Chapter 11 Questions

Multiple Choice

1. Two classifications appearing in the **paid-in capital** section of the balance sheet are
a. preferred stock and common stock.
b. paid-in capital and retained earnings.
c. capital stock and additional paid-in capital.
d. capital stock and treasury stock.

2. A **disadvantage** of **the corporate form** of organization is
a. professional management.
b. tax treatment.
c. ease of transfer of ownership.
d. lack of mutual agency.

3. Alt Corp. issues 5,000 shares of $10 par value common stock at $14 per share. When the transaction is recorded, credits are made to:
a. Common Stock $50,000 and Paid-in Capital in Excess of Stated Value $20,000.
b. Common Stock $70,000.
c. Common Stock $50,000 and Paid-in Capital in Excess of Par Value $20,000.
d. Common Stock $50,000 and Retained Earnings $20,000.

4. If common stock is issued for an amount **greater than par** value, the excess should be credited to
a. Cash.
b. Retained Earnings.
c. Paid-in Capital in Excess of Par Value.
d. Legal Capital.

5. Stock dividends and stock splits have the following effects on retained earnings:

	Stock Splits	Stock Dividends
a.	Increase	No change
b.	No change	Decrease
c.	Decrease	Decrease
d.	No change	No change

6. Which one of the following events would **not** require a journal entry on a corporation's books?
a. 2-for-1 stock split.
b. 100% stock dividend.
c. 2% stock dividend.
d. $1 per share cash dividend.

7. The term legal capital is a descriptive term for
a. stockholders' equity.
b. par value.
c. residual equity.
d. market value.

8. The board of directors of Yancey Company declared a cash dividend of $1.50 per share on 42,000 shares of common stock on July 15, 20X1. The dividend is to be paid on August 15, 20X1, to stockholders of record on July 31, 20X1. The correct entry to be recorded on August 15, 20X1, would be

a. Dividends Payable 63,000
Cash 63,000

b. Cash Dividends 63,000
Cash 63,000

c. Cash 63,000
Paid-in Capital 63,000

d. Dividends Payable 63,000
Paid-in Capital 63,000

9. On January 1, Ripken Corporation had 80,000 shares of $10 par value common stock outstanding. On May 11 the company declared a 10% stock dividend to stockholders of record on May 25. Market value of the stock was $13 on May 11. The entry to record the transaction of May 11 would include a
a. debit to Stock Dividends for $104,000.
b. credit to Cash for $104,000.
c. credit to Common Stock Dividends Distributable for $104,000.
d. credit to Common Stock Dividends Distributable for $24,000.

10. The amount of stock that may be **issued** according to the corporation's **charter** is referred to as the
a. authorized stock.
b. issued stock.
c. unissued stock.
d. outstanding stock.

11. **Dividends in arrears** are dividends on
a. cumulative preferred stock that have been declared but have not been paid.
b. non-cumulative preferred stock that have not been declared for a given period of time.
c. cumulative preferred stock that have not been declared for a given period of time.
d. common dividends that have been declared but have not yet been paid.

12. Outstanding stock of the Bush Corporation included 40,000 shares of $5 par common stock and 20,000 shares of 5%, $10 par non-cumulative preferred stock. In 20X1, Bush did not declare or pay any dividends. In 20X2, Bush declared and paid dividends of $24,000. How much of the 20X2 dividend was distributed to preferred shareholders?
a. $14,000.
b. $18,000.
c. $10,000.
d. $20,000

13. Outstanding stock of the Bush Corporation included 40,000 shares of $5 par common stock and 20,000 shares of 5%, $10 par cumulative preferred stock. In 20X1, Bush did not declare or pay any dividends. In 20X2, Bush declared and paid dividends of $24,000. How much of the 20X2 dividend was distributed to preferred shareholders?
a. $14,000.
b. $18,000.
c. $10,000.
d. $20,000

14. Which of the following is **not** true of a corporation?
a. It may buy, own, and sell property.
b. It may sue and be sued.
c. The acts of its owners bind the corporation.
d. It may enter into binding legal contracts in its own name.

15. Tomlinson Packaging Corporation began business in 2017 by issuing 50,000 shares of $5 par common stock for $8 per share and 5,000 shares of 6%, $10 par preferred stock for par. At year end, the common stock had a market value of $10. On its December 31, 2017 balance sheet, Tomlinson Packaging would report
a. Common Stock of $500,000.
b. Common Stock of $250,000.
c. Common Stock of $400,000.
d. Paid-in Capital of $330,000.

EXERCISES

1.

Identify (by letter) each of the following characteristics as being an advantage or a disadvantage of the corporate form of business or not applicable to the corporate form of business organization.

A = Advantage
D = Disadvantage
N = Not Applicable

Characteristics

_____ 1. Separate legal entity

_____ 2. Taxable entity resulting in additional taxes

_____ 3. Continuous life

_____ 4. Unlimited liability of owners

_____ 5. Government regulation

_____ 6. Separation of ownership and management

_____ 7. Ability to acquire capital

_____ 8. Ease of transfer of ownership

2. On January 1, 20X1, Wooden Company issued 16,000 shares of $2 par value common stock for $120,000. On March 1, 20X1, the company purchased 2,000 shares of its common stock for $15 per share for the treasury.

Journalize the stock transactions of Wooden Company in 20X1.

	Date	Debit	Credit

3. In its first year of operations, Martinez Corporation had the following transactions pertaining to its $10 par value preferred stock.

Feb. 1 Issued 8,000 shares for cash at $24 per share.
July 1 Issued 6,000 shares for cash at $25 per share.

(a) Journalize the transactions.

	Date	Debit	Credit

(b) Indicate the amount to be reported for (1) preferred stock, and (2) paid-in capital in excess of par value—preferred stock at the end of the year.

4. The Huntsman Corporation has the following stockholders' equity accounts:

Preferred Stock
Paid-in Capital in Excess of Par Value—Preferred Stock
Common Stock
Paid-in Capital in Excess of Stated Value—Common Stock
Retained Earnings
Treasury Stock—Common

Classify each account using the following tabular alignment. (Put an "X" in the correct column)

	Paid-in Capital			
Account	**Capital Stock**	**Additional**	**Retained Earnings**	**Other**
Preferred Stock				
Paid-in Capital in Excess of Par Value—Preferred Stock				
Common Stock				
Paid-in Capital in Excess of Stated Value—Common Stock				
Retained Earnings				
Treasury Stock—Common				

5. The corporate charter of Torres Corporation allows the issuance of a maximum of 4,000,000 shares of $1 par value common stock. During its first three years of operation, Torres issued 2,080,000 shares at $15 per share. It later acquired 80,000 of these shares as treasury stock for $25 per share.
Based on the above information, answer the following questions:

(a) How many shares were authorized?

(b) How many shares were issued?

(c) How many shares are outstanding?

(d) What is the balance of the Common Stock account?

(e) What is the balance of the Treasury Stock account?

6.

On January 1, 20X1, Browning Corporation had 75,000 shares of $1 par value common stock issued and outstanding. During the year, the following transactions occurred:

Mar.	1	Issued 90,000 shares of common stock for $675,000
June	1	Declared a cash dividend of $2.00 per share to stockholders of record on June 15
June	30	Paid the $2.00 cash dividend
Dec.	1	Purchased 5,000 shares of common stock for the treasury for $18 per share
Dec.	15	Declared a cash dividend on outstanding shares of $2.50 per share to stockholders of record on December 31

Net income for 20X1 amounted to $951,000.

Prepare journal entries to record the above transactions.

	Date	Debit	Credit

7.

On October 31 the stockholders' equity section of Eaton Company's balance sheet consists of common stock $600,000 and retained earnings $400,000. Eaton is considering the following two courses of action: (1) declaring a 10% stock dividend on the 60,000 $10 par value shares outstanding or (2) a 2-for-1 stock split. The current market price is $15 per share.

Instructions

Prepare a tabular summary of the effects of the alternative actions on the company's stockholders' equity and outstanding shares. Use these column headings: ***Before Action, After Stock Dividend****, and* ***After Stock Split****.*

	Before Action	After Stock Dividend	After Stock Split
Stockholders' equity			
Paid-in capital			
Common stock	$600,000		
In excess of par value	0		
Total paid-in capital	600,000		
Retained earnings	400,000		
Total stockholders' equity	$1,000,000		
Outstanding shares	60,000		
Par value per share	$10.00		

Chapter 11 Solutions

Multiple Choice Solutions

1. **C**
2. **B**
3. **C**
4. **C**
5. **B**
6. **A**
7. **B**
8. **A**
9. **A**
10. **A**
11. **C**
12. **C**
13. **D**
14. **C**
15. **B**

Exercise Solutions

1.

1.	A	5.	D
2.	D	6.	A and D
3.	A	7.	A
4.	N	8.	A

2.

	Date	Debit	Credit
Cash	**Jan. 1**	120,000	
Common Stock **(16,000 shares × $2 par per share)**			32,000
Paid-in Capital in Excess of Par Value—Common Stock			88,000
Treasury Stock	**Mar. 1**	30,000	
Cash			30,000

Chapter 11 Solutions (Cont.)

Exercise Solutions (Cont.)

3.

(a)

	Date	Debit	Credit
Cash **(8,000 shares × $24 market price per share)**	**Feb. 1**	192,000	
Preferred Stock **(8,000 shares × $10 par value per share)**			80,000
Paid-in Capital in Excess of Par Value—Preferred Stock			112,000
Cash **(6,000 shares × $25 market price per share)**	**Jul. 1**	192,000	
Preferred Stock **(6,000 shares × $10 par value per share)**			60,000
Paid-in Capital in Excess of Par Value—Preferred Stock			90,000

(b)

(1) **Preferred stock**—$80,000 + $60,000 = **$140,000**.

(2) **Paid-in Capital in Excess of Par Value—Preferred Stock**—$112,000 + $90,000 = **$202,000**.

4.

Account	Paid-in Capital: Capital Stock	Paid-in Capital: Additional	Retained Earnings	Other
Preferred Stock	X			
Paid-in Capital in Excess of Par Value—Preferred Stock		X		
Common Stock	X			
Paid-in Capital in Excess of Stated Value—Common Stock		X		
Retained Earnings			X	
Treasury Stock—Common				X

Chapter 11 Solutions (Cont.)

Exercise Solutions (Cont.)

5.

(a) **4,000,000 shares were authorized.**

(b) **2,080,000 shares were issued.**

(c) **2,000,000 shares are outstanding** (2,080,000 issued less 80,000 in treasury).

(d) The balance of the Common Stock account is **$2,080,000**; ($1 × 2,080,000 shares = $2,080,000). (sh. iss. × par val./sh.)

(e) The balance of the Treasury Stock account is **$2,000,000**; ($25 × 80,000 shares = $2,000,000). (Trea. sh. × cost/sh.)

6.

	Date	Debit	Credit
Cash	**Mar. 1**	675,000	
Common Stock **(90,000 shares × $1 par value per share)**			90,000
Paid-in Capital in Excess of Par Value—Common Stock			585,000
Cash Dividends	**Jun. 1**	330,000	
Dividends Payable **(165,000 shares × $2 = $330,000)**			330,000
*(75,000 shares + 90,000 shares issued = **165,000 shares**)			
Dividends Payable	**Jun. 30**	330,000	
Cash			330,000
Treasury Stock **(5,000 shares × $18 per share)**	**Dec. 1**	90,000	
Cash			90,000
Cash Dividends **(160,000 shares × $2.50)**	**Dec. 15**	400,000	
Dividends Payable			400,000
*(165,000 shares- 5,000 shares bought back = **160,000 shares**)			

7.

	Before Action	After Stock Dividend	After Stock Split
Stockholders' equity			
Paid-in capital			
Common stock	$600,000	$660,000	$600,000
In excess of par value	0	30,000	0
Total paid-in capital	600,000	690,000	600,000
Retained earnings	400,000	310,000	400,000
Total stockholders' equity	$1,000,000	$1,000,000	$1,000,000
Outstanding shares	60,000	66,000	120,000
Par value per share	$10.00	$10.00	$5.00

Stock Dividend

Total common stock increase= (60,000 shares x 10% stock dividend x $10 par value per share)

Total paid-in capital in excess of par increase= [60,000 shares x 10% stock dividend x ($15-$10)]

Total paid-in capital increase= (60,000 shares x 10% stock dividend x $15 market price per share)

Total retained earnings decrease= (60,000 shares x 10% stock dividend x $15 market price per share)

New Number of Shares = 60,000 shares X 1.10 = **66,000 shares**

Stock Split

New Number of Shares = 60,000 shares X 2 = **120,000 shares**
New par value = $10 par ÷ 2 = **$5 par value**