this company's stock?

A. $2.85
B. $140
C. $20,000
D. $.35
E. $2,857.14

Earnings per share = $2,800,000/400,000 = 7

Market value per share = ? divided by 7 = 20
= 20 x 7
= 140

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Bloom's: Analyze
Difficulty: Hard
Learning Objective: A2 Compute price earnings ratio and describe its use in analysis.

49. A company has net income of $3,000,000. It has 600,000 weighted-average common shares outstanding and a price-earnings ratio of 17. What is the market value per share of this company's stock?
A. $5
B. $85
C. $176,470.58
D. $84.90
E. $17

Earnings per share = $3,000,000/600,000 = $5

Market value per share =		? divided by 5 = 17
	=	17 x 5
	=	$85

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Bloom's: Analyze
Difficulty: Hard
Learning Objective: A2 Compute price earnings ratio and describe its use in analysis.

50. Dividend yield is the percent of cash dividends paid to common shareholders relative to the:
A. Common stock's market value
B. Earnings per share
C. Investors' purchase price of the stock
D. Amount of retained earnings
E. Amount of cash

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Bloom's: Understand
Difficulty: Easy
Learning Objective: A3 Compute dividend yield and explain its use in analysis.

51. The annual amount of cash dividends distributed to common shareholders relative to the common stock's market value is the:
A. Dividend payout ratio
B. Dividend yield
C. Price-earnings ratio
D. Current yield
E. Earnings per share

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Bloom's: Remember
Difficulty: Easy
Learning Objective: A3 Compute dividend yield and explain its use in analysis.

52. Stocks that pay relatively large cash dividends on a regular basis are referred to as:
A. Small capital stocks
B. Mid capital stocks
C. Growth stocks
D. Large capital stocks
E. Income stocks

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Bloom's: Remember
Difficulty: Easy
Learning Objective: A3 Compute dividend yield and explain its use in analysis.

53. The dividend yield is computed by dividing:
A. Cash dividends per share by earnings per share
B. Earnings per share by cash dividends per share
C. Cash dividends per share by the market price per share
D. Market price per share by cash dividends per share
E. Cash dividends per share by retained earnings

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Bloom's: Remember
Difficulty: Medium
Learning Objective: A3 Compute dividend yield and explain its use in analysis.

54. A company paid $0.48 in cash dividends per share. It has an earnings per share of $4.20 and a market price per share of $30.00. Its dividend yield equals:
A. 1.60%
B. 6.25%
C. 8.75%
D. 11.40%
E. 14.00%

$0.48/$30 = 1.6%

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Bloom's: Analyze
Difficulty: Medium
Learning Objective: A3 Compute dividend yield and explain its use in analysis.

55. A company paid $0.75 in cash dividends per share. It has an earnings per share of $3.50 and a market price per share of $37.50. Its dividend yield equals:
A. 11.7%
B. 2.0%
C. 10.9%
D. 21.4%
E. 46.7%

$0.75/$37.50 = 2%

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Bloom's: Analyze
Difficulty: Medium
Learning Objective: A3 Compute dividend yield and explain its use in analysis.

56. Book value per share:
A. Reflects the value per share if a company is liquidated at balance sheet amounts
B. Is assets divided by equity
C. Is assets divided by the number of common share outstanding
D. Measures the worth of assets
E. Is equal to par value per share

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AICPA FN: Measurement
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Bloom's: Understand
Difficulty: Easy
Learning Objective: A4 Compute book value and explain its use in analysis.

57. Book value per common share is computed by:
A. Multiplying the number of common shares outstanding times the market price per common share
B. Dividing total assets by the number of shares outstanding
C. Dividing stockholders' equity applicable to common shares by the number of common shares outstanding
D. Multiplying the number of common shares outstanding by par value per share
E. Dividing the number of common shares outstanding by stockholders' equity applicable to common shares

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AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium
Learning Objective: A4 Compute book value and explain its use in analysis.

58. A company has 40,000 shares of common stock outstanding. The stockholders' equity applicable to common shares is $470,000 and the par value per common share is $10. The book value per share is:
A. $0.09
B. $1.75
C. $10.00
D. $11.75
E. $47.50

$470,000/40,000 shares = $11.75 per share

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Bloom's: Analyze
Difficulty: Medium
Learning Objective: A4 Compute book value and explain its use in analysis.

59. A company has 1,000 shares of $100 par preferred stock. It also has 25,000 shares of common stock outstanding and its total stockholders' equity equals $500,000. The book value per common share is:

A. $15.38
B. $16.00
C. $19.23
D. $20.00
E. $100.00

Preferred stock claim: 1,000 shares x $100/share = $100,000
Book value per common share: ($500,000 - $100,000)/25,000 shares = $16 share

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Bloom's: Analyze
Difficulty: Hard
Learning Objective: A4 Compute book value and explain its use in analysis.

60. A company has 500 shares of $50 par value preferred stock outstanding and the call price of its preferred stock is $60 per share. It also has 20,000 shares of common stock outstanding and the total value of its stockholders' equity is $680,000. The company's book value per common share equals:

A. $31.71
B. $32.50
C. $32.75
D. $33.17
E. $60.00

[$680,000 - (500 preferred shares x $60)]/20,000 common shares = $32.50/common share

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Bloom's: Analyze
Difficulty: Hard
Learning Objective: A4 Compute book value and explain its use in analysis.

61. The Discount on Common Stock account reflects:
A. The difference between the par value of stock and its issue price when the issue price is below par value.
B. One share's portion of the issued corporation's net assets recorded in its accounts
C. The difference between the par value of the stock and the amount contributed by stockholders when the amount contributed is more than par value
D. An amount of assets defined by state law that stockholders must invest and leave invested in a corporation
E. The amount a corporation must pay in addition to dividends in arrears if and when it exercises its right to retire a share of callable preferred stock

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Bloom's: Remember
Difficulty: Medium
Learning Objective: P1 Record the issuance of corporate stock.

62. A corporation was formed on January 1. The corporate charter authorized 100,000 shares of $10 par value common stock. During the first month of operation, the corporation issued 300 shares to its attorneys in payment of a $5,000 charge for drawing up the articles of incorporation. The entry to record this transaction would include:
A. A debit to Organization Expenses for $3,000
B. A debit to Organization Expenses for $5,000
C. A credit to Common Stock for $5,000
D. A credit to Contributed Capital in Excess of Par Value, Common Stock for $5,000
E. A debit to Contributed Capital in Excess of Par Value, Common Stock for $2,000

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Bloom's: Apply
Difficulty: Medium
Learning Objective: P1 Record the issuance of corporate stock.

63. A corporation sold 14,000 shares of its $10 par value common stock at a cash price of $13 per share. The entry to record this transaction would include:
A. A debit to Contributed Capital in Excess of Par Value, Common Stock for $42,000
B. A debit to Cash for $140,000
C. A credit to Common Stock for $182,000
D. A credit to Common Stock for $140,000
E. A credit to Contributed Capital in Excess of Par Value, Common Stock for $182,000

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Bloom's: Apply
Difficulty: Medium
Learning Objective: P1 Record the issuance of corporate stock.

64. A corporation issued 6,000 shares of its $10 par value common stock in exchange for land that has a market value of $84,000. The entry to record this transaction would include:
A. A debit to Common Stock for $60,000
B. A debit to Land for $60,000
C. A credit to Land for $60,000
D. A credit to Contributed Capital in Excess of Par Value, Common Stock for $24,000
E. A credit to Common Stock for $84,000

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Bloom's: Apply
Difficulty: Medium
Learning Objective: P1 Record the issuance of corporate stock.

65. A corporation issued 300 shares of its $5 par value common stock in payment of a $1,800 charge from its accountant for assistance in filing its charter with the state. The entry to record this transaction will include:
A. A $1,800 credit to Common Stock
B. A $1,500 debit to Organization Expenses
C. A $300 credit to Contributed Capital in Excess of Par Value, Common Stock
D. A $1,800 debit to Legal Expenses
E. A $1,800 credit to Cash

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Bloom's: Apply
Difficulty: Medium
Learning Objective: P1 Record the issuance of corporate stock.

66. A company issued 60 shares of $100 par value stock for $7,000 cash. The total amount of contributed capital is:
A. $100
B. $600
C. $1,000
D. $6,000
E. $7,000

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Bloom's: Analyze
Difficulty: Medium
Learning Objective: P1 Record the issuance of corporate stock.

67. A company issued 60 shares of $100 par value stock for $7,000 cash. The total amount of contributed capital in excess of par is:
A. $100
B. $600
C. $1,000
D. $6,000
E. $7,000

$7,000 - (60 shares x $100 par) = $1,000

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Bloom's: Analyze
Difficulty: Medium
Learning Objective: P1 Record the issuance of corporate stock.

68. A corporation issued 5,000 shares of $10 par value common stock in exchange for some land with a market value of $60,000. The entry to record this exchange is:

A.

Land	60,000	
Common Stock		50,000
Contributed Capital in Excess of Par Value, Common Stock		10,000

B.

Land	60,000	
Common Stock		60,000

C.

Land	50,000	
Common Stock		50,000

D.

Common Stock	50,000	
Contributed Capital in Excess of Par Value, Common Stock	10,000	
Land		60,000

E.

Common Stock	60,000	
Land		60,000

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Difficulty: Medium
Learning Objective: P1 Record the issuance of corporate stock.

69. A premium on common stock:
A. Is the amount paid in excess of par by purchasers of newly issued stock
B. Is the difference between par value and issue price when the amount paid is below par
C. Represents profit from issuing stock
D. Represents capital gain on sale of stock
E. Is prohibited in most states

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Bloom's: Remember
Difficulty: Hard
Learning Objective: P1 Record the issuance of corporate stock.

70. The date the board of directors votes to pay a dividend is called the:
A. Date of stockholders' meeting
B. Date of declaration
C. Date of record
D. Date of payment
E. Liquidating date

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AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: P2 Record transactions involving cash dividends; stock dividends; and stock splits.

71. A liquidating dividend is:
A. Only declared when a corporation closes down
B. A return of a part of the original investment back to the stockholders
C. Not allowed under federal law
D. Only paid in assets other than cash
E. Only paid in shares of stock

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Bloom's: Understand
Difficulty: Easy
Learning Objective: P2 Record transactions involving cash dividends; stock dividends; and stock splits.

72. A company's board of directors' votes to declare a cash dividend of $0.75 per share. The company has 15,000 shares authorized, 10,000 issued and 9,500 shares outstanding. The total amount of the cash dividend is:
A. $375
B. $4,125
C. $7,125
D. $7,500
E. $11,250

$0.75 x 9,500 shares = $7,125

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Bloom's: Analyze
Difficulty: Medium
Learning Objective: P2 Record transactions involving cash dividends; stock dividends; and stock splits.

73. A company declared a $0.50 per share cash dividend. The company has 20,000 shares authorized, 9,000 shares issued and 8,000 shares of common stock outstanding. The journal entry to record the dividend declaration is:

A.

Retained Earnings	4,000	
Common Dividends Payable		4,000

B.

Common Dividends Payable	4,000	
Cash		4,000

C.

Retained Earnings	4,500	
Common Dividends Payable		4,500

D.

Common Dividends Payable	4,500	
Cash		4,500

E.

Retained Earnings	5,000	
Common Dividends Payable		5,000

$0.50 x 8,000 shares = $4,000

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Bloom's: Apply
Difficulty: Hard
Learning Objective: P2 Record transactions involving cash dividends; stock dividends; and stock splits.

74. Assume Garrison Guitar Company declared a $0.28 per share cash dividend and that the company has 25,000 shares authorized, 19,000 shares issued and 12,000 shares of common stock outstanding. The general journal entry to record the dividend declaration is:

A.

Retained Earnings	3,360	
Common Dividends Payable		3,360

B.

Common Dividends Payable	5,320	
Cash		5,320

C.

Retained Earnings	5,320	
Common Dividends Payable		5,320

D.

Common Dividends Payable	7,000	
Cash		7,000

E.

Retained Earnings	7,000	
Common Dividends Payable		7,000

12,000 x $0.28 = $3,360

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Apply
Difficulty: Hard
Learning Objective: P2 Record transactions involving cash dividends; stock dividends; and stock splits.

75. A corporation's distribution of additional shares of its own stock to its stockholders without the receipt of any payment in return is called a:

A. Stock dividend
B. Stock subscription
C. Premium on stock
D. Discount on stock
E. Treasury stock

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

76. A stock dividend transfers:
A. Contributed capital to retained earnings
B. Retained earnings to contributed capital
C. Retained earnings to assets
D. Contributed capital to assets
E. Assets to contributed capital

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

77. On September 1, a corporation had 50,000 shares of $5 par value common stock and $1,000,000 of retained earnings. On that date, when the market price of the stock is $15 per share, the corporation issues a 2-for-1 stock split. The general journal entry to record this transaction is:

A.

Retained earnings	750,000	
Common Stock Split Distributable		750,000

B.

Retained earnings	750,000	
Common Stock		750,000

C.

Retained Earnings	250,000	
Common Stock		250,000

D.

Retained earnings	250,000	
Stock split payable		250,000

E. No entry is made for this transaction

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Apply
Difficulty: Medium
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

78. A corporation declared and issued a 15% stock dividend on November 1. The following up-to-date information was available immediately prior to the dividend:

Retained earnings	$750,000
Shares issued and outstanding	60,000
Market value per share	$15
Par value per share	$5

The amount that total stockholders' equity will increase (decrease) as a result of recording this stock dividend is:

A. $45,000
B. $135,000
C. $(90,000)
D. $(135,000)
E. $0

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Hard
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

79. A corporation had 50,000 shares of $20 par value common stock outstanding on July 1. Later that day the board of directors declared a 10% stock dividend when the market value of each share was $27. The entry to record this dividend is:

A.

Retained Earnings	135,000	
Common Stock Dividend Distributable		135,000

B.

Retained Earnings	135,000	
Cash...		135,000

C.

Retained Earnings	135,000	
Common Stock Dividend Distributable		100,000
Contributed Capital in Excess of		
Par Value, Common Stock...........................		35,000

D.

Retained Earnings	100,000	
Common Stock Dividend Distributable		100,000

E. No entry is made until the stock is issued

Retained earnings: 50,000 shares x 10% x $27 = $135,000

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Apply
Difficulty: Hard
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

80. A corporation had 20,000 shares of $10 par value common stock outstanding on Jan 10. Later that day the board of directors declared a 30% stock dividend when the market value of each share was $40. The entry to record this dividend is:

A.

Retained Earnings	60,000	
Common Stock Dividend Distributable		60,000

B.

Retained Earnings	60,000	
Cash..		60,000

C.

Retained Earnings	240,000	
Common Stock Dividend Distributable		60,000
Contributed Capital in Excess of		
Par Value, Common Stock..........................		180,000

D.

Retained Earnings	240,000	
Common Stock Dividend Distributable		240,000

E. No entry is made until the stock is issued

20,000 shares x .3 x $10 = $60,000

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Apply
Difficulty: Hard
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

81. A corporation had 40,000 shares of $10 par value common stock outstanding on August 1. Later that day, the board of directors declared a 9% stock dividend when the market value of each share was $72. The entry to record this dividend is:

A.

Retained Earnings	259,200	
Common Stock Dividend Distributable		259,200

B.

Retained Earnings	259,200	
Common Stock Dividend Distributable		259,200

C.

Retained Earnings	259,200	
Common Stock Dividend Distributable		36,000
Contributed Capital in Excess of		
Par Value, Common Stock		223,200

D.

Retained Earnings	36,000	
Common Stock Dividend Distributable		36,000

E. No entry is made until the stock is issued

Retained earnings: 40,000 shares x 9% x $72 = $259,200

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Apply
Difficulty: Hard
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

82. Preferred stock on which the right to receive dividends is forfeited for any year that the dividends are not declared is called:
A. Noncumulative preferred stock
B. Participating preferred stock
C. Callable preferred stock
D. Cumulative preferred stock
E. Convertible preferred stock

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

83. Preferred stock that the issuing corporation at its option may retire by paying a specified amount to the preferred stockholders plus any dividends in arrears is called:
A. Convertible preferred stock
B. Callable preferred stock
C. Premium stock
D. Cumulative preferred stock
E. Participating preferred stock

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

84. Achieving an increased return on common stock by paying dividends on preferred stock at a rate that is less than the rate of return earned with the assets invested from the preferred stock issuance is called:
A. Financial leverage
B. Discount on stock
C. Premium on stock
D. Preemptive right
E. Capital gain

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

85. Preferred stock with a feature allowing preferred stockholders to share with common shareholders in any dividends in excess of the percent or dollar amount stated on the preferred stock is called:
A. Cumulative preferred stock
B. Callable preferred stock
C. Participating preferred stock
D. Convertible preferred stock
E. Preferential preferred stock

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

86. Xtreme Sports has $100,000 of 8% noncumulative, nonparticipating, preferred stock outstanding. Xtreme Sports also has $500,000 of common stock outstanding. In the company's first year of operation, no dividends were paid. During the second year, Xtreme Sports paid cash dividends of $30,000. This dividend should be distributed as follows:
A. $8,000 preferred; $22,000 common
B. $16,000 preferred; $14,000 common
C. $7,500 preferred; $22,500 common
D. $15,000 preferred; $15,000 common
E. $0 preferred; $30,000 common

Preferred stock dividend: $100,000 x 8% = $8,000

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Hard
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

87. A company has 1,000 shares of $50 par value, 4.5% cumulative and nonparticipating preferred stock and 10,000 shares of $10 par value common stock outstanding. The company paid total cash dividends of $1,000 in its first year of operation. The cash dividend that must be paid to preferred stockholders in the second year before any dividend is paid to common stockholders is:
A. $1,000
B. $1,250
C. $2,250
D. $3,500
E. $4,500

Preferred stock dividend: 1,000 shares x $50/share x 4.5% = $2,250
Dividends in arrears year 1: $2,250 - $1,000 = $1,250
Preferred dividends due year 2: $1,250 + 2,250 = $3,500

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Hard
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

88. A company's board of directors' votes to declare a total cash dividend of $25,000. The company has 2,500 shares of $1 par common stock and 400 shares of 4%, $200 par preferred stock outstanding. What is the total amount that will be paid to preferred shareholders?
A. $1,000
B. $22,500
C. $400
D. $3,200
E. $25,000

400 shares x .04 x 200 shares = $3,200

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Hard
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

89. A company has 200,000 shares of $1 par value common stock and 20,000 shares of 7%, $100 par, cumulative preferred stock outstanding. The balance in Retained Earnings account at the *beginning* of the year was $1,500,000 and one year's dividends were in arrears. Net income for the current year was $2,000,000. If the company paid a dividend of $3 per share on its common stock, what is the balance in Retained Earnings account at the *end* of the year?
A. $3,500,000
B. $2,900,000
C. $2,760,000
D. $2,620,000
E. $620,000

Beginning balance	$1,500,000	
Plus net income	2,000,000	
Less preferred dividends in arrears	(140,000)	20,000 shares x $100 par x .07
Less current year preferred dividends	(140,000)	20,000 shares x $100 par x .07
Less current year common dividends	(600,000)	200,000 shares x $3
Ending balance	$2,620,000	

AACSB: Analytic
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AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Hard
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

90. Stock that was reacquired by the company and is still held by the issuing corporation is called:
A. Capital stock
B. Treasury stock
C. Redeemed stock
D. Preferred stock
E. Callable stock

AACSB: Analytic
AACSB: Communications
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AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: P3 Record purchases and sales of treasury stock and the retirement of stock.

91. Treasury stock is classified as:
A. An asset account
B. A contra asset account
C. A revenue account
D. A contra equity account
E. A liability account

AACSB: Analytic
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AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Easy
Learning Objective: P3 Record purchases and sales of treasury stock and the retirement of stock.

92. The following data were reported by a corporation:

Authorized shares	20,000
Issued shares..	15,000
Treasury shares	3,000

The number of outstanding shares is:
A. 12,000
B. 15,000
C. 17,000
D. 20,000
E. 23,000

AACSB: Analytic
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AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Medium
Learning Objective: P3 Record purchases and sales of treasury stock and the retirement of stock.

93. The following data has been collected about a company's stockholders' equity accounts:

Common stock $10 par value 20,000 shares	
authorized and 10,000 shares issued	$100,000
Contributed capital in excess of par value, common stock.....	50,000
Retained earnings..	25,000
Treasury stock, 1,000 shares	11,500

The treasury shares were all purchased at the same price.
The cost per share of the treasury stock is:
A. $1.15
B. $1.28
<u>C.</u> $11.50
D. $10.50
E. $10.00

$11,500/1,000 = $11.50, the cost per share of treasury stock.

AACSB: Analytic
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AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Hard
Learning Objective: P3 Record purchases and sales of treasury stock and the retirement of stock.

94. Prior to June 1, a company has never had any treasury stock transactions. A company repurchased 100 shares of its common stock on June 1 for $5,000. On July 1, it reissued 50 of these shares at $52 per share. On August 1, it reissued the remaining treasury shares at $49 per share. What is the balance in the Contributed Capital, Treasury Stock account on August 2?

A. $5,050
B. $2,600
C. $100
D. $50
E. $0

Contributed Capital, Treasury Stock:	
June 1	$ 0
July 1: $2/share x 50 shares	100
August 1: $1/share x 50 shares	(50)
Balance, August 2	$ 50

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Hard
Learning Objective: P3 Record purchases and sales of treasury stock and the retirement of stock.

95. On August 31, 2010 Victory Corporation's common stock is priced at $30 per share before any stock dividend or split, and the stockholders' equity section of its balance sheet appears as follows. Assume that the company declares and immediately distributes a 100% stock dividend.

Common stock—$7 par value, 95,000 shares authorized, 38,000 shares issued and outstanding	$ 266,000
Paid-in capital in excess of par value, common stock	100,000
Retained earnings	366,000
Total stockholders' equity	$732,000

What is the total amount in the Common Stock account immediately after the stock dividend?
A. $266,000
B. $532,000
C. $1,140,000
D. $874,000
E. $0

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Hard
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

96. On August 31, 2010 Victory Corporation's common stock is priced at $30 per share before any stock dividend or split, and the stockholders' equity section of its balance sheet appears as follows. Assume that the company declares and immediately distributes a 100% stock dividend.

Common stock—$7 par value, 95,000 shares authorized, 38,000 shares issued and outstanding	$ 266,000
Paid-in capital in excess of par value, common stock	100,000
Retained earnings	366,000
Total stockholders' equity	$732,000

What is the total amount in the Retained Earnings account immediately after the stock dividend?

A. $266,000
B. $532,000
C. $366,000
D. $100,000
E. $0

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Hard
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

97. On August 31, 2010 Victory Corporation's common stock is priced at $30 per share before any stock dividend or split, and the stockholders' equity section of its balance sheet appears as follows. Assume that the company declares and immediately distributes a 15% stock dividend.

Common stock—$7 par value, 95,000 shares authorized, 38,000 shares issued and outstanding	$ 266,000
Paid-in capital in excess of par value, common stock	100,000
Retained earnings	366,000
Total stockholders' equity	$732,000

What is the total amount in the Retained Earnings account immediately after the stock dividend?

A. $537,000
B. $195,000
C. $366,000
D. $100,000
E. $0

AACSB: Analytic
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AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Hard
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

98. On August 31, 2010 Victory Corporation's common stock is priced at $30 per share before any stock dividend or split, and the stockholders' equity section of its balance sheet appears as follows. Assume that the company declares and immediately distributes a 15% stock dividend.

Common stock—$7 par value, 95,000 shares authorized, 38,000 shares issued and outstanding	$ 266,000
Paid-in capital in excess of par value, common stock	100,000
Retained earnings	366,000
Total stockholders' equity	$732,000

What is the total amount in the Paid in Capital account immediately after the stock dividend?
A. $537,000
B. $195,000
C. $366,000
D. $100,000
E. $231,000

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Hard
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

99. On August 31, 2010 Victory Corporation's common stock is priced at $30 per share before any stock dividend or split, and the stockholders' equity section of its balance sheet appears as follows. Assume that the company declares and immediately distributes a 35% stock dividend.

Common stock—$7 par value, 95,000 shares authorized, 38,000 shares issued and outstanding	$ 266,000
Paid-in capital in excess of par value, common stock	100,000
Retained earnings	366,000
Total stockholders' equity	$732,000

What is the total amount in the Paid in Capital account immediately after the stock dividend?
A. $193,100
B. $195,000
C. $366,000
D. $100,000
E. $231,000

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Hard
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

100. Pete's outstanding stock consists of (*a*) 17,000 shares of noncumulative 7.50% preferred stock with a $10 par value and (*b*) 42,500 shares of common stock with a $1 par value. During its first four years of operation, the corporation declared and paid the following total cash dividends.

2010	$ 0
2011	28,000
2012	100,000
2013	198,000

What is the amount of dividends that the Common Stockholders receive in 2011?

A. $26,725
B. $15,250
C. $2,500
D. $0
E. $28,000

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Hard
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

101. Pete's outstanding stock consists of (*a*) 17,000 shares of noncumulative 7.50% preferred stock with a $10 par value and (*b*) 42,500 shares of common stock with a $1 par value. During its first four years of operation, the corporation declared and paid the following total cash dividends.

2010	$ 0
2011	28,000
2012	100,000
2013	198,000

What is the amount of dividends that the Common Stockholders receive for all years presented?

A. $177,000
B. $276,000
C. $214,250
D. $326,000
E. $287,750

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Hard
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

102. Premier's outstanding stock consists of (*a*) 57,000 shares of cumulative 4.25% preferred stock with a $18 par value and (*b*) 75,000 shares of common stock with a $1 par value. During its first four years of operation, the corporation declared and paid the following total cash dividends.

2010	$ 0
2011	38,000
2012	150,000
2013	175,000

What is the amount of dividends that the Common Stockholders receive for all years presented?

A. $177,000
B. $188,580
C. $214,250
D. $326,000
E. $363,000

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Hard
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

103. Duke Corporation reports the following components of stockholders' equity on December 31, 2010.

Common stock—$25 par value, 100,000 shares authorized, 45,000 shares issued and outstanding	$1,125,000
Paid-in capital in excess of par value, common stock	60,000
Retained earnings	460,000
Total stockholders' equity	$1,645,000

In year 2011, the following transactions affected its stockholders' equity accounts.

Jan. 1	Purchased 4,500 shares of its own stock at $27 cash per share.
Jan. 5	Directors declared a $3 per share cash dividend payable on Feb. 28 to the Feb. 5 stockholders of record.
Feb. 28	Paid the dividend declared on January 5.

What is the amount of the dividend declared?

A. $177,000
B. $135,000
C. $121,500
D. $326,000
E. $338,500

(45000-4500)*$3 = $121,500

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Hard
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

104. Duke Corporation reports the following components of stockholders' equity on December 31, 2010.

Common stock—$25 par value, 100,000 shares authorized, 45,000 shares issued and outstanding	$1,125,000
Paid-in capital in excess of par value, common stock	60,000
Retained earnings	460,000
Total stockholders' equity	$1,645,000

In year 2011, the following transactions affected its stockholders' equity accounts.

Jan. 1	Purchased 4,500 shares of its own stock at $27 cash per share.
Jan. 5	Directors declared a $3 per share cash dividend payable on Feb. 28 to the Feb. 5 stockholders of record.
Feb. 28	Paid the dividend declared on January 5.

Mar. 3 Sold 1,000 shares of treasury stock for $28 per share
What is the journal entry required for the March 3rd transaction?

A. Cash……………………….28,000
Treasury Stock……………………25,000
Paid in Capital, Treasury Stock…….3,000

B. Cash………………………...28,000
Treasury Stock…………………...28,000

C. Cash…………………………28,000
Treasury Stock…………………….27,000
Paid in Capital, Treasury Stock…….1,000

D. Cash……………........………28,000
Common Stock……………………25,000
Paid in Capital, Common Stock…...3,000

E. Cash…………………………28,000
Retained Earnings………………..28,000

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
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AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Hard
Learning Objective: P3 Record purchases and sales of treasury stock and the retirement of stock.

105. Duke Corporation reports the following components of stockholders' equity on December 31, 2010.

Common stock—$25 par value, 100,000 shares authorized, 45,000 shares issued and outstanding	$1,125,000
Paid-in capital in excess of par value, common stock	60,000
Retained earnings	460,000
Total stockholders' equity	$1,645,000

In year 2011, the following transactions affected its stockholders' equity accounts.

Jan. 1	Purchased 4,500 shares of its own stock at $27 cash per share.
Jan. 5	Directors declared a $3 per share cash dividend payable on Feb. 28 to the Feb. 5 stockholders of record.
Feb. 28	Paid the dividend declared on January 5.

Mar. 3 Sold 1,000 shares of treasury stock for $28 per share
May 25 Sold 1,000 shares of treasury stock for $16 per share
What is the amount in the Retained Earnings account immediately after the May 2nd sale?
A. $460,000
B. $328,500
C. $444,000
D. $433,000
E. E.$338,500

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
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AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Hard
Learning Objective: P3 Record purchases and sales of treasury stock and the retirement of stock.

106. Duke Corporation reports the following components of stockholders' equity on December 31, 2010.

Common stock—$25 par value, 100,000 shares authorized, 45,000 shares issued and outstanding	$1,125,000
Paid-in capital in excess of par value, common stock	60,000
Retained earnings	460,000
Total stockholders' equity	$1,645,000

In year 2011, the following transactions affected its stockholders' equity accounts.

Jan. 1	Purchased 4,500 shares of its own stock at $27 cash per share.
Jan. 5	Directors declared a $3 per share cash dividend payable on Feb. 28 to the Feb. 5 stockholders of record.
Feb. 28	Paid the dividend declared on January 5.

Mar. 3	Sold 1,000 shares of treasury stock for $28 per share
May 25	Sold 1,000 shares of treasury stock for $16 per share
June 15	Directors declared a $1.50 per share cash dividend payable on July 15 to the June 30 stockholders of record
July 15	Paid the dividend declared on June 15

What is the amount in the Retained Earnings account immediately after the dividend on July 15?

A. $264,750
B. $392,500
C. $460,000
D. $338,500
E. $470,000

Feb. 28: reduced RE by 121,500 (40,500*$3)

May 25: reduced RE by $10,000 (treasury stock sold below par value)

July 15: reduced RE by $63,750 (rounded) (42,500*1.50)

Ending Retained Earnings: 264,750

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Hard
Learning Objective: C3 Explain the items reported in retained earnings.

107. Victory Corporation issues 17,000 shares of its $2 par value common stock for $152,025 cash on February 20. What is the appropriate journal entry to record this transaction?

A. Cash……………………….152,025
Preferred Stock……………………….34,000
Paid in Capital, Common Stock…….118,025

B. Common Stock……………...152,025
Cash………………………………...152,025

C. Cash…………………………152,025
Common Stock……………………….34,000

D. Cash……………......……….152,025
Common Stock……………………...152,025

E. Cash…………………………..118,025
Paid in Capital, Common Stock……..34,000
Common Stock……………………..152,025

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Hard
Learning Objective: P1 Record the issuance of corporate stock.

108. A company sold stock for $545,000. The shares had a par value of $5 each. After the transaction, the paid in capital, common stock account had a balance of $215,000. How many shares did the company sell?

A. 62,000
B. 152,000
C. 43,000
D. 109,000
E. 66,000

545,000- 215,000 = 330,000/5 = 66,000

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Hard
Learning Objective: P1 Record the issuance of corporate stock.

Matching Questions

109. Match each of the following terms with the appropriate definitions.

1. Preferred stock giving the holder the option of exchanging it for common stock at a specified rate	Minimum legal capital	**5**
2. A corporation's distribution of its own stock to its stockholders without the receipt of any payment	Stock dividend	**2**
3. The basic stock of a corporation that usually carries voting rights for controlling the corporation	Authorized stock	**6**
4. Preferred stock that gives the issuing corporation the right to purchase or retire it at specified future prices and dates	Callable preferred stock	**4**
5. The least amount that buyers of stock must contribute to the corporation or be subject to paying at a future date	Organization expenses	**10**
6. The number of shares of stock that a corporation's charter allows it to sell	Stock split	**7**
7. The distribution of additional shares of stock to stockholders according to their present ownership	Preemptive right	**9**
8. A class of stock that has not been assigned a par value by the corporate charter	No-par value stock	**8**
9. The right of common stockholders to maintain their proportionate interest in a corporation by having the first opportunity to buy additional proportionate shares of stock issued	Convertible preferred stock	**1**
10. The costs of bringing a corporation into existence that include legal fees, promoters' fees and amounts paid to obtain a charter	Common stock	**3**

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium
Learning Objective: C1 Identify characteristics of corporations and their organization.
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

110. Match each of the following terms with the appropriate definitions.

1. A preferred stock that has the right to be paid both the current and all prior periods' unpaid dividend before any dividend is paid to common stockholders	Call price	**6**
2. Stock that gives its owners a priority status over common stockholders in one or more ways, such as the payment of dividends or the distribution of assets	Financial leverage	**5**
3. The value assigned to a share of stock by the corporate charter when the stock is authorized	Market value per share	**8**
4. No-par stock to which the directors assign a stated value per share; this amount becomes the minimum legal capital	Premium on stock	**9**
5. The earning of a higher return on common stock by paying dividends on preferred stock or interest on debt at a rate that is less than the rate of return earned with the assets from issuing preferred stock or debt	Stated value stock	**4**
6. The amount that must be paid to call and retire a preferred share	Cumulative preferred stock	**1**
7. Stockholders equity applicable to common shares divided by the number of common shares outstanding	Stockholders' equity	**10**
8. The price at which stock is bought or sold in the market	Par value	**3**
9. The difference between the par value of stock and its issue price when it is issued at a price above par value	Preferred stock	**2**
10. The equity of a corporation	Book value per common share	**7**

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium
Learning Objective: A4 Compute book value and explain its use in analysis.
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.
Learning Objective: P1 Record the issuance of corporate stock.

111. Match each of the following terms with the appropriate definitions.

1. A abnormal debit balance in retained earnings	Stock option	**4**
2. A financial statement that lists the beginning and ending balances of each equity account and describes the changes in these accounts during the period	Treasury stock	**7**
3. A part of operations that serves a particular line of business or class of customers and that has assets, activities and operating results distinguished from other parts	Date of declaration	**10**
4. The right to purchase common stock at a fixed price over a specified period	Prior period adjustment	**9**
5. Income earned by each share of a company's outstanding common stock	Statement of changes in stockholders' equity	**2**
6. A stock dividend that is more than 25% of the previously outstanding shares	Earnings per share	**5**
7. A corporation's own stock that was reacquired and is still held by the corporation	Cash dividend	**8**
8. A distribution of cash to the owners of a corporation	Business segment	**3**
9. A correction of an error in a prior year that is reported in the statement of retained earnings or changes in stockholders' equity net of any income tax effects	Large stock dividend	**6**
10. The date a corporation's directors vote to issue a dividend	Deficit	**1**

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium
Learning Objective: A1 Compute earnings per share and describe its use.
Learning Objective: C3 Explain the items reported in retained earnings.
Learning Objective: P2 Record transactions involving cash dividends; stock dividends; and stock splits.
Learning Objective: P3 Record purchases and sales of treasury stock and the retirement of stock.

112. Match each of the following terms with the appropriate definitions.

1. The ratio of a company's current market value per share to its earnings per share	Appropriated retained earnings	**4**
2. A stock dividend that is 25% or less of the previously outstanding shares	Reverse stock split	**7**
3. Net income less preferred dividends divided by weighted-average common shares outstanding	Basic earnings per share	**3**
4. Retained earnings reported separately as a way to inform stockholders of funding needs	Transfer agent	**6**
5. A document that gives a designated agent the right to vote a stockholder's stock	Date of record	**9**
6. A bank or trust company that assists with purchases and sales of shares by receiving and issuing certificates as necessary	Dividend yield	**8**
7. Occurs when a corporation calls its stock and replaces each share with less than one new share; increases both the market value per share and the par or stated value per share	Proxy	**5**
8. A ratio of the annual amount of cash dividends distributed to common shareholders relative to the stock's market value	Price-earnings ratio	**1**
9. The date specified by directors of a corporation for identifying stockholders to receive dividends	Small stock dividend	**2**
10. Occurs when a corporation calls in its stock and replaces each share with more than one new share; decreases both the market value per share and the par or stated value per share	Stock split	**10**

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium
Learning Objective: A2 Compute price earnings ratio and describe its use in analysis.
Learning Objective: A3 Compute dividend yield and explain its use in analysis.
Learning Objective: C1 Identify characteristics of corporations and their organization.
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.
Learning Objective: C3 Explain the items reported in retained earnings.
Learning Objective: P2 Record transactions involving cash dividends; stock dividends; and stock splits.

Essay Questions

113. What is a corporation? Identify the key advantages and disadvantages of corporations.

A corporation is a legal entity separate and distinct from its owners. Ownership of corporations are represented by shares of stock. Owners of the stock are called shareholders or stockholders. Advantages of corporations include: limited liability of stockholders, ease of ownership transfer, continuous life, lack of mutual agency for stockholders and ease of capital accumulation. Two disadvantages of corporations are: government regulation and double taxation.

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: C1 Identify characteristics of corporations and their organization.

114. What are the rights generally granted to common stockholders?

Common stockholders generally have the right to vote at stockholders' meetings, sell or otherwise dispose of their stock, receive the same dividend, if any on each common share and share in any assets remaining after creditors are paid when and if the corporation is liquidated. Stockholders generally also have a preemptive right, which is the right to purchase their proportional share of any common stock later issued by the corporation.

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: C1 Identify characteristics of corporations and their organization.

115. The entrepreneurs who founded Medsite, Inc. experienced problems as they had limited capital. What were some of the serious corporate accounting-related issues they had to face?

The founders of Medsite, Inc. had very limited funds, about $5,000, to start the business. Investors wanted to see success, but without cash it was an uphill battle. The four friends had to decide which organization form that was best for them. Once they settled on a corporation they had to deal with corporate formation, capital stock and stock issuance to name just a few of their many challenges.

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: C1 Identify characteristics of corporations and their organization.

116. Identify and describe the two main components of stockholders' equity.

Stockholders' equity consists of two main parts, contributed capital and retained earnings. Contributed capital consists of funds raised by the issuance of stock, either common or preferred. Contributed capital is the total amount of cash and other assets the corporation receives in exchange for stock. Contributed capital in excess of par value represents the amount a corporation receives from issuing stock when the market value exceeds the par value of the stock. Retained earnings is the cumulative net income and loss retained by the corporation less any dividends declared.

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Easy
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

117. Identify and discuss the key differences between common and preferred stock.

Both common and preferred stock can represent shares of ownership in a corporation. Preferred stock has a priority (senior) status relative to common stock in one or more areas. The most common preference items are dividends and distribution of assets in the event of liquidation. When cash or liquidating dividends are declared, preferred stockholders receive them before common stockholders. Preferred shareholders usually do not have the voting rights that are assigned to common shareholders. Preferred stock may be convertible to common stock. Preferred stock also may be subject to a call provision, which allows the corporation to buy back the preferred stock under specified conditions.

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

118. What is an extraordinary gain or loss? How is it presented on a complete income statement? Be sure to include examples of extraordinary items.

An extraordinary gain or loss is one that is both unusual and infrequent. It is presented on a complete income statement in a separate category after income from continuing operations. Some examples of extraordinary items are: expropriation of property by a foreign government, condemning of property by a domestic government body, prohibition against using an asset by a newly enacted law and losses and gains from an unusual and infrequent calamity ("act of God").

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Apply
Difficulty: Medium
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

119. Explain the components of the statements retained earnings and identify the special items that are reported in it.

Retained earnings generally consists of a company's cumulative net income less any net losses and dividends declared since its inception. Within retained earnings, companies may report restricted retained earnings, appropriated retained earnings or prior period adjustments. Restrictions of retained earnings may be statutory or contractual. Many states restrict treasury stock purchases to the amount of retained earnings. Appropriated retained earnings refer to a voluntary transfer of amounts from Retained Earnings to Appropriated Retained Earnings to inform users of special activities that require funds. Prior period adjustments are corrections of errors in prior periods' financial statements. These should be differentiated from changes in accounting estimates, which are not considered errors and are not reported as prior period adjustments.

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Hard
Learning Objective: C3 Explain the items reported in retained earnings.

120. Explain how both a stock split and a stock dividend affect the computation of the weighted average number of shares outstanding.

The number of shares outstanding during the period is restated to reflect a stock split or stock dividend as if it occurred at the beginning of the period. The split or dividend is multiplied by the number of outstanding shares times the fraction of the year in which the number of outstanding shares remained unchanged.

AACSB: Analytic
AACSB: Communications
AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: A1 Compute earnings per share and describe its use.

121. Explain how to calculate the price-earnings ratio and describe how it is used in analysis of a company's financial condition and performance.

The price-earnings ratio of a common stock is computed by dividing the stock's market value per share by its earnings per share. The price-earnings ratio represents the stock market's expectations of a company's future performance. Some analysts view a high PE (greater than 20 to 25, for instance) ratio as an indication that a stock is overvalued. A low ratio (less than 5 to 8) may indicate that a stock is undervalued.

AACSB: Analytic
AACSB: Communications
AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: A2 Compute price earnings ratio and describe its use in analysis.

122. Explain how to compute dividend yield and discuss how it is used in analysis of a company's financial condition.

Dividend yield is the ratio of annual cash dividends per share divided by the market value per share of stock. The resulting dividend yield represents the percent of cash return investors receive from an investment in a company's stock. Dividend yield can be used to identify whether a stock is an income stock or a growth stock. Companies that pay large dividends on a regular basis are income stocks. Companies that distribute little or no cash but use the cash to finance expansion are known as growth stocks.

AACSB: Analytic
AACSB: Communications
AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: A3 Compute dividend yield and explain its use in analysis.

123. Explain how to compute book value per share and discuss how it can be used to analyze the financial condition of a corporation.

Book value per share is calculated by dividing the stockholders' equity applicable to common shareholders by the number of common shares outstanding. Book value per share reflects value per share if a company were liquidated at balance sheet amounts. Book value per share is the starting point in many stock valuation models, merger negotiation, price setting for public utilities and loan contracts. Its main limitation is the potential difference between recorded value and market value for assets.

AACSB: Analytic
AACSB: Communications
AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: A4 Compute book value and explain its use in analysis.

124. Explain the preparation of journal entries to record the issuance of par value, stated value and no-par value common stock.

When stock is issued for cash, cash is debited. If the stock is issued for assets other than cash, those assets are debited for their market value. If the stock is par value stock, Common Stock is credited for the par value of the stock and any amounts over the par value is credited to Contributed Capital in Excess of Par Value, Common Stock. If the stock is stated value stock, Common Stock is credited for the stated value and any additional amounts are credited to Contributed Capital in Excess of Stated Value, Common Stock. If the stock is no-par, all amounts received are credited to Common Stock.

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: P1 Record the issuance of corporate stock.

125. What are the journal entries recorded for cash dividends on the declaration date, the date of record and the payment date?

When a corporate board of directors declares a common stock dividend on the declaration date, Retained Earnings is debited and Common Dividends Payable is credited. No journal entry is recorded on the date of record. On the payment date, Common Dividends Payable is debited and Cash is credited.

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Create
Difficulty: Medium
Learning Objective: P2 Record transactions involving cash dividends; stock dividends; and stock splits.

126. What is a stock split? How is a stock split different from a stock dividend?

A stock split is the distribution of additional shares to stockholders according to their present ownership. When a stock split occurs, the corporation "calls in" its outstanding shares and issues more that one new share in exchange for each old share. Stock splits reduce the par or stated value per share. Total contributed capital, retained earnings and stockholders' equity are unchanged by stock splits. Stock dividends are distributions of additional shares of the corporation's own stock to its stockholders without the receipt of any payment in return. A stock dividend does not change the par or stated value per share. Total contributed capital is increased, total retained earnings is decreased from a stock dividend, but total stockholders' equity is unchanged from a stock dividend.

AACSB: Analytic
AACSB: Communications
AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

127. Explain the difference between a large stock dividend and a small stock dividend. In addition, explain how to record these two types of stock dividends.

A large stock dividend is a distribution of more than 25% of previously outstanding shares. A large stock dividend is recorded by capitalizing retained earnings for an amount equal to the par or stated value of the shares. A small stock dividend is a distribution of less than or equal to 25% of the previously outstanding shares. A small stock dividend is recorded by capitalizing retained earnings for an amount equal to the market value of the shares to be distributed.

AACSB: Analytic
AACSB: Communications
AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Hard
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

128. What is the effect of dividend preferences on preferred stock? Explain how a dividend is distributed in the case of cumulative preferred stock with dividends in arrears.

Preferred shareholders usually have the right to receive dividends before common shareholders. When preferred stock is cumulative and in arrears, the preferred shareholders will receive the amount in arrears plus the current dividend before any dividend is distributed to common shareholders.

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Easy
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

129. What is treasury stock? How is the purchase and sale of treasury stock recorded?

Treasury stock is the company's; own issued shares that it reacquires. The cost of these shares is debited to Treasury Stock. Treasury Stock is a contra equity account and the balance is subtracted from Stockholders' Equity on the balance sheet. If the treasury stock is reissued, any proceeds in excess of the purchase price are credited to the Contributed Capital, Treasury Stock account. If the proceeds are less than the purchase price then the deficit is debited to Contributed Capital, Treasury Stock (provided a balance exists-if it does not or the balance is driven to zero, then Retained Earnings is debited).

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Hard
Learning Objective: P3 Record purchases and sales of treasury stock and the retirement of stock.

130. How is the retirement of stock recorded?

When a company's own stock is retired, all contributed capital amounts related to the retired shares are removed. If the purchase price exceeds the net amount removed from the contributed capital, the difference is debited to Retained Earnings. If the purchase price is less than the net amount removed from the contributed capital, the difference is credited to Contributed Capital from Retirement of Stock.

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Create
Difficulty: Hard
Learning Objective: P3 Record purchases and sales of treasury stock and the retirement of stock.

Short Answer Questions

131. A company is authorized to issue 50,000 shares of $50 par value, 8%, cumulative, fully participating preferred stock and 750,000 shares of $5 par value common stock. Prepare journal entries to record the following selected transactions that occurred during the company's first year of operations:

May 5	Building	135,000	
	Preferred Stock (2,000 x $50)		100,000
	Contributed Capital in Excess of		
	Par Value, Preferred Stock		35,000
July 20	Cash (1,550 x $50)	77,500	
	Preferred Stock		77,500
Dec.20	Cash (1,000 x $55)	55,000	
	Preferred Stock (1,000 x $50)		50,000
	Contributed Capital in Excess of		
	Par Value, Preferred Stock		5,000

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Create
Difficulty: Medium
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

132. A corporation received its charter and began business this year. The company is authorized to issue 50,000 shares of $100 par, 10%, noncumulative, nonparticipating preferred stock and 500,000 shares of no-par common stock. The following selected transactions occurred during this year:

Apr. 5	Issued 250 shares of preferred stock for $104 cash per share.
June 15	Exchanged 750 shares of common stock for $15,000 in legal Services incurred in the organization of the company.

Prepare journal entries to record these transactions.

Apr. 5	Cash (250 x $104)	26,000	
	Preferred Stock (250 x $100)		25,000
	Contributed Capital in Excess of		
	Par Value, Preferred Stock		1,000
June 15	Organization Expenses	15,000	
	Common Stock, No-Par		15,000

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Create
Difficulty: Medium
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.
Learning Objective: P1 Record the issuance of corporate stock.

133. A company is authorized to issue 50,000 shares of $50 par, 10%, noncumulative, nonparticipating preferred stock and 500,000 shares of no-par common stock. Prepare journal entries to record the following selected transactions that occurred during this year:

Mar. 1 Issued 1,000 shares of common stock for $30 cash per share.
15 Exchanged 2,000 shares of preferred stock for equipment and Merchandise inventory with market values of $90,000 and $20,000, respectively.

Mar. 1	Cash	30,000	
	Common Stock, No-Par (1,000 x $30)		30,000
15	Equipment	90,000	
	Inventory	20,000	
	Preferred Stock (2,000 x $50)		100,000
	Contributed Capital in Excess of		
	Par Value, Preferred Stock		10,000

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Create
Difficulty: Medium
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.
Learning Objective: P1 Record the issuance of corporate stock.

134. Dawls Corporation reported stockholders' equity on December 31 of the prior year as follows:

Common stock, $5 par value, 1,000,000	
shares authorized, 500,000 shares issued	$2,500,000
Contributed capital in excess of par, common stock	1,000,000
Retained earnings	3,000,000

The following selected transactions occurred during the current year:

Feb. 15	The board of directors declared a 5% stock dividend to stockholders of record on March 1, payable March 20. The stock was selling for $8 per share.
Mar. 9	Paid the stock dividend.
May 1	A cash dividend of $0.30 per share was declared by the board of directors to stockholders of record on May 20, payable June 1.
June 1	Paid the cash dividend.
Aug. 20	The board decided to split the stock 4-for-1, effective on September 1.
Sept. 1	Stock split 4-for-1.
Dec. 31	Earned a net income of $800,000 for the current year.

Prepare a statement of retained earnings as of December 31 of the current year.

Dawls Corporation
Statement of Retained Earnings
For the Year Ended December 31

Retained earnings, December 31 (prior year)..........		$3,000,000
Plus net income..		800,000
Less:		
Stock dividend (500,000 shares x 5% x $8).......	$(200,000)	
Cash dividend (525,000 shares x $0.30)............	(157,500)	(357,500)
Retained earnings, December 31 (current year)......		$3,442,500

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Create
Difficulty: Hard
Learning Objective: C3 Explain the items reported in retained earnings.

135. A company had stockholders' equity on January 1 as follows: Common Stock, $10 par value, 1,000,000 shares authorized, 250,000 shares issued; Contributed Capital in excess of Par Value, Common Stock, $750,000 and Retained Earnings of $2,700,000. On May 20, $1,500,000 worth of retained earnings was appropriated for a plant expansion to be constructed next year. Prepare the journal entry to record the appropriation.

May 20	Retained Earnings	1,500,000	
	Retained Earnings Appropriated		
	For Plant Expansion......................................		1,500,000

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Create
Difficulty: Medium
Learning Objective: C3 Explain the items reported in retained earnings.

136. A corporation began the current year with $250,000 of unappropriated retained earnings. During the current year it earned $120,000 of net (after-tax) income, declared $75,000 of cash dividends, paid $50,000 of the cash dividends and purchased treasury stock costing $40,000. Calculate the current year-end balance in retained earnings.

250,000 + $120,000 - $75,000 = $295,000

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Hard
Learning Objective: C3 Explain the items reported in retained earnings.

137. Marble Corporation had the following balances in its stockholders' equity accounts at December 31, 2009:

Common Stock, $10 par, 50,000 shares authorized,	
20,000 shares issued	$200,000
Contributed Capital in Excess of Par Value, Common	250,000
Retained Earnings	500,000
Treasury Stock, 1,000 shares	(20,000)
Total stockholders' equity	$930,000

The following transactions occurred during 2010:

February 3	Sold and issued 3,000 shares of common stock for $22 per share.
May 10	Declared a $0.50 per share dividend on common stock.
October 12	Sold 500 shares of the treasury stock for $20 per share.
December 31	Net income for the year was determined to be $75,000.

Based on the above information, prepare a statement of stockholders' equity for 2010. Use the form below.

Marble Corporation Statement of Stockholders' Equity					
	Common Stock	Contributed Capital in Excess of Par Value, Common	Retained Earnings	Treasury Stock	Total
Balance, December 31, 2008	$200,000	$250,000	$500,000	$(20,000)	$930,000
Balance, December 31, 2009					

Marble Corporation Statement of Stockholders' Equity					
	Common Stock	Contributed Capital in Excess of Par Value, Common	Retained Earnings	Treasury Stock	Total
Balance, December 31, 2008	$200,000	$250,000	$500,000	$(20,000)	$930,000
Net Income			75,000		75,000
Issuance of common stock	30,000	36,000			66,000
Reissuance of treasury stock				10,000	10,000
Cash dividend *			(11,000)		(11,000)
Balance, December 31, 2009	$230,000	$286,000	$564,000	$(10,000)	$1,070,000

* (20,000 - 1,000 + 3,000) shares x $0.50/share = $11,000

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Bloom's: Create
Difficulty: Hard
Learning Objective: C3 Explain the items reported in retained earnings.

138. During the current year, Quark Company earned $90,000 in income and paid cash dividends of $10,000 to preferred shareholders. Quark had 12,500 weighted-average shares of common stock outstanding for the year. Calculate the company's earnings per share.

($90,000 - $10,000)/12,500 shares = $6.40

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Bloom's: Analyze
Difficulty: Easy
Learning Objective: A1 Compute earnings per share and describe its use.

139. A corporation had current year net income of $2,375,000. It paid preferred dividends of $80,000 cash and had 500,000 weighted-average shares of common stock outstanding. Calculate the corporation's earnings per share.

($2,375,000 - $80,000)/500,000 shares = $4.59

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AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Easy
Learning Objective: A1 Compute earnings per share and describe its use.

140. On January 1, Style Corporation had 15,000 shares of common stock outstanding. On May 1, the corporation sold and issued another 6,000 shares. On December 1, the corporation executed a 2-for-1 stock split. Style Corporation earned $55,000 in net income for the year and declared and paid $4,000 in preferred stock dividends. Calculate the earnings per share.

Weighted average number of shares outstanding:

Time period	Outstanding shares		Effect of split		Fraction of year		Weighted average
January – April	15,000	x	2	x	4/12	=	10,000
May – November	21,000	x	2	x	7/12	=	24,500
December	42,000	x	1	x	1/12	=	3,500
Weighted average shares outstanding							38,000

Earnings per share = ($55,000 - $4,000)/38,000 shares = $1.34/share

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Bloom's: Analyze
Difficulty: Hard
Learning Objective: A1 Compute earnings per share and describe its use.

141. A company's stock is selling for $67.20 per share and its earnings per share is $3.50 for the current year. Calculate the price-earnings ratio.

$67.20/$3.50 = 19.2

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Bloom's: Analyze
Difficulty: Easy
Learning Objective: A2 Compute price earnings ratio and describe its use in analysis.

142. A company reported net income of $850,000 for the current year. The year-end market price per common share was $12 and there were 425,000 weighted-average shares of common stock outstanding. Calculate the company's price-earnings ratio.

$12/($850,000/425,000 shares) = 6

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AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Easy
Learning Objective: A2 Compute price earnings ratio and describe its use in analysis.

143. A company reported $990,000 in net income for the current year. Total weighted-average number of common shares outstanding is equal to 150,000 shares and the year-end market price is $79.20 per common share. Calculate the company's price earnings ratio.

$79.20/($990,000/150,000 shares) = 12.0

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Bloom's: Analyze
Difficulty: Medium
Learning Objective: A2 Compute price earnings ratio and describe its use in analysis.

144. A corporation reported net income of $3,730,000 and paid preferred cash dividends of $100,000 during the current year. There were 600,000 shares of common stock outstanding and the market price per common share was $88.33 at year-end. Calculate the company's price-earnings ratio.

$88.33/[($3,730,000 - $100,000)/600,000 shares] = 14.6

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Bloom's: Analyze
Difficulty: Hard
Learning Objective: A2 Compute price earnings ratio and describe its use in analysis.

145. A company reported net income of $478,000 and paid $5,500 in preferred cash dividends during the current year. The company had 100,000 common shares issued and 10,000 common shares in treasury. The year-end market price per common share was $43.05. Calculate the company's price-earnings ratio.

$43.05/[($478,000 - $5,500)/(100,000 shares - 10,000 shares)] = 8.2

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AICPA BB: Industry
AICPA FN: Measurement
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Bloom's: Analyze
Difficulty: Hard
Learning Objective: A2 Compute price earnings ratio and describe its use in analysis.

146. A company's stock is selling for $35 per share at year-end. This current year it paid shareholders a $2.45 per share cash dividend, reported earnings per share of $12.00 and had 750,000 common shares outstanding at year-end. Calculate the company's dividend yield.

$2.45/$35 = 7%

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Bloom's: Analyze
Difficulty: Easy
Learning Objective: A3 Compute dividend yield and explain its use in analysis.

147. A corporation paid a cash dividend of $0.07 per share during the current year. It had 550,000 common shares outstanding at year-end, the current year earnings per share was $3.85 and the stock's year-end market price was $17.50 per share. Calculate the company's dividend yield.

$0.07/$17.50 = 0.4%

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Bloom's: Analyze
Difficulty: Easy
Learning Objective: A3 Compute dividend yield and explain its use in analysis.

148. A company reported earnings per share of $9.75, paid an $6.00 cash dividend per share to preferred shareholders and paid a $0.54 cash dividend per share to common shareholders. There were 1,000 shares of preferred stock outstanding and 6,000 shares of common stock outstanding during the year and the market price per share of common stock was $45. Calculate the company's dividend yield for common stock.

$0.54/$45 = 1.2%

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Bloom's: Analyze
Difficulty: Medium
Learning Objective: A3 Compute dividend yield and explain its use in analysis.

149. A company paid a cash dividend of $0.44 per share during the current year and reported 18,000 shares of common stock issued and 2,000 common shares in treasury stock during the current year. The year-end market price per share was $27.50. Calculate the following: (1) total amount of cash dividends paid to common shareholders and (2) dividend yield.

(1.) $0.44 x (18,000 shares - 2,000 shares) = $7,040
(2.) $0.44/$27.50 = 1.6%

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Bloom's: Analyze
Difficulty: Medium
Learning Objective: A3 Compute dividend yield and explain its use in analysis.
Learning Objective: P2 Record transactions involving cash dividends; stock dividends; and stock splits.

150. A company has 500,000 common shares authorized, 400,000 common shares issued and 15,000 common shares in treasury stock at the current year-end. It paid $0.24 per share in cash dividends during the year. The year-end market price of the stock is $15. Calculate (1) the total dividends paid and (2) the dividend yield.

(1) $0.24 x (400,000 - 15,000) shares = $92,400
(2) $0.24/$15 = 1.6%

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Bloom's: Analyze
Difficulty: Medium
Learning Objective: A3 Compute dividend yield and explain its use in analysis.
Learning Objective: P2 Record transactions involving cash dividends; stock dividends; and stock splits.

151. A corporation has $1,750,000 in stockholders' equity and 350,000 shares of common stock outstanding. Calculate the book value per common share.

$1,750,000/350,000 shares = $5.00 per common share

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Bloom's: Analyze
Difficulty: Easy
Learning Objective: A4 Compute book value and explain its use in analysis.

152. A company has $2,400,000 in stockholders' equity, that includes 500 shares of $50 par value noncallable preferred stock outstanding and 250,000 shares of common stock outstanding. Calculate the book value per (1) preferred share and (2) common share.

(1) Book value per preferred share: $50 per preferred share (the stock's par value when not callable).
(2) Book value per common share: ($2,400,000 - $25,000)/250,000 shares = $9.50 per common share.

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AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Medium
Learning Objective: A4 Compute book value and explain its use in analysis.

153. A company reports the following stockholders' equity:
Contributed capital:

Common stock, $10 par, 500,000 shares authorized......	$3,000,000
Contributed capital in excess of par, Common stock	1,300,000
Total contributed capital....................................	$4,300,000
Retained earnings...	1,400,000
Total stockholders' equity..................................	$5,700,000

Compute the (1) number of common shares outstanding and (2) book value per common share.

(1) Number of common shares outstanding = $3,000,000/$10 = 300,000 shares
(2) Book value per common share = $5,700,000/300,000 shares = $19

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Bloom's: Analyze
Difficulty: Medium
Learning Objective: A4 Compute book value and explain its use in analysis.

154. The stockholders' equity section of a company's year-end balance sheet follows:

Preferred stock, $100 par value, 9%		
cumulative and nonparticipating, 5,000		
shares outstanding	$500,000	
Contributed capital in excess of		
par value, preferred stock	50,000	
Total capital contributed by preferred		
Stockholders		$550,000
Common stock, $5 par value, 150,000 shares		
outstanding	$750,000	
Contributed capital in excess of par value,		
common stock	150,000	
Total capital contributed by common		
Stockholders		900,000
Total contributed capital		$1,450,000
Retained earnings		1,660,000
Total stockholders' equity		$3,110,000

The preferred stock has a call price of $103 per share plus dividends in arrears. One entire year's dividends are in arrears. Calculate the book value per (1) preferred share and (2) common share.

Total stockholders' equity		$3,110,000
Less equity applicable to preferred shares:		
Call price ($103 x 5,000 shares)	$515,000	
Cumulative dividends in arrears (9% x $500,000)	45,000	(560,000)
Equity applicable to common shares		$2,550,000

(1) Book value per preferred share:
$560,000/5,000 shares = $112 per preferred share
(2) Book value per common share:
$2,550,000/150,000 shares = $17 per common share

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Difficulty: Hard
Learning Objective: A4 Compute book value and explain its use in analysis.

155. A corporation reports the following year-end stockholders' equity:

Contributed capital:	
Preferred stock, 8%, 100,000 shares	
authorized, 50,000 shares issued	$ 2,500,000
Contributed capital in excess of par, Preferred	125,000
Common stock, $10 par, 500,000 shares	
authorized, 400,000 shares issued	4,000,000
Contributed capital in excess of par, Common	1,200,000
Total contributed capital	$ 7,825,000
Retained earnings	10,775,000
Total stockholders' equity	$18,600,000

Determine the following:
(1) Par value for the preferred stock.
(2) Book value per share for both preferred stock and common stock assuming a call price per share of $52 for preferred and no dividends in arrears.

(1) Preferred stock par value = $2,500,000/50,000 shares = $50
(2) Book values per share:

Total stockholders' equity	$18,600,000
Less preferred stockholders' equity:	
(50,000 shares x $52 call price)	2,600,000
Common stockholders' equity	$16,000,000
Book value per share of preferred stock	
($2,600,000/50,000 shares)	$52
Book value per share of common stock	
($16,000,000/400,000 shares)	$40

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Bloom's: Analyze
Difficulty: Hard
Learning Objective: A4 Compute book value and explain its use in analysis.

156. The stockholders' equity section of a corporation's balance sheet follows:

Preferred stock, $25 par value, 6%, cumulative, 10,000 shares	
authorized, 5,000 shares issued and outstanding	$125,000
Contributed capital in excess of par value, Preferred stock	50,000
Common stock, $10 par value, 50,000 shares authorized,	
10,000 shares issued and outstanding	100,000
Contributed capital in excess of par value, Common stock	40,000
Retained earnings	95,000
Total stockholders' equity	$410,000

(1) Assuming that the preferred stock is not callable and no dividends are in arrears, compute the book values per preferred share and per common share.
(2) Assuming that the preferred stock has a call price of $30 per share and there is one year of cumulative preferred dividends is in arrears, compute the book values per preferred share and per common share.

(1)

Book value per preferred share		
($125,000/5,000 shares)	$25.00	
Book value per common share		
[($410,000 - $125,000)/10,000 shares]	$28.50	

(2)

Total stockholders' equity		$410,000
Less equity applicable to preferred shares:		
Call price ($30 x 5,000 shares)	$150,000	
Cumulative dividends in arrears (6% x 125,000)	7,500	157,500
Equity applicable to common shares		$252,500

Book value per preferred share		
($157,500/5,000 shares)	$31.50	
Book value per common share		
($252,500/10,000 shares)	$25.25	

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Difficulty: Hard
Learning Objective: A4 Compute book value and explain its use in analysis.

157. A company is authorized to issue 750,000 shares of $5 par value common stock. Prepare journal entries to record the following selected transactions that occurred during the company's first year of operations:

Jan. 10	Sold 102,000 shares of common stock for $8 cash per share.
15	Exchanged 10,000 shares of common stock for equipment with a market value of $80,000.
Feb. 1	Exchanged 500 shares of common stock for $3,000 of legal services Incurred during the company's organization.

Jan. 10	Cash ($102,000 x $8)..	816,000	
	Common Stock($102,000 x $5).....................		510,000
	Contributed Capital in Excess of		
	Par Value, Common Stock........................		306,000
15	Equipment..	80,000	
	Common Stock (10,000 x $5)........................		50,000
	Contributed Capital in Excess of		
	Par Value, Common Stock........................		30,000
Feb. 1	Organization Expenses	3,000	
	Common Stock (500 x $5)		2,500
	Contributed Capital in Excess of Par Value,		
	Common Stock		500

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Bloom's: Create
Difficulty: Medium
Learning Objective: P1 Record the issuance of corporate stock.

158. On August 1, a corporation issued 15,000 shares of no-par common stock in exchange for a tract of land with a market value of $215,000. The common stock has a stated value of $10 per share. Prepare the general journal entry to record this transaction.

Aug 1	Land	215,000	
	Common Stock (15,000 x $10)		150,000
	Contributed Capital in Excess of Stated Value,		
	Common Stock		65,000

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Bloom's: Create
Difficulty: Medium
Learning Objective: P1 Record the issuance of corporate stock.

159. On July 31, a company declared a cash dividend of $0.25 per common share to the shareholders of record on August 15. The cash dividend will be paid on August 25. This company has 500,000 shares authorized and 100,000 shares outstanding. Prepare the journal entries required on July 31, August 15 and August 25.

July 31	Retained Earnings	25,000	
	Common Dividend Payable		25,000
Aug 15	No entry required.		
Aug 25	Common Dividend Payable	25,000	
	Cash		25,000

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Bloom's: Create
Difficulty: Medium
Learning Objective: P2 Record transactions involving cash dividends; stock dividends; and stock splits.

160. The following selected transactions took place during the current year for a company:

March 25		Declared a $2 per share cash dividend on 20,000 shares of common Stock outstanding
April	20	Paid the cash dividends declared on March 25.
Dec	31	Closed the $52,000 credit balance in Income Summary that reflects net income to Retained Earnings.

(a) Prepare the journal entries for these transactions.
(b) If Retained Earnings had a $75,000 credit balance on January 1, calculate its year-end balance as of December 31.

(a)

Mar. 25	Retained Earnings (20,000 shares x $2/share)...	40,000	
	Common Dividend Payable.		40,000
Apr. 20	Common Dividend Payable	40,000	
	Cash		40,000
Dec. 31	Income Summary	52,000	
	Retained Earnings		52,000

(b)

	Retained earnings, January 1..............................		$ 75,000
	Plus net income		52,000
			$127,000
	Less dividends declared......................................		(40,000)
	Retained earnings, December 31		$ 87,000

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Bloom's: Create
Difficulty: Medium
Learning Objective: P2 Record transactions involving cash dividends; stock dividends; and stock splits.

161. A company reported stockholders' equity on January 1 of the current year as follows: Common Stock, $5 par value, 1,000,000 shares authorized, 600,000 shares issued; Contributed Capital in Excess of Par Value, Common Stock, $1,025,000; Retained Earnings, $2,850,000. Prepare journal entries to record the following transactions:

May 1	A cash dividend of $1.10 per common share was declared by the board of directors to stockholders of record on May 20, payable June 1.
May 20	The date of record.
June 1	Paid the cash dividend.

May 1	Retained Earnings (600,000 x $1.10)	660,000	
	Common Dividend Payable......................		660,000
May 20	No entry required.		
June 1	Common Dividend Payable.........................	660,000	
	Cash..		660,000

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Bloom's: Create
Difficulty: Medium
Learning Objective: P2 Record transactions involving cash dividends; stock dividends; and stock splits.

162. For each of the following independent transactions a through d, prepare the necessary journal entry:
(a) Declared a $0.40 per share cash dividend on 200,000 shares of preferred stock outstanding.
(b) Declared and distributed a 12% stock dividend on 800,000 shares of $5 par value common stock outstanding. Market price per common share on this date was $25.
(c) Declared and distributed a 2-for-1 stock split on 500,000 shares of $10 par value common stock outstanding.
(d) Declared and distributed a 30% stock dividend on 400,000 common shares of $5 par value common stock outstanding. Market price per common share on this date was $20.

(a)

Retained Earnings..	80,000	
Preferred Cash Dividend Payable		80,000

(b)

Retained Earnings (800,000 x 12% x $25)........	2,400,000	
Common Stock (800,000 x 12% x $5)		480,000
Contributed Capital in Excess of		
Par Value, Common Stock		1,920,000

(c) No journal entry is required. Memo: Split common stock 2-for-1. Number of shares outstanding is now 1,000,000; par value is now $5 per share.

(d)

Retained Earnings (400,000 x 30% x $5)..........	600,000	
Common Stock		600,000

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Difficulty: Medium
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.
Learning Objective: P2 Record transactions involving cash dividends; stock dividends; and stock splits.

163. A corporation has 200,000 shares of $10 par value common stock outstanding. The following selected transactions related to the company's stock took place during the current year:

Apr. 15	Declared a 40% stock dividend to stockholders of record on May 1, to be issued May 10. The current market value is $15 per common share.
May 1	Date of record.
May 10	Issued the common stock dividend.

Prepare the journal entries to record these transactions.

Apr. 15	Retained Earnings (200,000 x 40% x $10)..	800,000	
	Common Stock Dividend Distributable..................		800,000
May 1	No entry required.		
May 10	Common Stock Dividend Distributable.......	800,000	
	Common Stock		800,000

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Difficulty: Medium
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

164. On May 1, a company's board of directors declared a 10% stock dividend to be distributed on June 1 to the stockholders of record on May 21. The company had 250,000 shares of $10 par value common stock outstanding with a market value of $22 per share. Prepare the journal entries required on May 1, May 21 and June 1.

May 1	Retained Earnings (250,000 x 10% x $22)	550,000	
	Common Stock Dividend		
	Distributable (250,000 x 10% x $10)		250,000
	Contributed Capital In Excess of		
	Par Value, Common Stock.............................		300,000
May 21	No entry required.		
June 1	Common Stock Dividend Distributable	250,000	
	Common Stock...		250,000

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Difficulty: Medium
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

165. A corporation had stockholders' equity on January 1 as follows: Common Stock, $5 par value, 1,000,000 shares authorized, 500,000 shares issued; Contributed Capital in Excess of Par Value, Common Stock, $1,000,000; Retained Earnings, $3,000,000. Prepare journal entries to record the following transactions:

Feb. 15	The board of directors declared a 5% stock dividend to stockholders of record on March 1,to be issued on March 20.The stock was trading at $6 per share prior to the dividend.
Mar. 1	The date of record
Mar. 20	Issued the stock dividend.

Feb. 15	Retained Earnings (500,000 x 5% x $6)	150,000	
	Common Stock Dividend		
	Distributable (500,000 x 5% x $5)..........		125,000
	Contributed Capital in Excess		
	of Par Value, Common Stock..................		25,000
Mar. 1	No entry required.		
Mar. 20	Common Stock Dividend Distributable	125,000	
	Common Stock		125,000

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Difficulty: Medium
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

166. On July 31, a corporation reported the following stockholders' equity:

Common stock, $10 par value, 200,000 shares	
Authorized, 100,000 shares issued and outstanding...	$1,000,000
Retained earnings	350,000
Total stockholders' equity	$1,350,000

On July 31, the market value of the corporation's stock was $15 per share. The directors were considering declaring a 10% or 30% stock dividend but wanted to know what effect each stock dividend would have on stockholders' equity. Calculate the balances in the following accounts for each proposed stock dividend distribution.

	Balances after 10% Stock Dividend	Balances after 30% Stock Dividend
Common stock	______________	______________
Contributed capital in Excess of par value, Common stock	______________	______________
Retained earnings	______________	______________
Total Stockholders' Equity	______________	______________

	Balances after 10% Stock Dividend	Balances after 30% Stock Dividend
Common stock	$1,100,000	$1,300,000
Contributed capital in Excess of par value, Common stock	50,000	0
Retained earnings	200,000	50,000
Total stockholders' equity	$1,350,000	$1,350,000

10% stock dividend:

	Before dividend	Effect of dividend	After dividend
Common stock (100,000 x 10% x $10)	$1,000,000	$100,000	$1,100,000
Contributed capital in excess of par value, common stock (100,000 x 10% x $5)	0	50,000	50,000
Retained earnings (100,000 x 10% x $15)	350,000	(150,000)	200,000
Total stockholders' equity	$1,350,000	$ 0	$1,350,000

30% stock dividend:

	Before dividend	Effect of dividend	After dividend
Common stock (100,000 x 30% x $10)	$1,000,000	$300,000	$1,300,000
Contributed capital in excess of par value, common stock	0	0	0
Retained earnings (100,000 x 30% x $10)	350,000	(300,000)	50,000
Total stockholders' equity	$1,350,000	$ 0	$1,350,000

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Create
Difficulty: Medium
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

167. A company had the following stockholders' equity on January 1:

Common Stock - $1 par value; 1,000,000 shares authorized,	$ 400,000
400,000 shares issued and outstanding	
Contributed capital in excess of par value, common stock	300,000
Retained earnings	364,000
Total stockholders' equity	$1,064,000

On January 10, the company declared a 40% stock dividend to holders of record on January 25, to be distributed January 31. The market value of the stock on January 10 prior to the dividend was $20 per share. What is the book value per common share on February 1?

Total stockholders' equity does not change; however, the number of shares outstanding is now 400,000 shares + (400,000 shares x .40) = 560,000 shares.
Book value per share = $1,064,000/560,000 shares = $1.90 per common share

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Hard
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

168. A corporation had the following stock outstanding when the company's board of directors declared a $95,000 cash dividend in the current year:

Preferred stock, $100 par, 6%, 5,000 shares issued	$ 500,000
Common stock, $10 par, 70,000 shares issued	700,000
Total	$1,200,000

Allocate the cash dividend between the preferred and common stockholders assuming the preferred stock is noncumulative and nonparticipating.

Explanation	Preferred Dividend	Common Dividend
Preferred cash dividend: (5,000 x $100 x 6%)	$30,000	
Remainder to common: ($95,000 - $30,000)		$65,000

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Medium
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

169. A corporation had the following stock outstanding when the company's board of directors declared a $95,000 cash dividend during the current year:

Preferred stock, $100 par, 6%, 5,000 shares issued	$ 500,000
Common stock, $10 par, 75,000 shares issued	750,000
Total	$1,250,000

Allocate the cash dividend between the preferred and common stockholders assuming the preferred stock is cumulative and nonparticipating and dividends are one year in arrears.

Explanation	Preferred Dividend	Common Dividend
Preferred dividends in arrears (5,000 x $100 x 6%)	$30,000	
Current preferred dividend	30,000	
Remainder to common ($95,000 - $60,000)		$35,000
Totals	$60,000	$35,000

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Medium
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

170. A company has $100,000 of 10% noncumulative, nonparticipating, preferred stock outstanding and $150,000 of common stock outstanding. In the company's first year of operation, no dividends were paid, but during the second year, it paid cash dividends of $25,000. Compute the dividends to be distributed to (1) preferred shares and (2) common shares.

(1) Preferred: 10% x $100,000 = $10,000 (2) Common: $25,000 - $10,000 = $15,000

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Medium
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

171. A company was organized in January 2009 and has 2,000 shares of $100 par value, 10%, nonparticipating preferred stock outstanding and 30,000 shares of $10 par value common stock outstanding. It has declared and paid cash dividends each year as shown below. Calculate the total dividends distributed to each class of stockholder under each of the assumptions given.

		Assuming Preferred Stock Is Not Cumulative		Assuming Preferred Stock Is Cumulative	
Year	Cash Dividends Declared and Paid	Preferred Dividend	Common Dividend	Preferred Dividend	Common Dividend
2008	$15,000	_______	_________	________	________
2009	$36,000	_______	_________	________	________
2010	$60,000	_______	_________	________	________

Preferred dividend: 2,000 shares x $100 par x 10% = $20,000

		Assuming Preferred Stock Is Not Cumulative		Assuming Preferred Stock Is Cumulative	
Year	Cash Dividends Declared and Paid	Preferred Dividend	Common Dividend	Preferred Dividend	Common Dividend
2008	$15,000	$15,000	0	$15,000	0
2009	$36,000	20,000	$16,000	25,000	$11,000
2010	$60,000	20,000	40,000	20,000	40,000

Assuming Preferred Stock is Not Cumulative:

Explanation	Preferred Dividend	Common Dividend
2008:	$15,000	
2009:		
Preferred dividend	$20,000	
Remainder ($36,000 - $20,000)		$16,000
2010:		
Preferred	$20,000	
Remainder ($60,000 - $20,000)		$40,000

Assuming Preferred Stock is Cumulative:

Explanation	Preferred Dividend	Common Dividend
2008:	$15,000	
2009:		
Preferred dividend ($20,000 + $5,000)	$25,000	
Remainder ($36,000 - $25,000)		$11,000
2010:		
Preferred	$20,000	
Remainder ($60,000 - $20,000)		$40,000

AACSB: Analytic
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AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Medium
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

172. A company reported the following stockholders' equity on January 1 of the current year:

Common stock, $10 par, 1,000,000 shares	
authorized, 400,000 shares issued	$4,000,000
Contributed capital in excess of par, common	1,200,000
Retained earnings	1,600,000
Total stockholders' equity	$6,800,000

Prepare journal entries for the following selected transactions related to this company's stock during the current year:

Mar. 1	Purchased 10,000 shares of treasury stock for $17 per share.
May 5	Sold 4,000 shares of treasury stock for $16 per share.
Oct. 12	Sold 2,000 shares of treasury stock for $18 per share.

Mar. 1	Treasury Stock	170,000	
	Cash (10,000 shares x $17)		170,000
May 5	Cash (4,000 shares x $16)	64,000	
	Retained Earnings	4,000	
	Treasury Stock (4,000 shares x $17)		68,000
Oct. 12	Cash (2,000 shares x $18)	36,000	
	Treasury Stock (2,000 x $17)		34,000
	Contributed Capital, Treasury Stock		2,000

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Create
Difficulty: Medium
Learning Objective: P3 Record purchases and sales of treasury stock and the retirement of stock.

173. A company's only treasury stock transactions for the current year are as follows: (1) 1,000 shares of its common stock were purchased on June 1 for $40,000; (2) On July 1 it reissued 500 of these shares at $45 per share; (3) On August 1 it reissued the 500 remaining treasury shares at $38 per share.
1) Prepare the journal entries required to record these transactions.
2) Calculate the balance in Contributed Capital, Treasury Stock, on September 1 assuming its beginning-year balance is zero.

June 1	Treasury Stock, Common	40,000	
	Cash		40,000
July 1	Cash (500 x $45)	22,500	
	Treasury Stock, Common (500 x $40)		20,000
	Contributed Capital, Treasury Stock		2,500
August 1	Cash (500 x $38)	19,000	
	Contributed Capital, Treasury Stock	1,000	
	Treasury Stock, Common (500 x $40)		20,000

1)
2) There is a credit balance in Contributed Capital, Treasury Stock of $1,500: $2,500 - $1,000 = $1,500

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Create
Difficulty: Medium
Learning Objective: P3 Record purchases and sales of treasury stock and the retirement of stock.

174. On January 10, a corporation purchased 5,000 shares of its own common stock at $17.50 per share. On August 4, a total of 1,000 treasury shares were sold at $19.00 per share. These are the only treasury stock transactions ever made by the corporation. Prepare the journal entries required on January 10 and August 4.

Jan. 10	Treasury Stock, Common (5,000 x $17.50)	87,500	
	Cash..		87,500
Aug. 4	Cash (1,000 x $19.00)..	19,000	
	Contributed Capital, Treasury Stock		1,500
	Treasury Stock, Common (1,000 x $17.50).		17,500

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Create
Difficulty: Medium
Learning Objective: P3 Record purchases and sales of treasury stock and the retirement of stock.

175. Record the following transactions of a company in general journal form:
(a) Reacquired 8,000 of its own $10 par value common stock at $40 cash per share. The stock was originally issued at $15 per share.
(b) Sold 2,000 shares of the stock reacquired under part (a) at $43 cash per share.
(c) Sold 3,000 shares of the stock reacquired under part (a) at $39 cash per share.

(a)	Treasury Stock (8,000 x $40)	320,000	
	Cash		320,000
(b)	Cash (2,000 x $43)	86,000	
	Treasury Stock (2,000 x $40)		80,000
	Contributed Capital, Treasury Stock		6,000
(c)	Cash (3,000 x $39)	117,000	
	Contributed Capital, Treasury Stock	3,000	
	Treasury Stock (3,000 x $40)		120,000

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Create
Difficulty: Medium
Learning Objective: P3 Record purchases and sales of treasury stock and the retirement of stock.

176. Polly's outstanding stock consists of (a) 67,000 shares of cumulative 5% preferred stock with a $20 par value and (b) 95,000 shares of common stock with a $1 par value. During its first four years of operation, the corporation declared and paid the following total cash dividends.

2010	$ 0
2011	50,000
2012	180,000
2013	205,000

What is the amount of dividends that the Common Stockholders receive for all years presented?

$167,000

Feedback: Total Dividends: 435,000 less Pref. Div. 268,000 = 167,000

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Hard
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

177. A company sold stock for $733,000. The shares had a par value of $6.26 each. After the transaction, the paid in capital, common stock account had a balance of $420,000. How many shares did the company sell?

50,000

Feedback: 733,000- 420,000 = 313,000/6.26 = 50,000

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Hard
Learning Objective: P1 Record the issuance of corporate stock.

178. On August 31, 2010 Gilliam Corporation's common stock is priced at $50 per share before any stock dividend, and the stockholders' equity section of its balance sheet appears as follows. Assume that the company declares and immediately distributes a 35% stock dividend.

Common stock—$7 par value, 95,000 shares authorized, 44,000 shares issued and outstanding	$ 308,000
Paid-in capital in excess of par value, common stock	100,000
Retained earnings	375,000
Total stockholders' equity	$783,000

What is the total amount in the Retained Earnings account immediately after the stock dividend?

$267,200

Feedback: 375,000- ((44000*.35)*7) = 267,200

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Hard
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

179. On August 31, 2010 Gilliam Corporation's common stock is priced at $50 per share before any stock dividend, and the stockholders' equity section of its balance sheet appears as follows. Assume that the company declares and immediately distributes a 10% stock dividend.

Common stock—$7 par value, 95,000 shares authorized, 44,000 shares issued and outstanding	$ 308,000
Paid-in capital in excess of par value, common stock	100,000
Retained earnings	375,000
Total stockholders' equity	$783,000

What is the total amount in the Retained Earning account immediately after the stock dividend?

$155,000

Feedback: 375,000- ((44000*.10)*50) = $155,000

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Analyze
Difficulty: Hard
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

Fill in the Blank Questions

180. Stockholders who are not officers or managers of a corporation do not have the power to bind the corporation to contracts. This is called ______________________.

Lack of mutual agency

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: C1 Identify characteristics of corporations and their organization.

181. _______________________ are responsible for and have final authority for managing a corporation's activities.

The board of directors (or directors)

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: C1 Identify characteristics of corporations and their organization.

182. A corporation is responsible for its; own acts and debts as the corporation is considered a ____________________________________.

Separate legal entity

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium
Learning Objective: C1 Identify characteristics of corporations and their organization.

183. A document that gives a designated agent the right to vote a stockholder's stock is called a ________________.
Proxy

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium
Learning Objective: C1 Identify characteristics of corporations and their organization.

184. The _______________________ protects stockholders' proportional interest in a corporation by allowing them to purchase their proportional share of any common stock later issued by the corporation.
Preemptive right

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium
Learning Objective: C1 Identify characteristics of corporations and their organization.

185. A stock _________________ keeps stockholder records and prepares official lists of stockholders for stockholder meetings and dividend payments.
Registrar

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium
Learning Objective: C1 Identify characteristics of corporations and their organization.

186. A stock ____________________ assists with purchases and sales of shares of stock by receiving and issuing certificates as necessary.

Transfer agent

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium
Learning Objective: C1 Identify characteristics of corporations and their organization.

187. ________________________ is the number of shares that a corporation's charter allows it to sell.

Authorized stock

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

188. _____________________ is a general term that refers to any shares issued to obtain owner financing in a corporation.

Capital stock

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

189. ____________________ is the price at which a stock is bought and sold.
Market value per share (or market value)

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

190. ____________________ is a class of stock assigned a value by the corporation in its charter.
Par value stock

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

191. Stock that is not assigned a value per share by the corporate charter is called _________________.
No-par stock

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

192. No-par stock to which the directors assign a value per share is called ______________________.
Stated value stock

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

193. The total amount of cash and other assets the corporation receives from its stockholders in exchange for common stock is called _________________________.
Contributed capital

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

194. The cumulative net income and loss retained by a corporation is called ____________________.
Retained earnings

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

195. ______________________________ is the total amount of cash and other assets received by the corporation from its stockholders in exchange for common stock.
Contributed capital

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

196. The least amount that the buyers of stock must contribute to the corporation or be subject to paying at a future date is called ___________________________.
Minimum legal capital

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

197. ________________________ has special rights that give it priority or senior status over common stock in one or more areas such as receiving dividends or for the distribution of assets if the corporation is liquidated.
Preferred stock

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

198. ______________________ generally consists of a company's cumulative net income less any net losses and dividends declared since its inception.
Retained earnings

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: C3 Explain the items reported in retained earnings.

199. __________________________ are corrections of material errors in prior period financial statements.
Prior period adjustments

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium
Learning Objective: C3 Explain the items reported in retained earnings.

200. If a company discovers a mistake in 2010 that was made in 2009, the company records the adjustment in the year ________.
2010

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Hard
Learning Objective: C3 Explain the items reported in retained earnings.

201. _____________ is the amount of income earned per share of a company's outstanding common stock.
<u>Earnings per share</u>

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: A1 Compute earnings per share and describe its use.

202. The price-earnings (PE) ratio is calculated by dividing ___________________________ by ________________________________.
<u>Market price per share of common stock; earnings per share</u>

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: A2 Compute price earnings ratio and describe its use in analysis.

203. __________________________ is the annual amount of cash dividends distributed to common shareholders relative to the stock's market price.
<u>Dividend yield</u>

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: A3 Compute dividend yield and explain its use in analysis.

204. ______________________________________ is the stockholders' equity applicable to common shares divided by the number of common shares outstanding.
Book value per common share

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: A4 Compute book value and explain its use in analysis.

205. The account used to record a premium on issued stock is titled ____.
Contributed Capital in Excess of Par Value

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium
Learning Objective: P1 Record the issuance of corporate stock.

206. Dividend payment involves three important dates. They are ______________________, _________________________ and ____________________________.
The date of declaration; the date of record; the date of payment.

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium
Learning Objective: P2 Record transactions involving cash dividends; stock dividends; and stock splits.

207. The journal entry to record distribution of a cash dividend to common shareholders includes a debit to ________________________ and a credit to __________.
Common Dividend Payable; Cash

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Hard
Learning Objective: P2 Record transactions involving cash dividends; stock dividends; and stock splits.

208. A stock dividend is never a _________________ on the balance sheet because it will never reduce ________________.
Liability; assets

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

209. Holders of _______________________________ have a right to be paid both current and all prior periods' unpaid dividends before any dividend is paid to common shareholders.
Cumulative preferred stock

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

210. When preferred stock is cumulative and the directors either do not declare a dividend to preferred stockholders or declare one that does not cover the total amount of cumulative dividends, the unpaid amount is called ____________________________.
Dividend in arrears

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

211. _____________________ preferred stock has a feature that allows preferred stockholders to share with common stockholders in any dividends paid in excess of the percent or dollar amount stated on the preferred stock.
Participating

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

212. ____________________ preferred stock gives holders the option to exchange their preferred shares for common shares at a specified rate.
Convertible

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

213. ____________________ preferred stock gives the issuing corporation the right to purchase or retire the stock from its holders at specified future prices and dates.
Callable

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium
Learning Objective: C2 Explain characteristics of; and distribute dividends between; common and preferred stock.

214. ________________ is a corporation's own stock that has been reacquired.
Treasury stock

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: P3 Record purchases and sales of treasury stock and the retirement of stock.