

## Unit 4 Exam Review (Chapters 11-12\*)

\*The Final Exam is cumulative and covers Chapters 1-12. Please use prior guides to study for Chapters 1-10.

### Chapter 11

#### Objective 1: Characteristics of a Corporation

Define the following and explain their relation to Corporations:

Term	Definition
Corporation	
Separate Legal Existence	
Limited Liability of Stockholders	
Transferable Ownership Rights	
Ability to Acquire Capital	
Continuous Life	
Corporation Management	
Government Regulations	
Additional Taxes	

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List the Advantages and Disadvantages of a Corporation

Advantages	Disadvantages

List and explain shareholder rights:

1.	
2.	
3.	
4.	

Define:

Term	Definition
Authorized Stock	
Issued Stock	
Par Value Stock	
No-Par Value Stock	
Paid-In Capital	

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### Objective 2: Issuance of Stock

#### Issue at Par Value

	Cash Received	
		Par Value * # of shares

#### Issue at above Par Value

	Cash Received	
		Par Value * # of shares
		Cash Received - Par Value * # of shares

#### Issue No- Par Value

	Cash Received	
		Stated Value * # of shares
		Cash Received - Stated Value * # of shares

#### Issue Stock for Services or Non-Cash Asset

	Amount of Service/ Asset Received	
		Par Value * # of shares
		Service/Asset Received - Par Value * # of shares

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Issue Preferred Stock

	Cash Received	
		Par Value * # of shares
		Cash Received - Par Value * # of shares

Define Treasury Stock:

Purchase of Treasury Stock

	Cost of Purchase	
		Cash Paid

Disposal Treasury Stock

	Cash Received	
(can be debit or credit if sold above/below cost)	Cash Received - Cost of Purchase	Cash Received - Cost of Purchase
		Cost of Purchase

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Disposal Treasury Stock – with loss greater than Paid-In Capital

	Cash Received	
	Cash Received- Cost of Purchase up to balance	
	Difference of Debit - Credit	
		Cost of Purchase

### Objective 3: Dividends

Define Dividend:

Things to know:

1. Cash dividends are not paid on \_\_\_\_\_.
2. Payment of Cash Dividends is made from the \_\_\_\_\_ account.

Define Declaration Date:

Journal Entry for Declaration Date:

	Outstanding Shares * Cash Dividend	
		Cash to be Paid

Define Record Date:

Define Payment Date:

Journal Entry for Payment Date:

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	Liability amount recorded	
		Cash Paid

### Preferred Stock Dividends

Define Cumulative: A feature of preferred stock that entitles the stockholder to receive current and unpaid prior-year dividends before common stockholders receive any dividends

Calculation of Preferred Dividend:

Par Value of Preferred Stock	×	Preferred Stock %	=	Amount provided to preferred stock holders
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Allocation:

Total Dividend to be paid	-	Dividend in Arrears	+	Current Preferred Stock Dividend	=	Amount provided to COMMON stock holders
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Dividend in Arrears	+	Current Preferred Stock Dividend	=	Amount provided to Preferred stock holders
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### Stock Dividends

	Market Price * # of shares issued in dividend	
		Par Value * # of shares issued in dividend
		Difference

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## Stock Splits

Define Stock Split:

Note: A stock split changes the par value per share, but does not affect any balances in the equity account. As there is no financial impact, there is no journal entry required.

Example: 2 for 1 stock split occurs on 500,000 shares of \$10 par value common stock.

### Objective 4: Reporting and Analyzing

Balance Sheet (partial)

Account listed in Stockholder's Equity
<b>Stockholder's Equity</b>
Paid-in Capital
Capital Stock
Common Stock
Additional Paid-in Capital
<b>Retained Earnings</b>
<b>Total Paid-in Capital and Retained Earnings</b>
Less: Treasury Stock
<b>Total Stockholders' Equity</b>

## Chapter 12

### Objective 1: Usefulness and Format

Describe the usefulness of the statement of cash flows:

1.	
2.	
3.	
4.	

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Define:

Term	Definition
Operating Activities	
Investing Activities	
Financing Activities	
Significant Noncash Activities	

Example (Illustration 12.1): Fill in the cash inflows and outflows from each section:

OPERATING	INVESTING	FINANCING

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### Objective 2: Indirect Method of the Statement of Cash Flows

Equation:

Steps	Define
Net Income	
1. Add	
2. Deduct	
3. Analyze	
3. Analyze	
= Net cash / Provided by Operating Activities	

Practice: Indicate whether you would add or deduct the following from Net Income to get the net cash provided/used by operating activities

Example	Indicate add or deduct
Depreciation Expense	
Loss on Disposal of Plant Asset	
Gain on Disposal of Plant Asset	
Decrease in Account Receivable	
Increase in Inventory	
Increase in Prepaid Expenses	
Increase in Accounts Payable	
Decrease in Income Tax Payable	

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**Example:**

The company’s net income for the year was \$153 and it did not sell or retire any property, plant and equipment during the year. Cash dividends were \$28. Based on the below information, what should the net cash provided by operating activities for the year be using the indirect method?

Account	Ending Balance	Beginning Balance	Change
Cash	\$34	29	
Accounts Receivable	44	41	
Inventory	72	60	
Property, Plant, Equipment	610	550	
Less: Accumulated Depreciation	274	229	
Accounts Payable	32	28	
Bonds Payable	305	400	
Common Stock	51	50	
Retained Earnings	98	(27)	

**Objective 3: Analyze the statement of cash flows**

Free Cash Flow

Free Cash Flow =			
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