CHAPTER 14

Corporations: Dividends, Retained Earnings, and Income Reporting

ASSIGNMENT CLASSIFICATION TABLE

Learning Objectives	Questions	Brief Exercises	Do It!	Exercises	A Problems	B Problems
1. Prepare the entries for cash dividends and stock dividends.	1, 2, 3, 4, 5, 6, 7,8	1, 2, 3	1, 2	1, 2, 3, 4, 5, 6, 7	1A, 2A, 3A, 4A, 5A	1B, 2B, 3B, 4B, 5B
2. Identify the items reported in a retained earnings statement.	9, 10, 11, 12, 13, 14	4, 5	3	6, 8, 9	2A, 3A, 4A	2B, 3B, 4B
3. Prepare and analyze a comprehensive stockholders' equity section.	14, 15	6, 7	4	5, 6, 10, 11, 13, 15, 16	1A, 2A, 3A, 4A, 5A	1B, 2B, 3B, 4B, 5B
4. Describe the form and content of corporation income statements.	15, 16	8		12, 13, 14		
5. Compute earnings per share.	17, 18	9, 10	4	12, 14, 15, 16, 17	3A	3B

ASSIGNMENT CHARACTERISTICS TABLE

Problem Number	Description	Difficulty Level	Time Allotted (min.)
1A	Prepare dividend entries and stockholders' equity section.	Simple	30–40
2A	Journalize and post transactions; prepare retained earnings statement and stockholders' equity section.	Moderate	30–40
3A	Prepare retained earnings statement and stockholders' equity section, and compute allocation of dividends and earnings per share.	Moderate	30–40
4A	Prepare the stockholders' equity section, reflecting dividends and stock split.	Moderate	20–30
5A	Prepare the stockholders' equity section, reflecting various events.	Moderate	20–30
1B	Prepare dividend entries and stockholders' equity section.	Simple	30–40
2B	Journalize and post transactions; prepare retained earnings statement and stockholders' equity section.	Moderate	30–40
3B	Prepare retained earnings statement and stockholders' equity section, and compute allocation of dividends and earnings per share.	Moderate	30–40
4B	Prepare the stockholders' equity section, reflecting dividends and stock split.	Moderate	20–30
5B	Prepare the stockholders' equity section, reflecting various events.	Moderate	20–30

WEYGANDT ACCOUNTING PRINCIPLES 11E
CHAPTER 14
CORPORATIONS: DIVIDENDS, RETAINED EARNINGS, AND INCOME REPORTING

Number	LO	BT	Difficulty	Time (min.)
BE1	1	AP	Simple	2–4
BE2	1	AP	Simple	4–6
BE3	1	AP	Simple	6–8
BE4	2	AP	Simple	3–5
BE5	2	AP	Simple	4–6
BE6	3	AP	Simple	2–4
BE7	3	AP	Simple	2–4
BE8	4	AP	Simple	4–6
BE9	5	AP	Simple	2–4
BE10	5	AP	Simple	2–4
DI1	1	AP	Simple	6–8
DI2	1	AP	Simple	6–8
DI3	2	AP	Simple	4–6
DI4	3, 5	AP	Simple	6–8
EX1	1	AP	Simple	6–8
EX2	1	AP	Simple	6–8
EX3	1	AP	Simple	4–6
EX4	1	AP	Simple	6–8
EX5	1, 3	AP	Simple	6–8
EX6	1–3	AN	Simple	8–10
EX7	1	AN	Moderate	5–7
EX8	2	AP	Simple	4–6
EX9	2	AP	Simple	4–6
EX10	3	AP	Simple	6–8
EX11	3	AP	Simple	8–10
EX12	4, 5	AP	Simple	6–8
EX13	3, 4	AP	Simple	6–8
EX14	4, 5	AP	Simple	4–6

CORPORATIONS: DIVIDENDS, RETAINED EARNINGS, AND INCOME REPORTING (Continued)

Number	LO	BT	Difficulty	Time (min.)
EX15	3, 5	AP	Simple	6–8
EX16	3, 5	AP	Simple	6–8
EX17	5	AP	Simple	4–6
P1A	1, 3	AP	Simple	30–40
P2A	1–3	AP	Moderate	30–40
P3A	1–3, 5	AP	Moderate	30–40
P4A	1–3	AP	Moderate	20–30
P5A	1, 3	AP	Moderate	20–30
P1B	1, 3	AP	Simple	30–40
P2B	1–3	AP	Moderate	30–40
P3B	1–3, 5	AP	Moderate	30–40
P4B	1–3	AP	Moderate	20–30
P5B	1, 3	AP	Moderate	20–30
BYP1	1	AP	Simple	4–6
BYP2	3, 5	AN	Simple	10–15
BYP3	3, 5	AN	Simple	10–15
BYP4	2, 3	AN	Simple	15–20
BYP5	1, 2	AP	Moderate	15–20
BYP6	1	AN	Simple	10–15
BYP7	1	E	Simple	10–15
BYP8	—	E	Moderate	15–20
BYP9	1	AP	Moderate	10–15

Correlation Chart between Bloom's Taxonomy, Learning Objectives and End-of-Chapter Exercises and Problems

Learning Objective	Knowledge	Comprehension	Application	Analysis	Synthesis	Evaluation
1. Prepare the entries for cash dividends and stock dividends.		Q14-1 Q14-7 Q14-2 Q14-8 Q14-3 Q14-5 Q14-6	Q14-4 E14-2 P14-4A BE14-1 E14-3 P14-5A BE14-2 E14-4 P14-1B BE14-3 E14-5 P14-2B DI14-1 P14-1A P14-3B DI14-2 P14-2A P14-4B E14-1 P14-3A P14-5B	E14-6 E14-7		
2. Identify the items reported in a retained earnings statement.	Q14-12	Q14-9 Q14-14 Q14-11 Q14-13	Q14-10 E14-8 P14-4A BE14-4 E14-9 P14-2B BE14-5 P14-2A P14-3B DI14-3 P14-3A P14-4B	E14-6		
3. Prepare and analyze a comprehensive stockholders' equity section.		Q14-14 Q14-15	BE14-6 E14-15 P14-1B BE14-7 E14-16 P14-2B DI14-4 P14-1A P14-3B E14-5 P14-2A P14-4B E14-10 P14-3A P14-5B E14-11 P14-4A E14-13 P14-5A	E14-6		
4. Describe the form and content of corporation income statements.		Q14-15 Q14-16	BE14-8 E14-14 E14-12 E14-13			
5. Compute earnings per share.		Q14-17	BE14-9 E14-15 BE14-10 E14-16 DI14-4 E14-17 E14-12 P14-3A E14-14 P14-3B	Q14-18		
Broadening Your Perspective			Financial Reporting Decision Making Across the Organization FASB Codification	Comparative Analysis Real-World Focus Communication		Ethics Case All About You

ANSWERS TO QUESTIONS

1. (a) A dividend is a distribution of cash or stock by a corporation to its stockholders on a pro rata (proportional) basis.
(b) Disagree. Dividends may take four forms: cash, property, scrip (promissory note to pay cash), or stock.

2. Jan Kimler is not correct. Adequate cash is only one of the conditions. In order for a cash dividend to occur, a corporation must also have retained earnings and the dividend must be declared by the board of directors.

3. (a) The three dates are:
Declaration date is the date when the board of directors formally declares the cash dividend and announces it to stockholders. The declaration commits the corporation to a binding legal obligation that cannot be rescinded.
Record date is the date that marks the time when ownership of the outstanding shares is determined from the stockholder records maintained by the corporation. The purpose of this date is to identify the persons or entities that will receive the dividend.
Payment date is the date on which the dividend checks are mailed to the stockholders.
(b) The accounting entries and their dates are:
Declaration date—Debit Cash Dividends and Credit Dividends Payable.
No entry is made on the record date.
Payment date—Debit Dividends Payable and Credit Cash.

4. The allocation of the cash dividend is as follows:

Total dividend		$55,000
Allocated to preferred stock		
Dividends in arrears—one year	$10,000	
Current year dividend	10,000	20,000
Remainder allocated to common stock		$35,000

5. A cash dividend decreases assets, retained earnings, and total stockholders' equity. A stock dividend decreases retained earnings, increases paid-in capital, and has no effect on total assets and total stockholders' equity.

6. A corporation generally issues stock dividends for one of the following reasons:
(a) To satisfy stockholders' dividend expectations without spending cash.
(b) To increase the marketability of its stock by increasing the number of shares outstanding and thereby decreasing the market price per share. Decreasing the market price of the stock makes the shares easier to purchase for smaller investors.
(c) To emphasize that a portion of stockholders' equity that had been reported as retained earnings has been permanently reinvested in the business and therefore is unavailable for cash dividends.

7. In a stock split, the number of shares is increased in the same proportion that par value is decreased. Thus, in the Gorton Corporation the number of shares will increase to 60,000 = (30,000 X 2) and the par value will decrease to $5 = ($10 ÷ 2). The effect of a split on market value is generally inversely proportional to the size of the split. In this case, the market price would fall to approximately $60 per share ($120 ÷ 2).

8. The different effects of a stock split versus a stock dividend are:

Item	Stock Split	Stock Dividend
Total paid-in capital	No change	Increase
Total retained earnings	No change	Decrease
Total par value (common stock)	No change	Increase
Par value per share	Decrease	No Change

9. A prior period adjustment is a correction of an error in previously issued financial statements. The correction is reported in the current year's retained earnings statement as an adjustment of the beginning balance of retained earnings.

10. The understatement of depreciation in a prior year overstates the beginning retained earnings balance. The retained earnings statement presentation is:

Balance, January 1, as reported	$230,000
Correction for understatement of prior year's depreciation	(50,000)
Balance, January 1, as adjusted	$180,000

11. The purpose of a retained earnings restriction is to indicate that a portion of retained earnings is currently unavailable for dividends. Restrictions may result from the following causes: legal, contractual, or voluntary.

12. Retained earnings restrictions are generally disclosed in the notes to the financial statements.

13. The debits and credits to retained earnings are:

Debits	Credits
1. Net loss	1. Net income
2. Prior period adjustments for overstatement of net income	2. Prior period adjustments for understatement of net income
3. Cash and stock dividends	
4. Some disposals of treasury stock	

14. Rafy is incorrect. Only the ending balance of retained earnings is reported in the stockholders' equity section.

15. Dean should be told that although many factors affect the market price of a stock at a given time, the reported net income is one of the most significant factors. When companies announce increases or decreases in net income, the market price of their stock usually increases or decreases immediately. Net income also provides an indication of the amount of dividends that a company can distribute. In addition, net income leads to a growth in retained earnings, which is often reflected in a stock's market price.

16. The unique feature of a corporation income statement is a separate section that shows income taxes or income tax expense. The presentation is as follows:

Income before income taxes	$500,000
Income tax expense	150,000
Net income	$350,000

17. Earnings per share means earnings per share of common stock. Preferred stock dividends are subtracted from net income in computing EPS in order to obtain income available to common stockholders.

18. Apple reported the following basic earnings per share amounts in 2007 to 2011: $4.04, $6.94, $9.22, $15.41, and $28.05.

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 14-1

Nov. 1	Cash Dividends (80,000 X $1/share)	80,000	
	Dividends Payable		80,000
Dec. 31	Dividends Payable	80,000	
	Cash		80,000

BRIEF EXERCISE 14-2

Dec. 1	Stock Dividends (7,500 X $16)	120,000	
	Common Stock Dividends Distributable (7,500 X $10)		75,000
	Paid-in Capital in Excess of Par—Common Stock (7,500 X $6)		45,000
31	Common Stock Dividends Distributable	75,000	
	Common Stock		75,000

BRIEF EXERCISE 14-3

	Before Dividend	After Dividend
(a) Stockholders' equity		
Paid-in capital		
Common stock, $10 par	$2,000,000	$2,200,000
In excess of par	—	80,000
Total paid-in capital	2,000,000	2,280,000
Retained earnings	500,000	220,000
Total stockholders' equity	$2,500,000	$2,500,000
(b) Outstanding shares	200,000	220,000
(c) Par value per share	$10.00	$10.00

BRIEF EXERCISE 14-4

SOTO INC.
Retained Earnings Statement
For the Year Ended December 31, 2014

Balance, January 1	$220,000
Add: Net income	170,000
	390,000
Less: Dividends	85,000
Balance, December 31	$305,000

BRIEF EXERCISE 14-5

PALMER INC.
Retained Earnings Statement
For the Year Ended December 31, 2014

Balance, January 1, as reported		$800,000
Correction for overstatement of net income in prior period (depreciation expense error)		(50,000)
Balance, January 1, as adjusted		750,000
Add: Net income		120,000
		870,000
Less: Cash dividends	$90,000	
Stock dividends	8,000	98,000
Balance, December 31		$772,000

BRIEF EXERCISE 14-6

Return on stockholders' equity:

$$\$393 \div \frac{\$2,581 + \$2,887}{2} = 14.4\%$$

BRIEF EXERCISE 14-7

Return on common stockholders' equity $\dfrac{\$152{,}000}{(\$700{,}000+\$820{,}000) \div 2} = 20\%$

BRIEF EXERCISE 14-8

REINSCH CORPORATION
Income Statement
For the Year Ended December 31, 2014

Sales revenue	$350,000
Cost of goods sold	205,000
Gross profit	145,000
Operating expenses	75,000
Income from operations	70,000
Other revenues and gains	50,000
Income before income taxes	120,000
Income tax expense ($120,000 X 30%)	36,000
Net income	$84,000

BRIEF EXERCISE 14-9

Earnings per share = $1.90, or ($380,000 ÷ 200,000)

BRIEF EXERCISE 14-10

Earnings per share = $1.75, or [($380,000 – $30,000) ÷ 200,000]

SOLUTIONS FOR DO IT! REVIEW EXERCISES

DO IT! 14-1

1. The company has not missed past dividends and the preferred stock is noncumulative; thus, the preferred stockholders are paid only this year's dividend. The dividend paid to preferred stockholders would be $21,000 (3,000 X .07 X $100). The dividend paid to common stockholders would be $84,000 ($105,000 – $21,000).

2. The preferred stock is noncumulative; thus, past unpaid dividends do not have to be paid. The dividend paid to preferred stockholders would be $21,000 (3,000 X .07 X $100). The dividend paid to common stock-holders would be $84,000 ($105,000 – $21,000).

3. The preferred stock is cumulative; thus, dividends that have been missed in the past (dividends in arrears) must be paid. The dividend paid to preferred stockholders would be $63,000 (3 X 3,000 X .07 X $100). The dividend paid to common stockholders would be $42,000 ($105,000 – $63,000).

DO IT! 14-2

(a) (1) The stock dividend amount is $2,760,000 [(400,000 X 15%) X $46]. The new balance in retained earnings is $9,240,000 ($12,000,000 – $2,760,000).

(2) The retained earnings after the stock split would be the same as it was before the split: $12,000,000.

(b) (1) and (2) The effects on the equity accounts are as follows:

	Original Balances	After Dividend	After Split
Paid-in capital	$ 2,800,000	$ 5,560,000	$ 2,800,000
Retained earnings	12,000,000	9,240,000	12,000,000
Total stockholders' equity	$14,800,000	$14,800,000	$14,800,000
Shares outstanding	400,000	460,000	800,000

Total stockholders' equity remains the same under both options.

DO IT! 14-3

FOLEY CORPORATION
Retained Earnings Statement
For the Year Ended December 31, 2014

Balance, January 1, as reported	$3,100,000
Correction for understatement of net income in prior period (depreciation error)	110,000
Balance, January 1, as adjusted	3,210,000
Add: Net income	1,200,000
	4,410,000
Less: Cash dividends	150,000
Balance, December 31	$4,260,000

DO IT! 14-4

		2013	2014
(a)	Return on common stockholders' equity	$\frac{(\$100{,}000-\$30{,}000)}{(\$600{,}000+\$750{,}000)/2} = 10.4\%$	$\frac{(\$110{,}000-\$30{,}000)}{(\$750{,}000+\$830{,}000)/2} = 10.1\%$
(b)	Earnings per share	$\frac{(\$100{,}000-\$30{,}000)}{50{,}000} = \$1.40$	$\frac{(\$110{,}000-\$30{,}000)}{45{,}000} = \$1.78$

(c) Between 2013 and 2014, return on common stockholders' equity decreased from 10.4% to 10.1%. Earnings per share, however, improved from $1.40 to $1.78. It is important to note that net income barely changed during this period. The increase in EPS was due to the purchase of treasury shares, which reduced the denominator of the ratio. As the company repurchases its own shares, it becomes more reliant on debt and thus increases its risk.

SOLUTIONS TO EXERCISES

EXERCISE 14-1

(a)

June 15	Cash Dividends (120,000 X $1)		120,000	
	Dividends Payable			120,000
July 10	Dividends Payable		120,000	
	Cash			120,000
Dec. 15	Cash Dividends (122,000 X $1.20)		146,400	
	Dividends Payable			146,400

(b) In the retained earnings statement, dividends of $266,400 will be deducted. In the balance sheet, Dividends Payable of $146,400 will be reported as a current liability.

EXERCISE 14-2

(a)

	2013	2014	2015
Total dividend	$5,000	$12,000	$28,000
Allocation to preferred stock	5,000	6,000	6,000
Remainder to common stock	$ 0	$ 6,000	$22,000

(b)

	2013	2014	2015
Total dividend	$5,000	$12,000	$28,000
Allocation to preferred stock	5,000	9,000[1]	7,000
Remainder to common stock	$ 0	$ 3,000	$21,000

[1]Dividends in arrears for Year 1, $2,000 + current dividend for Year 2, $7,000.

(c)

Dec. 31	Cash Dividends	28,000	
	Dividends Payable		28,000

EXERCISE 14-3

(a)	Stock Dividends (21,000* X $18)	378,000	
	Common Stock Dividends Distributable (21,000 X $10)		210,000
	Paid-in Capital in Excess of Par—Common Stock (21,000 X $8)		168,000

*[($1,000,000 ÷ $10) + 40,000] X 15%.

(b)	Stock Dividends (36,000* X $20)	720,000	
	Common Stock Dividends Distributable (36,000 X $5)		180,000
	Paid-in Capital in Excess of Par—Common Stock (36,000 X $15)		540,000

*[($1,000,000 ÷ 5) + 40,000] X 15%.

EXERCISE 14-4

	Before Action	After Stock Dividend	After Stock Split
Stockholders' equity			
Paid-in capital			
Common stock	$ 500,000	$ 525,000	$ 500,000
In excess of par	0	10,000	0
Total paid-in capital	500,000	535,000	500,000
Retained earnings	900,000	865,000	900,000
Total stockholders' equity	$1,400,000	$1,400,000	$1,400,000
Outstanding shares	50,000	52,500	100,000
Par value per share	$10.00	$10.00	$5.00

EXERCISE 14-5

(a) (1) Par value before the stock dividend was $5.

(2) Par value after the stock dividend is still $5.

(b) Common stock

Balance before dividend	$400,000
Dividend shares (8,000 X $5)	40,000
New balance	$440,000

Paid-in capital in excess of par

Balance before dividend	$ 25,000
Excess over par of shares issued (8,000 X $10)	80,000
New balance	$105,000

Retained earnings

Balance before dividend	$155,000
Dividend (8,000 X $15)	120,000
New balance	$ 35,000

EXERCISE 14-6

	Paid-in Capital		
Item	Capital Stock	Additional	Retained Earnings
1.	NE	NE	D
2.	I	NE	NE
3.	NE	NE	NE
4.	I	I	D
5.	NE	NE	D
6.	NE	NE	NE
7.	NE	NE	NE
8.	I	I	NE

EXERCISE 14-7

1.	Dec.	31	Cash Dividends	50,000	
			Interest Expense		50,000
2.		31	Stock Dividends	8,000	
			Dividends Payable	10,000	
			Common Stock Dividends Distributable		10,000
			Paid-in Capital in Excess of Par—Common Stock		8,000
3.		31	Common Stock	2,000,000	
			Retained Earnings		2,000,000

EXERCISE 14-8

EDDY CORPORATION
Retained Earnings Statement
For the Year Ended December 31, 2014

Balance, January 1, as reported		$650,000
Correction for overstatement of 2013 net income (depreciation error)		(40,000)
Balance, January 1, as adjusted		610,000
Add: Net income		350,000
		960,000
Less: Cash dividends	$120,000	
Stock dividends	90,000	210,000
Balance, December 31		$750,000

EXERCISE 14-9

NEWLAND COMPANY
Retained Earnings Statement
For the Year Ended December 31, 2014

Balance, January 1, as reported		$310,000
Correction for understatement of 2012 net income		20,000
Balance, January 1, as adjusted		330,000
Add: Net income		285,000
		615,000
Less: Cash dividends	$100,000[1]	
Stock dividends	150,000[2]	250,000
Balance, December 31		$365,000

[1](200,000 X $.50/sh) [2](200,000 X .05 X $15/sh)

EXERCISE 14-10

DIRK COMPANY
Balance Sheet (Partial)
December 31, 2014

Paid-in capital		
Capital stock		
Preferred stock	$125,000	
Common stock	500,000	
Total capital stock		$ 625,000
Additional paid-in capital		
In excess of par—preferred stock	75,000	
In excess of par—common stock	100,000	
Total additional paid-in capital		175,000
Total paid-in capital		800,000
Retained earnings		374,000*
Total paid-in capital and retained earnings		1,174,000
Less: Treasury stock		40,000
Total stockholders' equity		$1,134,000

*$250,000 + $180,000 – $56,000

EXERCISE 14-11

HORNER INC.
Balance Sheet (Partial)
December 31, 20XX

Stockholders' equity		
Paid-in capital		
Capital stock		
8% Preferred stock, $5 par value, 40,000 shares authorized, 30,000 shares issued		$ 150,000
Common stock, no par, $1 stated value, 400,000 shares authorized, 300,000 shares issued and 290,000 outstanding	$ 300,000	
Common stock dividends distributable	30,000	330,000
Total capital stock		480,000
Additional paid-in capital		
In excess of par—preferred stock	344,000	
In excess of stated value—common stock	1,200,000	
Total additional paid-in capital		1,544,000
Total paid-in capital		2,024,000
Retained earnings (see Note R)		800,000
Total paid-in capital and retained earnings		2,824,000
Less: Treasury stock (10,000 common shares)		74,000
Total stockholders' equity		$2,750,000

Note R: Retained earnings is restricted for plant expansion, $100,000.

EXERCISE 14-12

(a)

NORMAN CORPORATION
Income Statement
For the Year Ended December 31, 2014

Sales revenue	$700,000
Cost of goods sold	465,000
Gross profit	235,000
Operating expenses	110,000
Income from operations	125,000
Other revenues and gains	92,000
Other expenses and losses	32,000
Income before income taxes	185,000
Income tax expense ($185,000 X 30%)	55,500
Net income	$129,500

(b) Earnings per share = $1.99, or [($129,500 – $30,000) ÷ 50,000]

EXERCISE 14-13

(a)

PENNINGTON CORPORATION
Income Statement
For the Year Ended December 31, 2014

Net sales	$600,000
Cost of goods sold	360,000
Gross profit	240,000
Operating expenses	153,000
Income from operations	87,000
Interest expense	7,500
Income before income taxes	79,500
Income tax expense (30% X $79,500)	23,850
Net income	$ 55,650

(b) $\frac{\text{Net income – preferred dividends}}{\text{Average common stockholders' equity}} = \frac{\$55,650 - \$15,000}{\$200,000} = 20.3\%$

EXERCISE 14-14

Net income: $2,000,000 – $1,300,000 = $700,000;
$700,000 – (30% X $700,000) = $490,000

Preferred dividends: (50,000 X $20) X 6% = $60,000

Average common shares outstanding: 200,000

Earnings per share:

$$\frac{\$490{,}000 - \$60{,}000}{200{,}000} = \underline{\underline{\$2.15}}$$

EXERCISE 14-15

	2014	2013
Earnings per share	$\frac{\$290{,}000 - \$20{,}000}{100{,}000} = \$2.70$	$\frac{\$200{,}000 - \$20{,}000}{80{,}000} = \$2.25$
Return on common stockholders' equity	$\frac{\$290{,}000 - \$20{,}000}{\$1{,}200{,}000} = 22.5\%$	$\frac{\$200{,}000 - \$20{,}000}{\$900{,}000} = 20.0\%$

EXERCISE 14-16

	2014	2013
Earnings per share	$\frac{\$200{,}000 - \$20{,}000}{150{,}000} = \$1.20$	$\frac{\$191{,}000 - \$20{,}000}{180{,}000} = \$0.95$
Return on common stockholders' equity	$\frac{\$200{,}000 - \$20{,}000}{\$1{,}800{,}000} = 10.0\%$	$\frac{\$191{,}000 - \$20{,}000}{\$1{,}900{,}000} = 9.0\%$

EXERCISE 14-17

(a) $$\frac{\$241,000 - \$16,000}{100,000} = \$2.25$$

(b) $$\frac{\$241,000 - \$16,000}{90,000^*} = \$2.50$$

*100,000 – 10,000 = 90,000.

SOLUTIONS TO PROBLEMS

PROBLEM 14-1A

(a)	Feb.	1	Cash Dividends (60,000 X $1)	60,000	
			Dividends Payable		60,000
	Mar.	1	Dividends Payable	60,000	
			Cash		60,000
	Apr.	1	Memo—two-for-one stock split increases number of shares to 120,000 = (60,000 X 2) and reduces par value to $10 per share.		
	July	1	Stock Dividends (12,000 X $13)	156,000	
			Common Stock Dividends Distributable (12,000 X $10)		120,000
			Paid-in Capital in Excess of Par—Common Stock (12,000 X $3)		36,000
		31	Common Stock Dividends Distributable	120,000	
			Common Stock		120,000
	Dec.	1	Cash Dividends (132,000 X $.50)	66,000	
			Dividends Payable		66,000
		31	Income Summary	350,000	
			Retained Earnings		350,000
			Retained Earnings	156,000	
			Stock Dividends		156,000
			Retained Earnings	126,000	
			Cash Dividends		126,000

PROBLEM 14-1A (Continued)

(b)

Common Stock

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			1,200,000
Apr.	1	2 for 1 split—new par $10				
July	31				120,000	1,320,000

Common Stock Dividends Distributable

Date		Explanation	Ref.	Debit	Credit	Balance
July	1				120,000	120,000
	31			120,000		0

Paid-in Capital in Excess of Par—Common Stock

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			200,000
July	1				36,000	236,000

Retained Earnings

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			600,000
Dec.	31	Net income			350,000	950,000
		Stock dividend		156,000		794,000
		Cash dividend		126,000		668,000

Cash Dividends

Date		Explanation	Ref.	Debit	Credit	Balance
Feb.	1			60,000		60,000
Dec.	1			66,000		126,000
Dec.	31				126,000	0

Stock Dividends

Date		Explanation	Ref.	Debit	Credit	Balance
July	1			156,000		156,000
Dec.	31				156,000	0

PROBLEM 14-1A (Continued)

(c)

GEFFREY CORPORATION
Balance Sheet (Partial)
December 31, 2014

Stockholders' equity	
Paid-in capital	
Capital stock	
Common stock, $10 par value, 132,000 shares issued and outstanding	$1,320,000
Additional paid-in capital	
In excess of par—common stock	236,000
Total paid-in capital..............................	1,556,000
Retained earnings...	668,000
Total stockholders' equity	$2,224,000

PROBLEM 14-2A

(a)

July	1	Cash Dividends		
		[($800,000 ÷ $5) X $.60]	96,000	
		Dividends Payable		96,000
Aug.	1	Retained Earnings	25,000	
		Accumulated Depreciation—Equipment		25,000
Sept.	1	Dividends Payable	96,000	
		Cash		96,000
Dec.	1	Stock Dividends (24,000 X $18)	432,000	
		Common Stock Dividends Distributable (24,000 X $5)		120,000
		Paid-in Capital in Excess of Par—Common Stock (24,000 X $13)		312,000
	15	Cash Dividends		
		[12,000 X ($50 X 6%)]	36,000	
		Dividends Payable		36,000
	31	Income Summary	355,000	
		Retained Earnings		355,000
		Retained Earnings	132,000	
		Cash Dividends		132,000
		Retained Earnings	432,000	
		Stock Dividends		432,000

(b)

Preferred Stock

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			600,000

PROBLEM 14-2A (Continued)

Common Stock

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			800,000

Common Stock Dividends Distributable

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	1				120,000	120,000

Paid-in Capital in Excess of Par—Preferred Stock

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			200,000

Paid-in Capital in Excess of Par—Common Stock

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			300,000
Dec.	1				312,000	612,000

Retained Earnings

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			800,000
Aug.	1	Prior period adjustment—depreciation		25,000		775,000
Dec.	31	Net income			355,000	1,130,000
	31	Cash dividends		132,000		998,000
	31	Stock dividends		432,000		566,000

PROBLEM 14-2A (Continued)

Cash Dividends

Date		Explanation	Ref.	Debit	Credit	Balance
July	1			96,000		96,000
Dec.	15			36,000		132,000
	31				132,000	0

Stock Dividends

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	1			432,000		432,000
	31				432,000	0

(c)

KARP COMPANY
Retained Earnings Statement
For the Year Ended December 31, 2014

Balance, January 1, as reported			$ 800,000
Correction of 2013 depreciation			(25,000)
Balance, January 1, as adjusted			775,000
Add:	Net income		355,000
			1,130,000
Less:	Cash dividends—preferred	$ 36,000	
	Stock dividends—common	432,000	
	Cash dividends—common	96,000	564,000
Balance, December 31			$ 566,000

PROBLEM 14-2A (Continued)

(d)

KARP COMPANY
Balance Sheet (Partial)
December 31, 2014

Stockholders' equity		
Paid-in capital		
Capital stock		
6% Preferred stock, $50 par value, 12,000 shares issued ...		$ 600,000
Common stock, $5 par value, 160,000 shares issued	$800,000	
Common stock dividends distributable (24,000 shares)	120,000	920,000
Total capital stock		1,520,000
Additional paid-in capital		
In excess of par— preferred stock	200,000	
In excess of par— common stock	612,000	
Total additional paid-in capital		812,000
Total paid-in capital		2,332,000
Retained earnings (see Note B)		566,000
Total stockholders' equity		$2,898,000

<u>Note B</u>: Retained earnings is restricted for plant expansion, $200,000.

PROBLEM 14-3A

(a)

Retained Earnings

Sept. 1	Prior Per. Adj.	63,000	Jan. 1	Balance	1,170,000
Dec. 31	Cash Dividends	250,000	Dec. 31	Net Income	585,000
Dec. 31	Stock Dividends	400,000			
			Dec. 31	Balance	1,042,000

(b)

STOREY CORPORATION
Retained Earnings Statement
For the Year Ended December 31, 2014

Balance, January 1, as reported		$1,170,000
Correction of overstatement of 2013 net income because of understatement of depreciation		(63,000)
Balance, January 1, as adjusted		1,107,000
Add: Net income		585,000
		1,692,000
Less: Cash dividends	$250,000	
Stock dividends	400,000	650,000
Balance, December 31		$1,042,000

(c)

STOREY CORPORATION
Partial Balance Sheet
December 31, 2014

Stockholders' equity	
Paid-in capital	
Capital stock	
6% Preferred stock, $50 par value, cumulative, 20,000 shares authorized, 15,000 shares issued and outstanding...........................	$ 750,000

STOREY CORPORATION (Continued)

Common stock, $10 par value, 500,000 shares authorized, 250,000 shares issued and outstanding	$2,500,000	
Common stock dividends distributable	250,000	2,750,000
Total capital stock		3,500,000
Additional paid-in capital		
In excess of par—preferred stock	250,000	
In excess of par—common stock	400,000	
Total additional paid-in capital		650,000
Total paid-in capital		4,150,000
Retained earnings (see Note X)		1,042,000
Total stockholders' equity		$5,192,000

Note X: Retained earnings is restricted for plant expansion, $200,000.

(d)

Total cash dividend		$250,000
Allocated to preferred stock		
Dividend in arrears—2013 [15,000 X ($50 X 6%)]	$45,000	
2014 dividend	45,000	90,000
Remainder to common stock		$160,000

PROBLEM 14-4A

(a)

VEN CORPORATION
Partial Balance Sheet
March 31, 2014

Stockholders' equity	
Paid-in capital	
Capital stock	
Common stock, no-par value,	
90,000 shares issued and outstanding	$1,600,000
Retained earnings	410,000
Total stockholders' equity	$2,010,000

(b)

VEN CORPORATION
Partial Balance Sheet
June 30, 2014

Stockholders' equity	
Paid-in capital	
Capital stock	
Common stock, no-par value,	
270,000 shares issued and outstanding ...	$1,600,000
Retained earnings	410,000
Total stockholders' equity	$2,010,000

(c)

VEN CORPORATION
Partial Balance Sheet
September 30, 2014

Stockholders' equity	
Paid-in capital	
Capital stock	
Common stock, no-par value,	
283,500 shares issued and outstanding	$1,816,000*
Retained earnings	194,000**
Total stockholders' equity	$2,010,000

*$1,600,000 + [(270,000 X .05) X $16] **$410,000 – $216,000

(d)

VEN CORPORATION
Partial Balance Sheet
December 31, 2014

Stockholders' equity	
Paid-in capital	
Capital stock	
Common stock, no-par value,	
283,500 shares issued and outstanding	$1,816,000
Retained earnings	402,250*
Total stockholders' equity	$2,218,250

*$194,000 – ($.50 X 283,500) + $350,000

PROBLEM 14-5A

Preliminary analysis (in thousands)—NOT REQUIRED

	Common Stock	Common Stock Dividends Distributable	Retained Earnings	Total
Balance, Jan. 1	$1,500	$200	$600	$2,300
1. Issued 50,000 shares for stock dividend	200	(200)		0
2. Issued 30,000 shares for cash	180			180
3. Corrected error in 2012 net income			70	70
4. Declared cash dividend			(80)	(80)
5. Net income for year			300	300
Balance, Dec. 31	$1,880	$ 0	$890	$2,770

SHELLENBURGER INC.
Partial Balance Sheet
December 31, 2014

Stockholders' equity	
Paid-in capital	
Capital stock	
Common stock, no-par value,	
580,000 shares issued and outstanding.......	$1,880,000
Retained earnings	890,000
Total stockholders' equity	$2,770,000

PROBLEM 14-1B

(a)	Jan. 15	Cash Dividends (200,000 X $1)	200,000	
		Dividends Payable		200,000
	Feb. 15	Dividends Payable	200,000	
		Cash		200,000
	Apr. 15	Stock Dividends (20,000 X $15)	300,000	
		Common Stock Dividends Distributable (20,000 X $5)		100,000
		Paid-in Capital in Excess of Par—Common Stock (20,000 X $10)		200,000
	May 15	Common Stock Dividends Distributable	100,000	
		Common Stock (20,000 X $5)		100,000
	July 1	Memo—two-for-one stock split increases the number of shares outstanding to 440,000, or (220,000 X 2) and reduces par value to $2.50 per share.		
	Dec. 1	Cash Dividends (440,000 X $.50)	220,000	
		Dividends Payable		220,000
	31	Income Summary	250,000	
		Retained Earnings		250,000
		Retained Earnings	420,000	
		Cash Dividends		420,000
		Retained Earnings	300,000	
		Stock Dividends		300,000

PROBLEM 14-1B (Continued)

(b)

Common Stock

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			1,000,000
May	15				100,000	1,100,000
July	1	2 for 1 stock split— new par value = $2.50				

Common Stock Dividends Distributable

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	15				100,000	100,000
May	15			100,000		0

Paid-in Capital in Excess of Par—Common Stock

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			200,000
Apr.	15				200,000	400,000

Retained Earnings

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			840,000
Dec.	31	Net income			250,000	1,090,000
	31	Cash dividends		420,000		670,000
	31	Stock dividends		300,000		370,000

Cash Dividends

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	15			200,000		200,000
Dec.	1			220,000		420,000
	31				420,000	0

PROBLEM 14-1B (Continued)

Stock Dividends

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	15			300,000		300,000
Dec.	31				300,000	0

(c)

CHEN CORPORATION
Balance Sheet (Partial)
December 31, 2014

Stockholders' equity	
Paid-in capital	
Capital stock	
Common stock, $2.50 par value, 440,000 shares issued and outstanding	$1,100,000
Additional paid-in capital	
In excess of par—common stock	400,000
Total paid-in capital..............................	1,500,000
Retained earnings...	370,000
Total stockholders' equity..................	$1,870,000

PROBLEM 14-2B

(a)

July	1	Cash Dividends		
		[($900,000 ÷ $10) X $.50]	45,000	
		Dividends Payable		45,000
Aug.	1	Accumulated Depreciation—		
		Equipment	72,000	
		Retained Earnings		72,000
Sept.	1	Dividends Payable	45,000	
		Cash		45,000
Dec.	1	Stock Dividends (9,000 X $16)	144,000	
		Common Stock Dividends		
		Distributable (9,000 X $10)		90,000
		Paid-in Capital in Excess of		
		Par—Common Stock		
		(9,000 X $6)		54,000
	15	Cash Dividends		
		[6,000 X ($100 X 7%)]	42,000	
		Dividends Payable		42,000
	31	Income Summary	350,000	
		Retained Earnings		350,000
		Retained Earnings	87,000	
		Cash Dividends		87,000
		Retained Earnings	144,000	
		Stock Dividends		144,000

(b)

Preferred Stock

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			600,000

PROBLEM 14-2B (Continued)

Common Stock

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			900,000

Common Stock Dividends Distributable

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	1				90,000	90,000

Paid-in Capital in Excess of Par—Preferred Stock

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			100,000

Paid-in Capital in Excess of Par—Common Stock

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			200,000
Dec.	1				54,000	254,000

Retained Earnings

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			500,000
Aug.	1	Prior period adjustment			72,000	572,000
Dec.	31	Net income			350,000	922,000
	31	Cash dividends		87,000		835,000
	31	Stock dividends		144,000		691,000

PROBLEM 14-2B (Continued)

Cash Dividends

Date		Explanation	Ref.	Debit	Credit	Balance
July	1			45,000		45,000
Dec.	15			42,000		87,000
	31				87,000	0

Stock Dividends

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	1			144,000		144,000
Dec.	31				144,000	0

(c)

HOLT, INC.
Retained Earnings Statement
For the Year Ended December 31, 2014

Balance, January 1, as reported		$500,000
Correction of 2013 depreciation		72,000
Balance, January 1, as adjusted		572,000
Add: Net income		350,000
		922,000
Less: Cash dividends—preferred	$ 42,000	
Stock dividends—common	144,000	
Cash dividends—common	45,000	231,000
Balance, December 31		$691,000

PROBLEM 14-2B (Continued)

(d)

HOLT, INC.
Balance Sheet (Partial)
December 31, 2014

Stockholders' equity		
Paid-in capital		
Capital stock		
7% Preferred stock, $100 par value, 6,000 shares issued		$ 600,000
Common stock, $10 par value, 90,000 shares issued	$900,000	
Common stock dividends distributable	90,000	990,000
Total capital stock		1,590,000
Additional paid-in capital		
In excess of par—preferred stock	100,000	
In excess of par—common stock	254,000	
Total additional paid-in capital		354,000
Total paid-in capital		1,944,000
Retained earnings		691,000
Total stockholders' equity		$2,635,000

PROBLEM 14-3B

(a)

Retained Earnings

Dec. 31	Cash Dividends	500,000	Jan. 1	Balance	2,450,000
Dec. 31	Stock Dividends	360,000	Dec. 31	Net Income	970,000
			Dec. 31	Balance	2,560,000

(b)

GIFFIN CORPORATION
Retained Earnings Statement
For the Year Ended December 31, 2014

Balance, January 1		$2,450,000
Add: Net income		970,000
		3,420,000
Less: Cash dividends	$500,000	
Stock dividends	360,000	860,000
Balance, December 31		$2,560,000

(c)

GIFFIN CORPORATION
Partial Balance Sheet
December 31, 2014

Stockholders' equity		
Paid-in capital		
Capital stock		
6% Preferred stock, $100 par value, noncumulative, callable at $125, 20,000 shares authorized, 10,000 shares issued and outstanding		$1,000,000
Common stock, no par, $5 stated value, 600,000 shares authorized, 400,000 shares issued and outstanding	$2,000,000	
Common stock dividends distributable	200,000	2,200,000
Total capital stock		3,200,000

PROBLEM 14-3B (Continued)

GIFFIN CORPORATION (Continued)

Additional paid-in capital		
In excess of par—preferred stock	$ 200,000	
In excess of stated value—common stock	1,180,000	
Total additional paid-in capital		1,380,000
Total paid-in capital		4,580,000
Retained earnings (see Note A)		2,560,000
Total stockholders' equity		$7,140,000

Note A: Retained earnings is restricted for plant expansion, $100,000.

(d)

Total dividend	$500,000
Allocated to preferred stock—current year only	60,000
Remainder to common stock	$440,000

PROBLEM 14-4B

(a)

DINGLER CORPORATION
Partial Balance Sheet
March 31, 2014

Stockholders' equity	
Paid-in capital	
Capital stock	
Common stock, no-par value,	
100,000 shares issued and outstanding	$2,800,000
Retained earnings	900,000
Total stockholders' equity	$3,700,000

(b)

DINGLER CORPORATION
Partial Balance Sheet
June 30, 2014

Stockholders' equity	
Paid-in capital	
Capital stock	
Common stock, no-par value,	
400,000 shares issued and outstanding	$2,800,000
Retained earnings	900,000
Total stockholders' equity	$3,700,000

(c)

DINGLER CORPORATION
Partial Balance Sheet
September 30, 2014

Stockholders' equity	
Paid-in capital	
Capital stock	
Common stock, no-par value,	
420,000 shares issued and outstanding	$3,060,000*
Retained earnings	640,000**
Total stockholders' equity	$3,700,000

*$2,800,000 + [(400,000 X .05) X $13]   **$900,000 – $260,000

PROBLEM 14-4B (Continued)

(d)

DINGLER CORPORATION
Partial Balance Sheet
December 31, 2014

Stockholders' equity	
Paid-in capital	
Capital stock	
Common stock, no-par value,	
420,000 shares issued and outstanding	$3,060,000
Retained earnings	1,130,000*
Total stockholders' equity	$4,190,000

*$640,000 – ($.50 X 420,000) + $700,000

PROBLEM 14-5B

Preliminary analysis (in thousands)—NOT REQUIRED

	Common Stock	Common Stock Dividends Distributable	Retained Earnings	Total
Balance, Jan. 1	$3,000	$400	$1,200	$4,600
1. Issued 100,000 shares for stock dividend	400	(400)		0
2. Issued 60,000 shares for cash	300			300
3. Corrected error in 2012 net income			140	140
4. Declared cash dividend			(300)	(300)
5. Net income for year			600	600
Balance, Dec. 31	$3,700	$ 0	$1,640	$5,340

HAMMOND INC.
Partial Balance Sheet
December 31, 2014

Stockholders' equity	
Paid-in capital	
Capital stock	
Common stock, no-par value,	
1,160,000 shares issued and outstanding.....	$3,700,000
Retained earnings	1,640,000
Total stockholders' equity............................	$5,340,000

GENERAL JOURNAL J1

Date		Account Titles and Explanation	Debit	Credit
(a) Dec.	1	Cash	4,000	
		Preferred Stock		4,000
Apr.	30	Cash Dividends		
		(2,800 X $0.50 X 1/2)	700	
		Dividends Payable		700
June	1	Dividends Payable	700	
		Cash		700
	30	Treasury Stock	500	
		Cash		500
Oct.	31	Income Tax Expense	18,500	
		Income Taxes Payable		
		($462,500 – $370,000) X 20%		18,500
	31	Cash Dividends		
		(2,800 X $0.50 X 1/2)	700	
		Dividends Payable		700

CCC14 (Continued)

(b)

COOKIE & COFFEE CREATIONS INC.
Statement of Retained Earnings
Year Ended October 31, 2015

Balance, November 1, 2014		$ 0
Add:	Net income	74,000
		74,000
Less:	Cash dividends—preferred	1,400
Balance, October 31, 2015		$72,600

(c)

COOKIE & COFFEE CREATIONS INC.
Partial Balance Sheet
October 31, 2015

Stockholders' equity	
Paid-in capital	
$0.50-noncumulative preferred stock, no par value, 10,000 authorized, 2,800 stock issued	$ 14,000
Common stock, no par value, 100,000 shares authorized, 25,930 issued 25,180 shares outstanding	25,930
Total paid-in capital	39,930
Retained earnings	72,600
Total paid-in capital and retained earnings	112,530
Less: Treasury stock (750 common shares)	(500)
Total stockholders' equity	$112,030

CCC14 (Continued)

(d)

Oct.	31	Revenues	462,500	
		Income Summary		462,500
	31	Income Summary	388,500	
		Expenses		370,000
		Income Tax Expense		18,500
	31	Income Summary	74,000	
		Retained Earnings		74,000

(e) **Earnings per Share**

= Income available to common stockholders ÷ Weighted average number of common shares

= ($74,000 – $1,400) ÷ 25,680

= $2.83

BYP 14-1 FINANCIAL REPORTING PROBLEM

According to the Consolidated Statements of Shareholders' Equity, Apple did not declare any dividends on common stock during the year-ended September 24, 2011.

BYP 14-2 COMPARATIVE ANALYSIS PROBLEM

(a)

	PepsiCo	Coca-Cola
Earnings per share	$\dfrac{\$6,443 - \$1}{1,580} = \$4.08$	$\dfrac{\$8,572 - \$0}{2,284} = \$3.75$
Return on common stockholders' equity	$\dfrac{\$6,443 - \$1}{(\$20,704 + \$21,273) \div 2} = 30.7\%$	$\dfrac{\$8,572 - \$0}{(\$31,635 + \$31,003) \div 2} = 27.4\%$

The return on common stockholders' equity can be used to compare the profitability of two companies. It shows how many dollars of net income were earned for each dollar invested by the owners. Since this ratio is expressed as a percent instead of a dollar amount like earnings per share, it can be used to compare PepsiCo and Coca-Cola. During 2011, PepsiCo was 6% more profitable than Coca-Cola based on their respective returns on common stockholders' equity. Earnings per share measures cannot be compared across companies because they may use vastly different numbers of shares to finance the company.

(b) **PepsiCo paid cash dividends of $3,157 million and Coca-Cola paid $4,300 million of cash dividends in 2011.**

BYP 14-3 COMPARATIVE ANALYSIS PROBLEM

(a)

	Amazon	Wal-Mart
Earnings per share	$\frac{\$631 - \$0}{453} = \$1.39$	$\frac{\$15,699 - \$0}{3,460} = \$4.54$

Earnings per share measures cannot be compared across companies because they may use vastly different numbers of shares to finance the company.

(b) **Wal-Mart paid cash dividends of $5,048 million but Amazon did not pay any dividends in 2011.**

BYP 14-4 REAL-WORLD FOCUS

Answers will vary depending on the company chosen by the student.

BYP 14-5 DECISION MAKING ACROSS THE ORGANIZATION

Journal entries—NOT REQUIRED

July	1	Cash Dividends (140,000 X $0.50)	70,000	
		Dividends Payable		70,000
Aug.	1	Accumulated Depreciation	72,000	
		Retained Earnings		72,000
Sept.	1	Dividends Payable	70,000	
		Cash		70,000
Dec.	1	Stock Dividends (14,000 X $12)	168,000	
		Common Stock Dividends Distributable		168,000
	15	Cash Dividends (4,000 X $6)	24,000	
		Dividends Payable		24,000
	31	Income Summary	320,000	
		Retained Earnings		320,000

(a)

GONZALEZ, INC.
Retained Earnings Statement
For the Year Ended December 31, 2014

Balance, January 1, as previously reported		$550,000
Correction of 2013 depreciation		72,000
Balance, January 1, as corrected		622,000
Add: Net income		320,000
		942,000
Less: Cash dividends—preferred	$ 24,000	
Stock dividends—common	168,000	
Cash dividends—common	70,000	262,000
Balance, December 31		$680,000

BYP 14-5 (Continued)

(b) Treating the overstatement of 2013 depreciation expense as an adjustment of 2014 income would be incorrect because it applies to the prior year's income statement and would distort depreciation expense for 2014.

(c) Companies issue stock dividends instead of cash dividends to satisfy stockholders' dividend expectations without spending cash and to increase the marketability of the corporation's stock.

BYP 14-6 COMMUNICATION ACTIVITY

Dear Mom and Dad,

Thanks for calling me about your investments in Gosser Corporation and Jenks, Inc.

The effect to you as stockholders is the same for both a stock dividend and a stock split. In each case, the number of shares you own will increase. Following the stock dividend, you will own 110 shares of Gosser [100 + (100 X 10%)]. After the stock split, you will own 200 shares of Jenks (100 X 2).

The total value of your investments should remain approximately the same as before the stock dividend and stock split. The reason is that the market value per share will likely decrease in proportion to the additional shares that you will own. If there is a change in value, it is more likely to be higher than lower.

The effects of the stock dividend and stock split on the corporations are limited entirely to the stockholders' equity sections as follows:

Stockholders' Equity Item	After Stock Dividend	After Stock Split
Total capital stock	Increase	No change
Par value per share	No change	Decrease
Total paid-in capital	Increase	No change
Total retained earnings	Decrease	No change
Total stockholders' equity	No change	No change

I hope this answers your questions, Mom and Dad. If you have any additional questions, please give me a call.

Love,

P.S. Please send money.

BYP 14-7 ETHICS CASE

(a) **The stakeholders in this situation are:**

- **Rob Lowery, president of Molina Corporation.**
- **Debbie Oler, financial vice-president.**
- **The stockholders of Molina Corporation.**

(b) **There is nothing unethical in issuing a stock dividend. But the president's order to write a press release convincing the stockholders that the stock dividend is <u>just as good as</u> a cash dividend is unethical. A stock dividend is not a cash dividend and does not necessarily place the stockholder in the same position. A stock dividend is a "paper" dividend—the issuance of a stock certificate, not a check (cash).**

(c) **The stock dividend results in a decrease in retained earnings and an increase of the same amount in paid-in capital with no change in total stockholders' equity. There is no change in total assets and no change in total liabilities and stockholders' equity.**

As a stockholder, preference for a cash dividend versus a stock dividend is dependent upon one's investment objective—income (cash flow) or growth (reinvestment).

BYP 14-8 ALL ABOUT YOU

Answers will vary depending on the subject of the ethics code.

BYP 14-9 FASB CODIFICATION ACTIVITY

(a) Stock Dividends: An issuance by a corporation of its own common shares to its common shareholders without consideration and under conditions indicating that such action is prompted mainly by a desire to give the recipient shareholders some ostensibly separate evidence of a part of their respective interests in accumulated corporate earnings without distribution of cash or other property that the board of directors deems necessary or desirable to retain in the business.

(b) Stock Split: An issuance by a corporation of its own common shares to its common shareholders without consideration and under conditions indicating that such action is prompted mainly by a desire to increase the number of outstanding shares for the purpose if effecting a reduction in their unit market price and, thereby, of obtaining wider distribution and improved marketability of the shares. Sometimes called a stock split-up.

(c) Except for a few instances, the issuance of additional shares of less than 20 or 25 percent of the number of previously outstanding shares would call for treatment as a stock dividend as described in paragraph 505-20-30-3.

IFRS 14-1 INTERNATIONAL FINANCIAL REPORTING PROBLEM

(a) The company did not declare or pay a dividend for the year ended April 30, 2011. This information is determined from the company's statement of changes in equity.

(b) The company has a negative 10.2% return on ordinary shareholders' equity. The computation is as follows:

$$\frac{(£4,482)}{(£41,755 + £46,287) \div 2}$$

(c) Earnings per share is £35.1 per share for basic and a £34.9 for fully diluted.

