CHAPTER 13

CORPORATIONS: ORGANIZATION AND CAPITAL STOCK TRANSACTIONS

SUMMARY OF QUESTIONS BY LEARNING OBJECTIVES AND BLOOM'S TAXONOMY

Item	LO	BT	Item	LO	BT	Item	LO	BT	Item	LO	BT	Item	LO	BT
True-False Statements														
1.	1	K	9.	1	K	17.	2	K	25.	4	C	[sg]33.	3	C
2.	1	K	10.	1	K	18.	2	K	26.	5	K	[sg]34.	3	C
3.	1	K	11.	1	K	19.	3	K	27.	5	K	[sg]35.	4	K
4.	1	K	12.	1	K	20.	3	K	28.	5	K	[sg]36.	6	K
5.	1	K	13.	2	K	21.	4	C	29.	6	K			
6.	1	K	14.	2	K	22.	4	K	30.	6	K			
7.	1	K	15.	2	K	23.	4	C	[sg]31.	1	K			
8.	1	C	16.	2	K	24.	4	K	[sg]32.	1	K			
Multiple Choice Questions														
37.	1	K	61.	1	K	85.	3	K	109.	4	K	133.	6	K
38.	1	K	62.	1	K	86.	3	K	110.	4	C	134.	6	K
39.	1	K	63.	1	K	87.	3	K	111.	4	K	135.	6	K
40.	1	K	64.	1	C	88.	3	K	112.	4	AP	136.	6	K
41.	1	K	65.	1	C	89.	3	AP	113.	4	AP	137.	6	K
42.	1	C	66.	1	K	90.	3	AP	114.	5	AP	[sg]138.	1	C
43.	1	K	67.	1	C	91.	3	AP	115.	5	AP	[st]139.	1	K
44.	1	K	68.	1	K	92.	3	AP	116.	5	C	[sg]140.	1	C
45.	1	K	69.	2	K	93.	4	AN	117.	5	K	[sg]141.	3	C
46.	1	K	70.	2	C	94.	4	AN	118.	5	AP	[st]142.	4	K
47.	1	K	71.	2	K	95.	4	AP	119.	5	C	[sg]143.	4	AP
48.	1	K	72.	2	C	96.	4	AP	120.	5	K	[sg]144.	4	K
49.	1	C	73.	3	C	97.	4	K	121.	5	K	[st]145.	5	K
50.	1	K	74.	3	AP	98.	4	C	122.	5	K	[sg]146.	5	AP
51.	1	K	75.	3	K	99.	4	C	123.	5	AP	[st]147.	6	K
52.	1	K	76.	3	K	100.	5	AP	124.	5	AP	[sg]148.	6	K
53.	1	K	77.	3	K	101.	5	AP	125.	6	AP	149.	7	K
54.	1	K	78.	3	K	102.	3	AP	126.	6	AP	150.	7	K
55.	1	K	79.	3	K	103.	4	AP	127.	6	AP	151.	7	K
56.	1	K	80.	3	K	104.	4	K	128.	6	AP	152.	7	K
57.	1	K	81.	3	AP	105.	4	K	129.	6	AP	153.	7	K
58.	1	K	82.	3	C	106.	4	C	130.	6	AP	154.	7	K
59.	1	K	83.	3	K	107.	4	K	131.	6	AP			
60.	1	K	84.	3	C	108.	4	C	132.	6	K			
Brief Exercises														
155.	1	K	157.	3,4	AP	159.	4	AP	161.	5	AP			
156.	3	AP	158.	3,4	AP	160.	3,5	AP	162.	6	AP			

[sg] This question also appears in the Study Guide.
[st] This question also appears in a self-test at the student companion website.

SUMMARY OF QUESTIONS BY LEARNING OBJECTIVES AND BLOOM'S TAXONOMY

Exercises														
163.	3	AP	168.	1,4	C	173.	4	AP	178.	4–6	AP	183.	5	AP
164.	3,4	AP	169.	3,4	AP	174.	4,6	AP	179.	5	AP	184.	6	AP
165.	3,4	AP	170.	3–6	AN	175.	4	AN	180.	5,6	AP	185.	6	AP
166.	3	AP	171.	4	AP	176.	3,4	AP	181.	5	AP	186.	6	C
167.	3	AP	172.	4	AP	177.	3,4	AP	182.	6	C			
Completion Statements														
187.	1	K	190.	1	K	193.	2	K	196.	5	K			
188.	1	K	191.	1	K	194.	3	K	197.	5	K			
189.	1	K	192.	1	K	195.	4	K	198.	6	K			
Matching Statements														
199.	2	K												
Short-Answer Essay Statements														
200.	1	K	202.	2	K	204.	4	K	206.	6	K			
201.	5	K	203.	3	K	205.	4	K						

SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type
Learning Objective 1													
1.	TF	10.	TF	41.	MC	50.	MC	59.	MC	68.	MC	190.	C
2.	TF	11.	TF	42.	MC	51.	MC	60.	MC	138.	MC	191.	C
3.	TF	12.	TF	43.	MC	52.	MC	61.	MC	139.	MC	192.	C
4.	TF	31.	TF	44.	MC	53.	MC	62.	MC	140.	MC	200.	SA
5.	TF	32.	TF	45.	MC	54.	MC	63.	MC	155.	BE		
6.	TF	37.	MC	46.	MC	55.	MC	64.	MC	168.	Ex		
7.	TF	38.	MC	47.	MC	56.	MC	65.	MC	187.	C		
8.	TF	39.	MC	48.	MC	57.	MC	66.	MC	188.	C		
9.	TF	40.	MC	49.	MC	58.	MC	67.	MC	189.	C		
Learning Objective 2													
13.	TF	15.	TF	17.	TF	69.	MC	71.	MC	193.	C	202.	SA
14.	TF	16.	TF	18.	TF	70.	MC	72.	MC	199.	Mat		
Learning Objective 3													
19.	TF	75.	MC	81.	MC	87.	MC	102.	MC	163.	Ex	170.	Ex
20.	TF	76.	MC	82.	MC	88.	MC	141.	MC	164.	Ex	176.	Ex
33.	TF	77.	MC	83.	MC	89.	MC	156.	BE	165.	Ex	177.	Ex
34.	TF	78.	MC	84.	MC	90.	MC	157.	BE	166.	Ex	194.	C
73.	MC	79.	MC	85.	MC	91.	MC	158.	BE	167.	Ex	203.	SA
74.	MC	80.	MC	86.	MC	92.	MC	160.	BE	169.	Ex		

SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Learning Objective 4													
21.	TF	94.	MC	104.	MC	111.	MC	158.	BE	171.	Ex	178.	Ex
22.	TF	95.	MC	105.	MC	112.	MC	159.	BE	172.	Ex	195.	C
23.	TF	96.	MC	106.	MC	113.	MC	164.	Ex	173.	Ex	204.	SA
24.	TF	97.	MC	107.	MC	142.	MC	165.	Ex	174.	Ex	205.	SA
25.	TF	98.	MC	108.	MC	143.	MC	168.	Ex	175.	Ex		
35.	TF	99.	MC	109.	MC	144.	MC	169.	Ex	176.	Ex		
93.	MC	103.	MC	110.	MC	157.	BE	170.	Ex	177.	Ex		
Learning Objective 5													
26.	TF	114.	MC	119.	MC	124.	MC	170.	Ex	183.	Ex		
27.	TF	115.	MC	120.	MC	145.	MC	178.	Ex	196.	C		
28.	TF	116.	MC	121.	MC	146.	MC	179.	Ex	197.	C		
100.	MC	117.	MC	122.	MC	160.	BE	180.	Ex	201.	SA		
101.	MC	118.	MC	123.	MC	161.	BE	181.	Ex				
Learning Objective 6													
29.	TF	126.	MC	130.	MC	134.	MC	147.	MC	178.	Ex	185.	Ex
30.	TF	127.	MC	131.	MC	135.	MC	148.	MC	180.	Ex	186.	Ex
36.	TF	128.	MC	132.	MC	136.	MC	162.	BE	182.	Ex	198.	C
125.	MC	129.	MC	133.	MC	137.	MC	170/173.	Ex	184.	Ex	206.	SA
Learning Objective 7													
149.	MC	150.	MC	151.	MC	152.	MC	153.	MC	154.	MC		

Note: TF = True-False BE = Brief Exercise C = Completion
MC = Multiple Choice Ex = Exercise

The chapter also contains one set of ten Matching questions and seven Short-Answer Essay questions.

CHAPTER LEARNING OBJECTIVES

1. ***Identify the major characteristics of a corporation.*** The major characteristics of a corporation are separate legal existence, limited liability of stockholders, transferable ownership rights, ability to acquire capital, continuous life, corporation management, government regulations, and additional taxes.

2. ***Differentiate between paid-in capital and retained earnings.*** Paid-in capital is the total amount paid in on capital stock. It is often called contributed capital. Retained earnings is net income retained in a corporation. It is often called earned capital.

3. ***Record the issuance of common stock.*** When companies record the issuance of common stock for cash, they credit the par value of the shares to Common Stock. They record in a separate paid-in capital account the portion of the proceeds that is above or below par value. When no-par common stock has a stated value, the entries are similar to those for par value stock. When no-par stock does not have a stated value, companies credit the entire proceeds to Common Stock.

4. ***Explain the accounting for treasury stock.*** The cost method is generally used in accounting for treasury stock. Under this approach, companies debit Treasury Stock at the

price paid to reacquire the shares. They credit the same amount to Treasury Stock when they sell the shares. The difference between the sales price and cost is recorded in stockholders' equity accounts, not in income statement accounts.

5. ***Differentiate preferred stock from common stock.*** Preferred stock has contractual provisions that give it priority over common stock in certain areas. Typically, preferred stockholders have a preference (1) to dividends and (2) to assets in liquidation. They usually do not have voting rights.

6. ***Prepare a stockholders' equity section.*** In the stockholders equity section, companies report paid-in capital and retained earnings and identify specific sources of paid-in capital. Within paid-in capital, two classifications are shown: capital stock and additional paid-in capital. If a corporation has treasury stock, it deducts the cost of treasury stock from total paid-in capital and retained earnings to obtain total stockholders' equity.

TRUE-FALSE STATEMENTS

1. A corporation is not an entity which is separate and distinct from its owners.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: FSA

2. A corporation can be organized for the purpose of making a profit or it may be not-for-profit.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: FSA

3. A corporation acts under its own name rather than in the name of its stockholders.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: FSA

4. If a corporation pays taxes on its income, then stockholders will not have to pay taxes on the dividends received from that corporation.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Ethics, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: FSA

5. A corporation must be incorporated in each state in which it does business.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Ethics, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: FSA

6. A stockholder has the right to vote in the election of the board of directors.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Interaction, IMA: FSA

7. A privately held corporation does not offer its stock for sale to the general public.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Interaction, IMA: FSA

8. As soon as a corporation is authorized to issue stock, an accounting journal entry should be made recording the total value of the shares authorized.

Ans: F, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Ethics, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Corporate Finance

9. The par value of common stock must always be equal to its market value on the date the stock is issued.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

10. When no-par value stock does not have a stated value, the entire proceeds from the issuance of the stock becomes legal capital.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Ethics, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Reporting

11. A corporation can issue more shares than it is authorized in its charter, if the board of directors approves of an increase in the number of authorized shares.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Ethics, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

12. The market value of a corporation's stock is determined by the number of shares that the corporation has been authorized to issue.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

13. Each stockholder in a corporation has a separate capital account in the stockholders' equity section of the balance sheet.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

14. The stockholders' equity section of a corporation's balance sheet consists of (1) paid-in capital, (2) retained earnings, and (3) drawings.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

15. Dividends are declared out of retained earnings.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Ethics, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

16. When a corporation has only one class of capital stock, it is identified as preferred stock.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

17. Retained earnings are a part of stockholders' equity.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

18. Retained earnings is usually subtracted from paid-in capital to arrive at total stockholders' equity.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

19. Stock can be issued only in exchange for cash.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

20. The par value of stock issued for noncash assets is never a factor in determining the cost of the assets received.

Ans: T, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Ethics, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

21. The acquisition of treasury stock by a corporation increases total assets and total stockholders' equity.

Ans: F, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

22. Treasury stock should not be classified as a current asset.

Ans: T, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Ethics, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

23. Treasury stock purchased for $35 per share that is reissued at $31 per share, results in a Loss on Sale of Treasury Stock being recognized on the income statement.

Ans: F, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Ethics, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

24. Treasury stock is a contra stockholders' equity account.

Ans: T, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

25. The number of common shares outstanding can never be greater than the number of shares issued.

Ans: T, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

26. Preferred stock has contractual preference over common stock in certain areas.

Ans: T, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

27. Preferred stockholders generally do not have the right to vote for the board of directors.

Ans: T, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: None, AICPA PC: None, IMA: Investment Decisions

28. Dividends in arrears on cumulative preferred stock are considered a liability.

Ans: F, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

29. In published annual reports, subdivisions within the stockholders' equity section are seldom presented, but additional information is frequently included in the footnotes to the financial statements.

Ans: T, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

30. The term "Capital surplus" can be used instead of "Additional Paid-in Capital".

Ans: F, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

31. A successful corporation can have a continuous and perpetual life.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

32. Organizational costs are capitalized by debiting an intangible asset entitled Organization Costs.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Ethics, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

33. The cash proceeds from issuing par value stock may be equal to or greater than, but not less than par value.

Ans: T, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

34. The cost of a noncash asset acquired in exchange for common stock should be either the fair value of the consideration given up or the consideration received, whichever is more clearly determinable.

Ans: T, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Ethics, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

35. Under the cost method, Treasury Stock is debited at the price paid to reacquire the shares, and the same amount is credited to Treasury Stock when the shares are sold.

Ans: T, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

36. In the stockholders' equity section, paid-in capital and retained earnings are reported and the specific sources of paid-in capital are identified.

Ans: T, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Answers to True-False Statements

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
1.	F	7.	T	13.	F	19.	F	25.	T	31.	T
2.	T	8.	F	14.	F	20.	T	26.	T	32.	F
3.	T	9.	F	15.	T	21.	F	27.	T	33.	T
4.	F	10.	T	16.	F	22.	T	28.	F	34.	T
5.	F	11.	F	17.	T	23.	F	29.	T	35.	T
6.	T	12.	F	18.	F	24.	T	30.	F	36.	T

MULTIPLE CHOICE QUESTIONS

37. Which one of the following is a privately held corporation?
    a. Intel
    b. General Electric
    c. Caterpillar Inc.
    d. Cargill Inc.

Ans: d, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

38. The dominant form of business organization in the United States in terms of dollar sales volume, earnings, and employees is
    a. the sole proprietorship.
    b. the partnership.
    c. the corporation.
    d. not known.

Ans: c, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

39. Under the corporate form of business organization
    a. a stockholder is personally liable for the debts of the corporation.
    b. stockholders' acts can bind the corporation even though the stockholders have not been appointed as agents of the corporation.
    c. the corporation's life is stipulated in its charter.
    d. stockholders wishing to sell their corporation shares must get the approval of other stockholders.

Ans: c, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

40. Stockholders of a corporation directly elect
    a. the president of the corporation.
    b. the board of directors.
    c. the treasurer of the corporation.
    d. all of the employees of the corporation.

Ans: b, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

41. The chief accounting officer in a company is known as the
    a. controller.
    b. treasurer.
    c. vice-president.
    d. president.

Ans: a, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector, AICPA FN: Reporting, AICPA PC: Leadership, IMA: None

42. A factor which distinguishes the corporate form of organization from a sole proprietorship or partnership is that a
    a. corporation is organized for the purpose of making a profit.
    b. corporation is subject to more federal and state government regulations.
    c. corporation is an accounting economic entity.
    d. corporation's temporary accounts are closed at the end of the accounting period.

Ans: b, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: FSA

43. Which one of the following would **not** be considered an advantage of the corporate form of organization?
    a. Limited liability of owners
    b. Separate legal existence
    c. Continuous life
    d. Government regulation

Ans: d, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Ethics, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

44. The concept of an "artificial being" refers to which form of business organization?
    a. Partnership
    b. Sole proprietorship
    c. Corporation
    d. Limited partnership

Ans: c, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

45. The two ways that a corporation can be classified by purpose are
    a. general and limited.
    b. profit and not-for-profit.
    c. state and federal.
    d. publicly held and privately held.

Ans: b, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

46. The two ways that a corporation can be classified by ownership are
    a. publicly held and privately held.
    b. stock and non-stock.
    c. inside and outside.
    d. majority and minority.

Ans: a, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

47. Which of the following would **not** be true of a privately held corporation?
    a. It is sometimes called a closely held corporation.
    b. Its shares are regularly traded on the New York Stock Exchange.
    c. It does not offer its shares for sale to the general public.
    d. It is usually smaller than a publicly held company.

Ans: b, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

48. 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.

Ans: c, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Risk Analysis, AICPA PC: Professional Demeanor, IMA: Business Economics

49. Andy Eggers has invested $150,000 in a privately held family corporation. The corporation does not do well and must declare bankruptcy. What amount does Eggers stand to lose?
    a. Up to his total investment of $150,000.
    b. Zero.
    c. The $150,000 plus any personal assets the creditors demand.
    d. $100,000.

Ans: a, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Investment Decisions

50. Which of the following statements reflects the transferability of ownership rights in a corporation?
    a. If a stockholder decides to transfer ownership, he must transfer all of his shares.
    b. A stockholder may dispose of part or all of his shares.
    c. A stockholder must obtain permission from the board of directors before selling shares.
    d. A stockholder must obtain permission from at least three other stockholders before selling shares.

Ans: b, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Decision Modeling, AICPA PC: None, IMA: Corporate Finance

51. A corporate board of directors does **not** generally
    a. select officers.
    b. formulate operating policies.
    c. declare dividends.
    d. execute policy.

Ans: d, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Decision Modeling, AICPA PC: Leadership, IMA: Internal Controls

52. A typical organization chart showing delegation of authority would show
    a. stockholders delegating to the board of directors.
    b. the board of directors delegating to stockholders.
    c. the chief executive officer delegating to the board of directors.
    d. the controller delegating to the chief executive officer.

Ans: a, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Decision Modeling, AICPA PC: Leadership, IMA: Internal Controls

53. The officer who is generally responsible for maintaining the cash position of the corporation is the
    a. controller.
    b. treasurer.
    c. cashier.
    d. internal auditor.

Ans: b, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector, AICPA FN: Decision Modeling, AICPA PC: Professional Demeanor, IMA: Corporate Finance

54. The chief accounting officer in a corporation is the
    a. treasurer.
    b. president.
    c. controller.
    d. vice-president of finance.

Ans: c, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector, AICPA FN: Decision Modeling, AICPA PC: Professional Demeanor, IMA: Corporate Finance

55. The ability of a corporation to obtain capital is
    a. enhanced because of limited liability and ease of share transferability.
    b. less than a partnership.
    c. restricted because of the limited life of the corporation.
    d. about the same as a partnership.

Ans: a, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector, AICPA FN: Decision Modeling, AICPA PC: Professional Demeanor, IMA: Corporate Finance

56. Which of the following statements concerning taxation is accurate?
    a. Partnerships pay state income taxes but not federal income taxes.
    b. Corporations pay federal income taxes but not state income taxes.
    c. Corporations pay federal and state income taxes.
    d. Only the owners must pay taxes on corporate income.

Ans: c, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

57. Which of the following statements is **not** considered a disadvantage of the corporate form of organization?
    a. Additional taxes
    b. Government regulations
    c. Limited liability of stockholders
    d. Separation of ownership and management

Ans: c, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Decision Modeling, AICPA PC: None, IMA: None

58. What is ordinarily the first step in the formation of a corporation?
    a. Development of by-laws for the corporation
    b. Issuance of the corporate charter
    c. Application for incorporation to the appropriate Secretary of State
    d. Registration with the SEC

Ans: c, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

59. Which one of the following is **not** an ownership right of a stockholder in a corporation?
    a. To vote in the election of directors
    b. To declare dividends on the common stock
    c. To share in assets upon liquidation
    d. To share in corporate earnings

Ans: b, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Decision Modeling, AICPA PC: Problem Solving, IMA: Business Economics

60. If no-par stock is issued without a stated value, then
    a. the par value is automatically $1 per share.
    b. the entire proceeds are considered to be legal capital.
    c. there is no legal capital.
    d. the corporation is automatically in violation of its state charter.

Ans: b, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Ethics, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

61. A corporation whose stock is regularly traded on a National securities exchange is a
    a. Privately held corporation.
    b. Publicly held corporation.
    c. closely held corporation.
    d. legally held corporation.

Ans: b, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Internal Controls

62. If a corporation has only one class of stock, it is referred to as
    a. classless stock.
    b. preferred stock.
    c. solitary stock.
    d. common stock.

Ans: d, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

63. The term *residual claim* refers to a stockholders' right to
    a. receive dividends.
    b. share in assets upon liquidation.
    c. acquire additional shares when offered.
    d. elect a board of directors.

Ans: b, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Reporting

64. Which of the following factors does **not** affect the initial market price of a stock?
    a. The company's anticipated future earnings
    b. The par value of the stock
    c. The current state of the economy
    d. The expected dividend rate per share

Ans: b, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

65. If an investment firm underwrites a stock issue, the
    a. risk of being unable to sell the shares stays with the issuing corporation.
    b. corporation obtains cash immediately from the investment firm.
    c. investment firm has guaranteed profits on the sale of the stock.
    d. issuance of stock is likely to be directly to creditors.

Ans: b, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

66. The par value of a stock
    a. is legally significant.
    b. reflects the most recent market price.
    c. is selected by the SEC.
    d. is indicative of the worth of the stock.

Ans: a, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

67. A corporation has the following account balances: Common stock, $1 par value, $30,000; Paid-in Capital in Excess of Par, $650,000. Based on this information, the
    a. legal capital is $680,000.
    b. number of shares issued are 30,000.
    c. number of shares outstanding are 680,000.
    d. average price per share issued is $11.25.

Ans: b, LO: 1, Bloom: C, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $30,000/$1 = $30,000

68. The authorized stock of a corporation
    a. only reflects the initial capital needs of the company.
    b. is indicated in its by-laws.
    c. is indicated in its charter.
    d. must be recorded in a formal accounting entry.

Ans: c, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

69. Owners' equity for a corporation is identified as each of the following **except**
    a. corporate capital.
    b. paid-in capital.
    c. partners' equity.
    d. stockholders' equity.

Ans: c, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

70. Retained earnings
    a. is unique to the corporate form of business.
    b. is an optional account in the partnership form of business.
    c. reflects cash paid in by stockholders to date.
    d. is closed at the end of the year.

Ans: a, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

71. Dividends are declared out of
    a. Capital Stock.
    b. Paid-in Capital in Excess of Par.
    c. Retained Earnings.
    d. Treasury Stock.

Ans: c, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

72. Retained earnings is
    a. always equal to the amount of cash that the corporation has generated from operations.
    b. a part of the paid-in capital of the corporation.
    c. a part of the stockholders' claim on the total assets of the corporation.
    d. closed at the end of each accounting period.

Ans: c, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

73. When stock is issued for legal services, the transaction is recorded by debiting Organization Expense for the
    a. stated value of the stock.
    b. par value of the stock.
    c. market value of the stock.
    d. book value of the stock.

Ans: c, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

74. If Baylor Company issues 8,000 shares of $5 par value common stock for $280,000,
    a. Common Stock will be credited for $280,000.
    b. Paid-In Capital in Excess of Par will be credited for $40,000.
    c. Paid-In Capital in Excess of Par will be credited for $240,000.
    d. Cash will be debited for $240,000.

Ans: c, LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $\$280{,}000 - (8{,}000 \times \$5) = \$240{,}000$

75. 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.
    d. Legal Capital.

Ans: c, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: FSA

76. If stock is issued for a noncash asset, the asset should be recorded on the books of the corporation at
    a. fair value.
    b. cost.
    c. zero.
    d. a nominal amount.

Ans: a, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

77. If stock is issued for less than par value, the account
    a. Paid-In Capital in Excess of Par is credited.
    b. Paid-In Capital in Excess of Par is debited if a debit balance exists in the account.
    c. Paid-In Capital in Excess of Par is debited if a credit balance exists in the account.
    d. Retained Earnings is credited.

Ans: c, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

78. The sale of common stock below par
    a. is a common occurrence in most states.
    b. is not permitted in most states.
    c. is a practice that most stockholders encourage.
    d. requires that a liability be recorded for the difference between the sales price and the par value of the shares.

Ans: b, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

79. Paid-In Capital in Excess of Stated Value
    a. is credited when no-par stock does not have a stated value.
    b. is reported as part of paid-in capital on the balance sheet.
    c. represents the amount of legal capital.
    d. normally has a debit balance.

Ans: b, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

80. A separate paid-in capital account is used to record each of the following **except** the issuance of
    a. no-par stock.
    b. par value stock.
    c. stated value stock.
    d. treasury stock above cost.

Ans: a, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

81. Jackson Company is a publicly held corporation whose $1 par value stock is actively traded at $64 per share. The company issued 3,000 shares of stock to acquire land recently advertised at $200,000. When recording this transaction, Barton Company will
    a. debit Land for $200,000.
    b. credit Common Stock for $192,000.
    c. debit Land for $192,000.
    d. credit Paid-In Capital in Excess of Par for $196,000.

Ans: c, LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: (3,000) ($64) = $192,000

82. Sunshine Company issued 4,000 shares of its $5 par value common stock in payment of its attorney's bill of $80,000. The bill was for services performed in helping the company incorporate. Crain should record this transaction by debiting
    a. Legal Expense for $20,000.
    b. Legal Expense for $80,000.
    c. Organization Expense for $20,000.
    d. Organization Expense for $80,000.

Ans: d, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

83. In the financial statements, organization costs appears
    a. immediately below Retained Earnings in the stockholders' equity section.
    b. in the income statement.
    c. as part of paid-in capital in the stockholders' equity section.
    d. as an intangible asset.

Ans: b, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

84. Which of the following represents the largest number of common shares?
    a. Treasury shares
    b. Issued shares
    c. Outstanding shares
    d. Authorized shares

Ans: d, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

85. Delta Corp. issues 4,000 shares of $10 par value common stock at $14 per share. When the transaction is recorded, credits are made to
    a. Common Stock $40,000 and Paid-in Capital in Excess of Stated Value $16,000.
    b. Common Stock $56,000.
    c. Common Stock $40,000 and Paid-in Capital in Excess of Par $16,000.
    d. Common Stock $40,000 and Retained Earnings $16,000.

Ans: c, LO: 3, Bloom: K, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: (4,000) ($10) = $40,000; (4,000) ($14 – $10) = $16,000

86. If Merril Company issues 9,000 shares of $5 par value common stock for $160,000, the account
    a. Common Stock will be credited for $45,000.
    b. Paid-in Capital in Excess of Par will be credited for $45,000.
    c. Paid-in Capital in Excess of Par will be credited for $160,000.
    d. Cash will be debited for $115,000.

Ans: a, LO: 3, Bloom: K, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: (9,000) ($5) = $45,000

87. Abbie’s Organics Corporation began business in 2014 by issuing 50,000 shares of $3 par common stock for $8 per share and 20,000 shares of 6%, $10 par preferred stock for par. At year end, the common stock had a market value of $12. On its December 31, 2014 balance sheet, Carson Packaging would report
    a. Common Stock of $600,000.
    b. Common Stock of $150,000.
    c. Common Stock of $400,000.
    d. Paid-In Capital of $150,000.

Ans: b, LO: 3, Bloom: K, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: (50,000) ($3) = $150,000

88. East Asian Imports, Inc. issued 15,000 shares of stock at a stated value of $8 per share. The total issue of stock sold for $15 per share. The journal entry to record this transaction would include a
    a. debit to Cash for $120,000.
    b. credit to Common Stock for $120,000.
    c. credit to Paid-in Capital in Excess of Par for $125,000.
    d. credit to Common Stock for $125,000.

Ans: b, LO: 3, Bloom: K, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: (15,000) ($8) = $120,000

89. H. Tillman performed legal services for J. Laney. Due to a cash shortage, an agreement was reached whereby J. Laney. would pay H. Tillman a legal fee of approximately $4,000 by issuing 1,000 shares of its common stock (par $1). The stock trades on a daily basis and the market price of the stock on the day the debt was settled is $4.50 per share. Given this information, the journal entry for J. Laney. to record this transaction is:

a.	Legal Expense	4,500	
	Common Stock		4,500
b.	Legal Expense	4,000	
	Common Stock		4,000
c.	Legal Expense	4,000	
	Common Stock		1,000
	Paid-in Capital in Excess of Par – Common		3,000
d.	Legal Expense	4,500	
	Common Stock		1,000
	Paid-in Capital in Excess of Par – Common		3,500

Ans: d, LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: (1,000) ($4.50) = $4,500; $4,500 – $1,000 = $3,500

90. Hayes Construction Company issued 1,200 shares of no-par common stock for $17,600. Which of the following journal entries would be made if the stock has no stated value?

a.	Cash	17,600	
	Common Stock		17,600
b.	Cash	17,600	
	Common Stock		1,200
	Paid-in Capital in Excess of Par		16,400
c.	Cash	17,600	
	Common Stock		1,200
	Paid-in Capital in Excess of Stated Value		16,400
d.	Common Stock	17,600	
	Cash		17,600

Ans: a, LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

91. Kaenzig Coffee Company issued 1,000 shares of no-par common stock for $11,000. Which of the following journal entries would be made if the stock has a stated value of $2 per share?

a.	Cash	11,000	
	Common Stock		11,000
b.	Cash	11,000	
	Common Stock		2,000
	Paid-in Capital in Excess of Par		9,000
c.	Cash	11,000	
	Common Stock		2,000
	Paid-in Capital in Excess of Stated Value		9,000
d.	Common Stock	11,000	
	Cash		11,000

Ans: c, LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: (1,000) ($2) = $2,000; $11,000 − $2,000 = $9,000

92. Bodkin Beverage Company is authorized to issue 20,000 shares of 8%, $100 par value preferred stock and 500,000 shares of no-par common stock with a stated value of $1 per share. If Bodkin issues 12,000 shares of common stock to pay its recent attorney's bill of $50,000 for legal services on a land access dispute, which of the following would be the journal entry for Bodkin to record?

a.	Legal Expense	12,000	
	Common Stock		12,000
b.	Legal Expense	50,000	
	Common Stock		50,000
c.	Legal Expense	50,000	
	Common Stock		12,000
	Paid-in Capital in Excess of Stated Value – Common		38,000
d.	Legal Expense	50,000	
	Common Stock		12,000
	Paid-in Capital in Excess of Par – Preferred		38,000

Ans: c, LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: (12,000) ($1) = $12,000; $50,000 − $12,000 = $38,000

93. The following data is available for Santos Service Corporation at December 31, 2014:

Common stock, par $10 (authorized 100,000 shares)	$400,000
Treasury Stock (at cost $15 per share)	$ 27,000

Based on the data, how many shares of common stock are outstanding?

a. 50,000
b. 40,000
c. 49,880
d. 38,200

Ans: d, LO: 4, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: ($400,000/$10) − ($27,000/$15) = 38,200

94. The following data is available for Santos Service Corporation at December 31, 2014:

Common stock, par $10 (authorized 100,000 shares)	$400,000
Treasury Stock (at cost $15 per share)	$ 27,000

Based on the data, how many shares of common stock have been issued?

a. 50,000
b. 40,000
c. 49,880
d. 38,200

Ans: b, LO: 4, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: ($400,000/$10) = 40,000

95. Cherokee, Inc. paid $180,000 to buy back 20,000 shares of its $1 par value common stock. This stock was sold later at a selling price of $6 per share. The entry to record the sale includes a
    a. debit to Retained Earnings for $60,000.
    b. credit to Retained Earnings for $20,000.
    c. debit to Paid-in Capital from Treasury Stock for $180,000.
    d. credit to Paid-in Capital from Treasury Stock for $20,000.

Ans: a, LO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: [($180,000/20,000) − $6] × 20,000 = $60,000

96. Kagan Corporation was organized on January 2, 2014. During 2014, Kagan issued 40,000 shares at $24 per share, purchased 6,000 shares of treasury stock at $26 per share, and had net income of $600,000. What is the total amount of stockholders' equity at December 31, 2014?
    a. $1,280,000
    b. $1,404,000
    c. $1,416,000
    d. $1,440,000

Ans: b, LO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: (40,000) ($24) − (6,000) ($26) + $600,000 = $1,404,000

97. Conecuh Manufacturing Corporation purchased 8,000 shares of its own previously issued $10 par common stock for $184,000. As a result of this event,
    a. Conecuh's Common Stock account decreased $80,000.
    b. Conecuh's total stockholders' equity decreased $184,000.
    c. Conecuh's Paid-in Capital in Excess of Par account decreased $104,000.
    d. All of these answer choices are correct.

Ans: b, LO: 4, Bloom: K, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

98. A corporation purchases 60,000 shares of its own $30 par common stock for $45 per share, recording it at cost. What will be the effect on total stockholders' equity?
    a. Increase by $2,700,000
    b. Decrease by $1,800,000
    c. Decrease by $2,700,000
    d. Increase by $1,800,000

Ans: c, LO: 4, Bloom: C, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: (60,000) ($45) = $2,700,000

99. A corporation purchases 40,000 shares of its own $15 par common stock for $30 per share, recording it at cost. What will be the effect on total stockholders' equity?
    a. Increase by $600,000
    b. Decrease by $1,200,000
    c. Increase by $1,200,000
    d. Decrease by $600,000

Ans: b, LO: 4, Bloom: C, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: (40,000) ($30) = $1,200,000

100. Red October Company has 2,000 shares of 6%, $100 par cumulative preferred stock outstanding at December 31, 2014. No dividends have been paid on this stock for 2013 or 2012. Dividends in arrears at December 31, 2014 total
    a. $0.
    b. $1,200.
    c. $12,000.
    d. $24,000.

Ans: d, LO: 5, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: (2,000) (.06) ($100) (2) = $24,000

101. Era Company has 6,000 shares of 5%, $100 par non-cumulative preferred stock outstanding at December 31, 2014. No dividends have been paid on this stock for 2013 or 2014. Dividends in arrears at December 31, 2014 total
    a. $0.
    b. $3,000.
    c. $30,000.
    d. $60,000.

Ans: a, LO:5, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

102. Katy Hooper Inc. issued 6,000 shares of no-par common stock with a stated value of $5 per share. The market price of the stock on the date of issuance was $14 per share. The entry to record this transaction includes a
    a. debit to Cash for $30,000.
    b. credit to Common Stock for $84,000.
    c. credit to Common Stock for $30,000.
    d. debit to Paid-in Capital in Excess of Par for $84,000.

Ans: c, LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: (6,000) ($5) = $30,000

103. Victory Corporation sold 400 shares of treasury stock for $45 per share. The cost for the shares was $35. The entry to record the sale will include a
    a. credit to Gain on Sale of Treasury Stock for $14,000.
    b. credit to Paid-in Capital from Treasury Stock for $4,000.
    c. debit to Paid-in Capital in Excess of Par for $4,000.
    d. credit to Treasury Stock for $18,000.

Ans: b, LO: 4, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: (400) ($45 – $35) = $4,000

104. Each of the following is correct regarding treasury stock **except** that it has been
    a. issued.
    b. fully paid for.
    c. reacquired.
    d. retired.

Ans: d, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

105. Treasury stock is
   a. stock issued by the U.S. Treasury Department.
   b. stock purchased by a corporation and held as an investment in its treasury.
   c. corporate stock issued by the treasurer of a company.
   d. a corporation's own stock which has been issued and subsequently reacquired but not retired.

Ans: d, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

106. The acquisition of treasury stock by a corporation
   a. increases its total assets and total stockholders' equity.
   b. decreases its total assets and total stockholders' equity.
   c. has no effect on total assets and total stockholders' equity.
   d. requires that a gain or loss be recognized on the income statement.

Ans: b, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

107. Treasury stock should be reported in the financial statements of a corporation as a(n)
   a. investment.
   b. liability.
   c. deduction from total paid-in capital.
   d. deduction from total paid-in capital and retained earnings.

Ans: d, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

108. A company would **not** acquire treasury stock
   a. in order to reissue shares to officers.
   b. as an asset investment.
   c. in order to increase trading of the company's stock.
   d. to have additional shares available to use in acquisitions of other companies.

Ans: b, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

109. Accounting for treasury stock is done by the
   a. FIFO method.
   b. LIFO method.
   c. cost method.
   d. lower of cost or market method.

Ans: c, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

110. Treasury stock is generally accounted for by the
   a. cost method.
   b. market value method.
   c. par value method.
   d. stated value method.

Ans: a, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

111. Treasury Stock is a(n)
   a. contra asset account.
   b. retained earnings account.
   c. asset account.
   d. contra stockholders' equity account.

Ans: d, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

112. Ten thousand shares of treasury stock of E. Marcos, Inc., previously acquired at $14 per share, are sold at $20 per share. The entry to record this transaction will include a
   a. credit to Treasury Stock for $200,000.
   b. debit to Paid-In Capital from Treasury Stock for $60,000.
   c. debit to Treasury Stock for $140,000.
   d. credit to Paid-In Capital from Treasury Stock for $60,000.

Ans: d, LO: 4, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: (10,000) ($20 − $14) = $60,000

113. Slater Roofing Company originally issued 6,000 shares of $10 par value common stock for $180,000 ($30 per share). Slater subsequently purchases 600 shares of treasury stock for $27 per share and resells the 600 shares of treasury stock for $29 per share. In the entry to record the sale of the treasury stock, there will be a
   a. credit to Common Stock for $16,200.
   b. credit to Treasury Stock for $6,000.
   c. debit to Paid-In Capital in Excess of Par of $18,000.
   d. credit to Paid-In Capital from Treasury Stock for $1,200.

Ans: d, LO: 4, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: (600) ($29 − $27) = $1,200

114. Fire Red Company is authorized to issue 20,000 shares of 8%, $100 par value preferred stock and 1,000,000 shares of no-par common stock with a stated value of $1 per share. If Fire Red issues 10,000 shares of preferred stock for land with an asking price of $1,020,000 and a market value of $1,080,000, which of the following would be the journal entry for Fire Red to record?

a.	Land	1,000,000	
	Preferred Stock		1,000,000
b.	Land	1,080,000	
	Preferred Stock		1,080,000
c.	Land	1,200,000	
	Preferred Stock		1,000,000
	Paid-in Capital in Excess of Par-Preferred		200,000
d.	Land	1,080,000	
	Preferred Stock		1,000,000
	Paid-in Capital Excess of Par-Preferred		80,000

Ans: d, LO: 5, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: (10,000) ($100) = $1,000,000; $1,080,000 − $1,000,000 = $80,000

115. Mountain View, Inc. has 50,000 shares of 8%, $100 par value, noncumulative preferred stock and 100,000 shares of $1 par value common stock outstanding at December 31, 2014. There were no dividends declared in 2013. The board of directors declares and pays a $500,000 dividend in 2014. What is the amount of dividends received by the common stockholders in 2014?
   a. $0
   b. $400,000
   c. $500,000
   d. $100,000

Ans: d, LO: 5, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $500,000 − (50,000) (.08) ($100) = $100,000

116. When preferred stock is cumulative, preferred dividends **not** declared in a period are
a. considered a liability.
b. called dividends in arrears.
c. distributions of earnings.
d. never paid.

Ans: b, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

117. Which of the following is **not** a right or preference associated with preferred stock?
a. The right to vote
b. First claim to dividends
c. Preference to corporate assets in case of liquidation
d. To receive dividends in arrears before common stockholders receive dividends

Ans: a, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: None, AICPA PC: None, IMA: Business Economics

118. Taylor Corporation issues 20,000 shares of $50 par value preferred stock for cash at $90 per share. The entry to record the transaction will consist of a debit to Cash for $1,800,000 and a credit or credits to
a. Preferred Stock for $1,800,000.
b. Preferred Stock for $1,000,000 and Paid-in Capital in Excess of Par—Preferred Stock for $800,000.
c. Preferred Stock for $800,000 and Paid-in Capital from Preferred Stock for $1,000,000.
d. Paid-in Capital from Preferred Stock for $1,800,000.

Ans: b, LO: 5, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: (20,000) ($50) = $1,000,000; (20,000) ($90 − $50) = $800,000

119. Taylor Corporation issues 20,000 shares of $50 par value preferred stock for cash at $90 per share. In the stockholders' equity section, the effects of the transaction above will be reported
a. entirely within the capital stock section.
b. entirely within the additional paid-in capital section.
c. under both the capital stock and additional paid-in capital sections.
d. entirely under the retained earnings section.

Ans: c, LO: 5, Bloom: C, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

120. Dividends in arrears on cumulative preferred stock
a. are shown in stockholders' equity of the balance sheet.
b. must be paid before common stockholders can receive a dividend.
c. should be recorded as a current liability until they are paid.
d. enable the preferred stockholders to share equally in corporate earnings with the common stockholders.

Ans: b, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

121. Dividends in arrears on cumulative preferred stock
a. are considered to be a non-current liability.
b. are considered to be a current liability.
c. only occur when preferred dividends have been declared.
d. should be disclosed in the notes to the financial statements.

Ans: d, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

122. If preferred stock is cumulative, the
   a. preferred dividends not declared in a given year are called dividends in arrears.
   b. preferred stockholders and the common stockholders receive equal dividends.
   c. preferred stockholders and the common stockholders receive the same total dollar amount of dividends.
   d. common stockholders will share in the preferred dividends.

Ans: a, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

123. The Sorrento Skies Corporation issues 16,000 shares of $100 par value preferred stock for cash at $120 per share. The entry to record the transaction will consist of a debit to Cash for $1,920,000 and a credit or credits to
   a. Preferred Stock for $1,920,000.
   b. Paid-in Capital from Preferred Stock for $1,920,000.
   c. Preferred Stock for $1,600,000 and Retained Earnings for $320,000.
   d. Preferred Stock for $1,600,000 and Paid-in Capital in Excess of Par—Preferred Stock for $320,000.

Ans: d, LO: 5, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: (16,000) ($100) = $1,600,000; 1,920,000 − $1,600,000 = $320,000

124. Vangaurd Corporation's December 31, 2014 balance sheet showed the following:

8% preferred stock, $20 par value, cumulative, 20,000 shares authorized; 15,000 shares issued	$ 300,000
Common stock, $10 par value, 2,000,000 shares authorized; 1,950,000 shares issued, 1,920,000 shares outstanding	19,500,000
Paid-in capital in excess of par—preferred stock	60,000
Paid-in capital in excess of par—common stock	27,000,000
Retained earnings	7,500,000
Treasury stock (30,000 shares)	630,000

Vangaurd declared and paid a $96,000 cash dividend on December 15, 2014. If the company's dividends in arrears prior to that date were $20,000, Vangaurd's common stockholders received
   a. $76,000.
   b. $44,000.
   c. $52,000.
   d. $0.

Ans: c, LO: 5, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $96,000 – ($20) (.08) (15,000) – $20,000 = $52,000

125. Zyrkel Corporation's December 31, 2014 balance sheet showed the following:

8% preferred stock, $20 par value, cumulative, 30,000 shares authorized; 20,000 shares issued	$ 400,000
Common stock, $10 par value, 2,000,000 shares authorized; 1,950,000 shares issued, 1,920,000 shares outstanding	19,500,000
Paid-in capital in excess of par—preferred stock	60,000
Paid-in capital in excess of par—common stock	27,000,000
Retained earnings	7,500,000
Treasury stock (30,000 shares)	630,000

Zyrkel total paid-in capital was
a. $46,960,000.
b. $47,590,000.
c. $46,330,000.
d. $27,060,000.

Ans: a, LO: 6, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $400,000 + $19,500,000 + $60,000 + $27,000,000 = $46,960,000

126. Bellezone Corporation's December 31, 2014 balance sheet showed the following:

8% preferred stock, $20 par value, cumulative, 20,000 shares authorized; 17,000 shares issued	$ 340,000
Common stock, $10 par value, 2,000,000 shares authorized; 1,900,000 shares issued, 1,880,000 shares outstanding	19,000,000
Paid-in capital in excess of par—preferred stock	68,000
Paid-in capital in excess of par—common stock	27,000,000
Retained earnings	7,500,000
Treasury stock (20,000 shares)	630,000

Bellezone's total stockholders' equity was
a. $53,338,000.
b. $93,380,000.
c. $54,538,000.
d. $53,278,000.

Ans: d, LO: 6, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $340,000 + $19,000,000 + $68,000 + $27,000,000 + $7,500,000 − $630,000 = $53,278,000

127. Rubio Corporation began business by issuing 300,000 shares of $5 par value common stock for $25 per share. During its first year, the corporation sustained a net loss of $50,000. The year-end balance sheet would show
a. Common stock of $1,500,000.
b. Common stock of $7,500,000.
c. Total paid-in capital of $7,450,000.
d. Total paid-in capital of $1,550,000.

Ans: a, LO: 6, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: (300,000) ($5) = $1,500,000

128. Nina Corporation's December 31, 2014 balance sheet showed the following:

8% preferred stock, $20 par value, cumulative, 40,000 shares authorized; 20,000 shares issued	$ 400,000
Common stock, $10 par value, 4,000,000 shares authorized; 3,900,000 shares issued, 3,860,000 shares outstanding	39,000,000
Paid-in capital in excess of par—preferred stock	120,000
Paid-in capital in excess of par—common stock	54,000,000
Retained earnings	15,300,000
Treasury stock (40,000 shares)	1,260,000

Nina's total paid-in capital was

a. $93,520,000.
b. $94,780,000.
c. $92,260,000.
d. $54,120,000.

Ans: a, LO: 6, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $400,000 + $39,000,000 + $120,000 + $54,000,000 = $93,520,000

129. Romesco Corporation's December 31, 2014 balance sheet showed the following:

8% preferred stock, $10 par value, cumulative, 40,000 shares authorized; 30,000 shares issued	$ 300,000
Common stock, $10 par value, 4,000,000 shares authorized; 3,900,000 shares issued, 3,860,000 shares outstanding	39,000,000
Paid-in capital in excess of par—preferred stock	120,000
Paid-in capital in excess of par—common stock	54,000,000
Retained earnings	15,300,000
Treasury stock (40,000 shares)	1,260,000

Romesco's total stockholders' equity was

a. $109,980,000.
b. $93,420,000.
c. $108,720,000.
d. $107,460,000.

Ans: d, LO: 6, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $300,000 + $39,000,000 + $120,000 + $54,000,000 + $15,300,000 − $1,260,000 = $107,460,000

130. Anastasia Corporation began business by issuing 600,000 shares of $5 par value common stock for $24 per share. During its first year, the corporation sustained a net loss of $60,000. The year-end balance sheet would show

a. Common stock of $3,000,000.
b. Common stock of $14,400,000.
c. Total paid-in capital of $14,340,000.
d. Total paid-in capital of $11,400,000.

Ans: a, LO: 6, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: (600,000) ($5) = $3,000,000

131. The trial balance of Blowing Rock Inc. includes the following balances: Common Stock, $56,000; Paid-in Capital in Excess of Par, $128,000; Treasury Stock, $12,000; Preferred Stock, $60,000. Capital stock totals
   a. $116,000.
   b. $192,000.
   c. $244,000.
   d. $256,000.

Ans: a, LO: 6, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $56,000 + $60,000 = $116,000

132. Each of the following is reported for common stock **except** the
   a. par value.
   b. shares issued.
   c. shares outstanding.
   d. liquidation value.

Ans: d, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

133. Paid-in capital from treasury stock would appear on a balance sheet under the category
   a. capital stock.
   b. treasury stock.
   c. additional paid-in capital.
   d. contra to owners' equity.

Ans: c, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

134. 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.

Ans: c, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

135. Information that is **not** generally reported for each class of stock on the balance sheet is
   a. the market value.
   b. the par value.
   c. shares authorized.
   d. shares issued.

Ans: a, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

136. In published annual reports
   a. subdivisions within the stockholders' equity section are routinely reported in detail.
   b. capital surplus is used in place of retained earnings.
   c. the individual sources of additional paid-in capital are often combined.
   d. retained earnings is often not shown separately.

Ans: c, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

137. Additional paid-in capital includes all of the following **except**
   a. paid-in capital from treasury stock.
   b. paid-in capital in excess of par.
   c. paid-in capital in excess of stated value.
   d. paid-in capital in excess of book value.

Ans: d, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

138. Which of the following is an **incorrect** statement about a corporation?
   a. A corporation is an entity separate and distinct from its owners.
   b. Creditors ordinarily have recourse only to corporate assets in satisfaction of their claims.
   c. A corporation may be formed in writing, orally, or implied.
   d. A corporation is subject to numerous state and federal regulations.

Ans: c, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

139. Capital stock to which the charter has assigned a value per share is called
   a. par value stock.
   b. no-par value stock.
   c. stated value stock.
   d. assigned value stock.

Ans: a, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

140. Legal capital per share cannot be equal to the
   a. par value per share of par value stock.
   b. total proceeds from the sale of par value stock above par value.
   c. stated value per share of no-par value stock.
   d. total proceeds from the sale of no-par value stock.

Ans: b, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

141. When common stock is issued for services or non-cash assets, cost should be
   a. only the fair value of the consideration given up.
   b. only the fair value of the consideration received.
   c. the book value of the common stock issued.
   d. either the fair value of the consideration given up or the consideration received, whichever is more clearly evident.

Ans: d, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

142. When the selling price of treasury stock is greater than its cost, the company credits the difference to
   a. Gain on Sale of Treasury Stock.
   b. Paid-in Capital from Treasury Stock.
   c. Paid-in Capital in Excess of Par.
   d. Treasury Stock.

Ans: b, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

143. G. Jones Corporation was organized on January 1, 2014, with authorized capital of 1,000,000 shares of $10 par value common stock. During 2014, Jones issued 40,000 shares at $12 per share, purchased 4,000 shares of treasury stock at $13 per share, and sold 4,000 shares of treasury stock at $14 per share. What is the amount of additional paid-in capital at December 31, 2014?
   a. $0
   b. $4,000
   c. $80,000
   d. $84,000

Ans: d, LO: 4, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: (40,000) ($12 − $10) + (4,000) ($14 − $13) = $84,000

144. The purchase of treasury stock
   a. decreases common stock authorized.
   b. decreases common stock issued.
   c. decreases common stock outstanding.
   d. has no effect on common stock outstanding.

Ans: c, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

145. Preferred stockholders have a priority over common stockholders as to
   a. dividends only.
   b. assets in the event of liquidation only.
   c. voting rights.
   d. both dividends and assets in the event of liquidation.

Ans: d, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

146. On January 2, 2011, Valente Corporation issued 60,000 shares of 6% cumulative preferred stock at $100 par value. On December 31, 2014, Valente Corporation declared and paid its first dividend. What dividends are the preferred stockholders entitled to receive in the current year before any distribution is made to common stockholders?
   a. $0
   b. $360,000
   c. $1,080,000
   d. $1,440,000

Ans: d, LO: 5, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: (60,000) (.06) ($100) × 4 = $1,440,000

147. Additional paid-in capital includes all of the following **except** the amounts paid in
   a. over par value.
   b. over stated value.
   c. from treasury stock.
   d. for the par value of common stock.

Ans: d, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

148. In the stockholders’ equity section of the balance sheet, the classification of capital stock consists of
   a. additional paid-in capital and common stock.
   b. common stock and treasury stock.
   c. common stock, preferred stock, and treasury stock.
   d. common stock and preferred stock.

Ans: d, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

149. Under IFRS, the term reserves relates to each of the following **except**
   a. asset revaluations.
   b. contributed (paid-in) capital.
   c. fair value differences.
   d. retained earnings.

IFRS: Ans: b, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

150. IFRS uses each of the following terms to describe retained earnings **except**
   a. accumulated profit or loss.
   b. retained earnings.
   c. retained profits.
   d. share earnings.

IFRS: Ans: d, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

151. A major difference between IFRS and GAAP relates to the
   a. Retained Earnings account.
   b. Revaluation Surplus account.
   c. Share Capital account.
   d. Share Premium account.

IFRS: Ans: b, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

152. IFRS treats the purchase of treasury stock as any of the following **except**
   a. an increase to a contra equity account.
   b. a decrease to retained earnings.
   c. a decrease to share capital.
   d. a decrease to share premium.

IFRS: Ans: d, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

153. Under IFRS, Revaluation Surplus is part of
   a. share premium.
   b. retained earnings.
   c. general reserves.
   d. contributed capital.

IFRS: Ans: c, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

154. Under IFRS, equity is described as each of the following **except**
   a. retained equity.
   b. shareholders' funds.
   c. owners' equity.
   d. capital and reserves.

IFRS: Ans: a, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Answers to Multiple Choice Questions

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
37.	d	54.	c	71.	c	88.	b	105.	d	122.	a	139.	a
38.	c	55.	a	72.	c	89.	d	106.	b	123.	d	140.	b
39.	c	56.	c	73.	c	90.	a	107.	d	124.	c	141.	d
40.	b	57.	c	74.	c	91.	c	108.	b	125.	a	142.	b
41.	a	58.	c	75.	c	92.	c	109.	c	126.	d	143.	d
42.	b	59.	b	76.	a	93.	d	110.	a	127.	a	144.	c
43.	d	60.	b	77.	c	94.	b	111.	d	128.	a	145.	d
44.	c	61.	b	78.	b	95.	a	112.	d	129.	d	146.	d
45.	b	62.	d	79.	b	96.	b	113.	d	130.	a	147.	d
46.	a	63.	b	80.	a	97.	b	114.	d	131.	a	148.	d
47.	b	64.	b	81.	c	98.	c	115.	d	132.	d	149.	b
48.	c	65.	b	82.	d	99.	b	116.	b	133.	c	150.	d
49.	a	66.	a	83.	b	100.	d	117.	a	134.	c	151.	b
50.	b	67.	b	84.	d	101.	a	118.	b	135.	a	152.	d
51.	d	68.	c	85.	c	102.	c	119.	c	136.	c	153.	c
52.	a	69.	c	86.	a	103.	b	120.	b	137.	d	154.	a
53.	b	70.	a	87.	b	104.	d	121.	d	138.	c		

BRIEF EXERCISES

BE 155

Identify (by letter) each of the following characteristics as being an advantage, a disadvantage, 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

Ans: N/A, LO: 1, Bloom: K, Difficulty: Medium, Min: 4, AACSB: None, AICPA BB: None, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 155 (4 min.)

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

BE 156

On July 6, Crevasse Corporation issued 2,000 shares of its $1.50 par common stock. The market price of the stock on that date was $18 per share. Journalize the issuance of the stock.

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 156 (3 min.)

July 6	Cash (2,000 × $18)	36,000	
	Common Stock		3,000
	Paid in Capital in Excess of Par		33,000

BE 157

Dominica Corporation is authorized to issue 1,000,000 shares of $1 par value common stock. During 2012, the company has the following stock transactions.

Jan. 15 Issued 400,000 shares of stock at $7 per share.

Sept. 5 Purchased 30,000 shares of common stock for the treasury at $9 per share.

Instructions
Journalize the transactions for Dominica Corporation.

Ans: N/A, LO: 3, 4, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: None, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 157 (5 min.)

Jan. 15	Cash	2,800,000	
	Common Stock		400,000
	Paid-in Capital in Excess of Par		2,400,000
Sept. 5	Treasury Stock	270,000	
	Cash		270,000

BE 158

An inexperienced accountant for Dudley Corporation made the following entries.

July 1	Cash	180,000	
	Common Stock		180,000
	(Issued 25,000 shares of common stock, par value $6 per share)		
Sept. 1	Common Stock	24,000	
	Retained Earnings	16,000	
	Cash		40,000
	(Purchased 4,000 shares issued on July 1 for the treasury at $10 per share)		

Instructions

On the basis of the explanation for each entry, prepare the entry that should have been made for the transactions.

Ans: N/A, LO: 3, 4, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: None, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 158 (5 min.)

July 1	Cash	180,000	
	Common Stock		150,000
	Paid-in Capital in Excess of Par		30,000
Sept. 1	Treasury Stock	40,000	
	Cash		40,000

BE 159

On September 5, Bete Gas Corporation acquired 2,500 shares of its own $1 par common stock for $23 per share. On October 15, 1,000 shares of the treasury stock is sold for $25 per share.

Instructions
Journalize the purchase and sale of the treasury stock assuming that the company uses the cost method.

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: None, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 159 (5 min.)

Sept. 5	Treasury Stock (2,500 × $23)	57,500	
	Cash		57,500
Oct. 15	Cash (1,000 × $25)	25,000	
	Treasury Stock (1,000 × $23)		23,000
	Paid-in Capital from Treasury Stock		2,000

BE 160

Orley Company had the following transactions.
1. Issued 5,000 shares of common stock with a stated value of $10 for $130,000.
2. Issued 2,000 shares of $100 par preferred stock at $108 for cash.

Instructions
Prepare the journal entries to record the above stock transactions.

Ans: N/A, LO: 3, 5, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: None, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 160 (5 min.)

1.	Cash	130,000	
	Common Stock		50,000
	Paid-in Capital in Excess of Stated Value—Common Stock		80,000
2.	Cash	216,000	
	Preferred Stock		200,000
	Paid-in Capital in Excess of Par—Preferred Stock		16,000

BE 161

On February 1, Westwood Corporation issued 5,000 shares of its $20 par value preferred stock for $26 per share.

Instructions
Journalize the transaction.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 161 (3 min.)

Feb. 1	Cash	130,000	
	Preferred Stock		100,000
	Paid-in Capital in Excess of Par—Preferred Stock		30,000
	(Issued 5,000 shares at $26 per share)		

BE 162

Charleston Corporation has the following accounts at December 31: Common Stock, $10 par 7,000 shares issued, $70,000; Paid-in Capital in Excess of Par $10,000; Retained Earnings $45,000; and Treasury Stock—Common, 500 shares, $10,000. Prepare the stockholders' equity section of the balance sheet.

Ans: N/A, LO: 6, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 162 (6-8 min.)

Stockholders' equity	
Paid-in capital	
Capital stock	
Common stock, $10 par value, 7,000 shares issued and 6,500 shares outstanding	$70,000
Additional paid-in capital	
In excess of par—common stock	10,000
Total paid-in capital	80,000
Retained earnings	45,000
Total paid-in capital and retained earnings	125,000
Less: Treasury stock—common (500 shares)	10,000
Total stockholders' equity	$115,000

EXERCISES

Ex. 163

The following selected transactions pertain to L. Lewis Corporation:

Jan. 3 Issued 100,000 shares, $10 par value, common stock for $25 per share.

Feb. 10 Issued 6,000 shares, $10 par value, common stock in exchange for special purpose equipment. L. Lewis Corporation's common stock has been actively traded on the stock exchange at $30 per share.

Instructions
Journalize the transactions.

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Medium, Min: 8, AACSB: None, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 163 (8–10 min.)

January 3		
Cash	2,500,000	
Common Stock		1,000,000
Paid-in Capital in Excess of Par		1,500,000
(To record issuance of common stock in excess of par)		
February 10		
Equipment	180,000	
Common Stock		60,000
Paid-in Capital in Excess of Par		120,000
(To record issuance of stock for equipment)		

Ex. 164

The corporate charter of Maine Yacht Corporation allows the issuance of a maximum of 3,000,000 shares of $1 par value common stock. During its first three years of operation, Maine issued 2,200,000 shares at $15 per share. It later acquired 30,000 of these shares as treasury stock for $25 per share.

Instructions

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?

Ans: N/A, LO: 3,4, Bloom: AP, Difficulty: Medium, Min: 8, AACSB: None, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 164 (8–11 min.)

(a) 3,000,000 shares were authorized.
(b) 2,200,000 shares were issued.
(c) 2,170,000 shares are outstanding (2,200,000 issued less 30,000 in treasury).
(d) The balance of the Common Stock account is $2,200,000 ($1 × 2,200,000 shares = $2,200,000).
(e) The balance of the Treasury Stock account is $750,000 ($25 × 30,000 shares = $750,000).

Ex. 165

Prytania Corporation is authorized to issue 1,000,000 shares of $5 par value common stock. During 2014, its first year of operation, the company has the following stock transactions.

Jan. 1 Paid the state $5,000 for incorporation fees.
Jan. 15 Issued 500,000 shares of stock at $6 per share.
Jan. 30 Attorneys for the company accepted 500 shares of common stock as payment for legal services rendered in helping the company incorporate. The legal services are estimated to have a value of $7,000.
July 2 Issued 100,000 shares of stock for land. The land had an asking price of $900,000. The stock is currently selling on a national exchange at $8 per share.
Sept. 5 Purchased 15,000 shares of common stock for the treasury at $9 per share.
Dec. 6 Sold 11,000 shares of the treasury stock at $11 per share.

Instructions

Journalize the transactions for Prytania Corporation.

Ans: N/A, LO: 3,4, Bloom: AP, Difficulty: Medium, Min: 12, AACSB: None, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 165 (12–14 min.)

Jan. 1	Organization Expense	5,000	
	Cash		5,000
Jan. 15	Cash	3,000,000	
	Common Stock		2,500,000
	Paid-In Capital in Excess of Par		500,000
Jan. 30	Organization Expense	7,000	
	Common Stock		2,500
	Paid-in Capital in Excess of Par		4,500
July 2	Land	800,000	
	Common Stock		500,000
	Paid-In Capital in Excess of Par		300,000
Sept. 5	Treasury Stock	135,000	
	Cash		135,000
Dec. 6	Cash	121,000	
	Treasury Stock		99,000
	Paid-In Capital from Treasury Stock		22,000

Ex. 166

Prepare the necessary journal entry for each of the following transactions for Terpsichorp Corporation.

(a) Issued 2,000 shares of its $10 par value common stock for $20 per share.
(b) Issued 5,000 shares of its stock for land advertised for sale at $90,000. Terpsichorp's stock is actively traded at a market price of $16 per share.

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: None, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 166 (5 min.)

(a)	Cash (2,000 × $20)	40,000	
	Common Stock		20,000
	Paid-in Capital in Excess of Par		20,000
(b)	Land (5,000 × $16)	80,000	
	Common Stock		50,000
	Paid-in Capital in Excess of Par		30,000

Ex. 167

Zeus Corporation issued 5,000 shares of stock.

Instructions

Prepare the entry for the issuance under the following assumptions.

(a) The stock had a par value of $5 per share and was issued for a total of $65,000.
(b) The stock had a stated value of $5 per share and was issued for a total of $65,000.
(c) The stock had a par value of $5 per share and was issued to attorneys for services during incorporation valued at $65,000.
(d) The stock had a par value of $5 per share and was issued for land worth $65,000.

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Medium, Min: 8, AACSB: None, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 167 (8–10 min.)

(a)	Cash	65,000	
	Common Stock (5,000 × $5)		25,000
	Paid-in Capital in Excess of Par		40,000
(b)	Cash	65,000	
	Common Stock (5,000 × $5)		25,000
	Paid-in Capital in Excess of Stated Value		40,000
(c)	Organization Expense	65,000	
	Common Stock (5,000 × $5)		25,000
	Paid-in Capital in Excess of Par		40,000
(d)	Land	65,000	
	Common Stock (5,000 × $5)		25,000
	Paid-in Capital in Excess of Par		40,000

Ex. 168

1. Name at least three factors that influence the market value of stock.
2. Corporations acquire treasury stock for a variety of purposes. Name three reasons why treasury stock may be acquired by a corporation.

Ans: N/A, LO: 1, 4, Bloom: C, Difficulty: Easy, Min: 9, AACSB: None, AICPA BB: Industry/Sector, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 168 (9–12 min.)

1. Factors that influence the market value of stock:
   (a) Anticipated future earnings of the company.
   (b) Expected dividend rate per share.
   (c) Current financial position.
   (d) Current state of the economy.
   (e) Current state of the securities market.

2. Reasons why a company may acquire treasury stock:
   (a) To reissue the shares to officers and employees under bonus and stock compensation plans.
   (b) To increase trading of the company's stock in the securities market.
   (c) To have additional shares available for use in the acquisition of other companies.
   (d) To reduce the number of shares outstanding and thereby increase earnings per share.
   (e) To rid the company of disgruntled investors, perhaps to avoid a takeover.

Ex. 169

The following items were shown on the balance sheet of Westwind Corporation on December 31, 2014:

Stockholders' equity	
Paid-in capital	
Capital stock	
Common stock, $5 par value, 400,000 shares authorized; ______ shares issued and ______ outstanding	$1,850,000
Additional paid-in capital	
In excess of par	165,000
Total paid-in capital..	2,015,000
Retained earnings	750,000
Total paid-in capital and retained earnings	2,765,000
Less: Treasury stock (18,000 shares)	180,000
Total stockholders' equity	$2,585,000

Instructions

Complete the following statements and show your computations.

(a) The number of shares of common stock issued was _______________.

(b) The number of shares of common stock outstanding was ____________.

(c) The sales price of the common stock when issued was $____________.

(d) The cost per share of the treasury stock was $_______________.

(e) The average issue price of the common stock was $______________.

(f) Assuming that 25% of the treasury stock is sold at $20 per share, the balance in the Treasury Stock account would be $_______________.

Ans: N/A, LO: 3, 4, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 169 (10–15 min.)

(a) The number of shares of common stock issued was 370,000.

$1,850,000 ÷ $5 par value = 370,000 shares issued.

(b) The number of shares of common stock outstanding was 352,000.

370,000 issued less 18,000 in treasury = 352,000 shares outstanding

(c) The sales price of the common stock when issued was $2,015,000.

Common stock	$1,850,000
Plus: In excess of par	165,000
Total	$2,015,000

(d) The cost per share of the treasury stock was $ 10.

$180,000 ÷ 18,000 = $10 per share.

Solution 169 (cont.)

(e) The average issue price of the common stock was $5.45.

$2,015,000 ÷ 370,000 shares = $5.45 per share.

(f) Assuming 25% of the treasury stock is sold at $20 per share, the balance in the Treasury stock account would be $135,000.

13,500 shares × $10 = $135,000.

Ex. 170

The stockholders' equity section of Fauberg Marigny Corporation at December 31 is as follows.

FAUBERG MARIGNY CORPORATION
Balance Sheet (partial)

Paid-in capital	
Preferred stock, cumulative, 10,000 shares authorized, 5,000 shares issued and outstanding	$ 300,000
Common Stock, no par, 750,000 shares authorized, 300,000 shares issued	1,500,000
Total paid-in capital	1,800,000
Retained earnings	2,050,000
Total paid-in capital and retained earnings	3,850,000
Less: Treasury stock (5,000 common shares)	64,000
Total stockholders' equity	$3,786,000

Instructions

From a review of the stockholders' equity section, answer the following questions.

(a) How many shares of common stock are outstanding?
(b) Assuming there is a stated value, what is the stated value of the common stock?
(c) What is the par value of the preferred stock?
(d) If the annual dividend on preferred stock is $18,000, what is the dividend rate on preferred stock?
(e) If dividends of $36,000 were in arrears on preferred stock, what would be the balance in Retained Earnings?

Ans: N/A, LO: 3, 4, 5, 6, Bloom: AN, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 170 (4 min.)

(a) Common stock outstanding is 295,000 shares. (Issued shares 300,000 less treasury shares 5,000.)
(b) The stated value of common stock is $5 per share. (Common stock issued $1,500,000 ÷ 300,000 shares.)
(c) The par value of preferred stock is $60 per share. (Preferred stock $300,000 ÷ 5,000 shares.)
(d) The dividend rate is 6%, or ($18,000 ÷ $300,000).
(e) The Retained Earnings balance is still $2,050,000. Cumulative dividends in arrears are only disclosed in the notes to the financial statements.

Ex. 171

On January 1, 2014, the stockholders' equity section of Intercontinental Corporation shows: Common stock ($5 par value) $1,500,000; paid-in capital in excess of par value $1,000,000; and retained earnings $1,200,000. During the year, the following treasury stock transactions occurred.

Mar. 1 Purchased 30,000 shares for cash at $20 per share.
July 1 Sold 6,000 treasury shares for cash at $27 per share.
Sept. 1 Sold 5,000 treasury shares for cash at $19 per share.

Instructions

(a) Journalize the treasury stock transactions.
(b) Restate the entry for September 1, assuming the treasury shares were sold at $10 per share.

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 171 (4 min.)

(a)	Mar. 1	Treasury Stock (30,000 × $20)	600,000	
		Cash		600,000
	July 1	Cash (6,000 × $27)	162,000	
		Treasury Stock (6,000 × $20)		120,000
		Paid-in Capital from Treasury Stock (6,000 × $7)		42,000
	Sept. 1	Cash (5,000 × $19)	95,000	
		Paid-in Capital from Treasury Stock (5,000 × $1)	5,000	
		Treasury Stock (5,000 × $20)		100,000
(b)	Sept. 1	Cash (5,000 × $10)	50,000	
		Paid-in Capital from Treasury Stock	42,000	
		Retained Earnings	8,000	
		Treasury Stock (5,000 × $20)		100,000

Ex. 172

On May 1, Southern Oil Corporation purchased 2,000 shares of its $10 par value common stock at a cash price of $17/share. On July 15, 900 shares of the treasury stock were sold for cash at $17/share.

Instructions

Journalize the two transactions.

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: None, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 172 (5–7 min.)

May 1	Treasury Stock	26,000	
	Cash		26,000
Jul. 15	Cash (900 × $17)	15,300	
	Treasury Stock		11,700
	Paid-in Capital from Treasury Stock		3,600

Ex. 173

Yohnalasse Corporation has the following stockholders' equity accounts on January 1, 2014:

Common Stock, $10 par value	$1,500,000
Paid-in Capital in Excess of Par	200,000
Retained Earnings	500,000
Total Stockholders' Equity	$2,200,000

The company uses the cost method to account for treasury stock transactions. During 2014, the following treasury stock transactions occurred:

April	1	Purchased 10,000 shares at $18 per share.
August	1	Sold 4,000 shares at $22 per share.
October	1	Sold 4,000 shares at $15 per share.

Instructions

(a) Journalize the treasury stock transactions for 2014.

(b) Prepare the Stockholders' Equity section of the balance sheet for Yohnalasse Corporation at December 31, 2014. Assume net income was $110,000 for 2014.

Ans: N/A, LO: 4.6, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: None, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 173 (15–20 min.)

(a)

Date		Account	Debit	Credit
Apr.	1	Treasury Stock	180,000	
		Cash		180,000
		(To record purchase of treasury stock)		
Aug.	1	Cash	88,000	
		Treasury Stock (4,000 × $18)		72,000
		Paid-in Capital from Treasury Stock (4,000 × $4)		16,000
		(To record sale of treasury stock)		
Oct.	1	Cash	60,000	
		Paid-in Capital from Treasury Stock (4,000 × $3)	12,000	
		Treasury Stock (4,000 × $18)		72,000
		(To record sale of treasury stock)		

(b) Stockholders' equity

Paid-in capital		
Capital stock		
Common stock, $10 par		$1,500,000
Additional paid-in capital		
In excess of par	$200,000	
From treasury stock	4,000	204,000
Total paid-in capital		1,704,000
Retained earnings ($500,000 + $110,000)		610,000
Total paid-in capital and retained earnings		2,314,000
Less: Treasury stock (2,000 shares)		36,000
Total stockholders' equity		$2,278,000

Ex. 174

Westglow Corporation purchased 3,000 shares of its $5 par value common stock for a cash price of $10 per share. Two months later, Westglow sold the treasury stock for a cash price of $8 per share.

Instructions
Prepare the journal entry to record the sale of the treasury stock assuming
(a) No balance in Paid-in Capital from Treasury Stock.
(b) A $4,000 balance in Paid-in Capital from Treasury Stock.

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Medium, Min: 7, AACSB: None, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 174 (7–9 min.)

(a)	Cash	24,000	
	Retained Earnings [($10 – $8) × 3,000]	6,000	
	Treasury Stock		30,000
(b)	Cash	24,000	
	Paid-in Capital from Treasury Stock	4,000	
	Retained Earnings	2,000	
	Treasury Stock		30,000

Ex. 175

An inexperienced accountant for Chetola Corporation made the following entries.

July 1	Cash	240,000	
	Common Stock		240,000
	(Issued 15,000 shares of no-par common stock, stated value $10 per share)		
Sept. 1	Common Stock	32,000	
	Retained Earnings	4,000	
	Cash		36,000
	(Purchased 2,000 shares issued on July 1 for the treasury at $18 per share)		
Dec. 1	Cash	20,000	
	Common Stock		16,000
	Gain on Sale of Stock		4,000
	(Sold 1,000 shares of the treasury stock at $20 per share)		

Instructions
(a) On the basis of the explanation for each entry, prepare the entry that should have been made for the transactions. (Omit explanations.)

(b) Prepare the correcting entries that should be made to correct the accounts of Chetola Corporation. (Do not reverse the original entry.)

Ans: N/A, LO: 4, Bloom: AN, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 175 (15–20 min.)

(a)	July 1	Cash		240,000	
			Common Stock		150,000
			Paid-in Capital in Excess of Stated Value		90,000
	Sept. 1	Treasury Stock		36,000	
			Cash		36,000
	Dec. 1	Cash		20,000	
			Treasury Stock		18,000
			Paid-in Capital from Treasury Stock		2,000
(b)	July 1	Common Stock		90,000	
			Paid-in Capital in Excess of Stated Value		90,000
	Sept. 1	Treasury Stock		36,000	
			Common Stock		32,000
			Retained Earnings		4,000
	Dec. 1	Common Stock		16,000	
		Gain on Sale of Stock		4,000	
			Treasury Stock		18,000
			Paid-in Capital from Treasury Stock		2,000

Ex. 176

On January 1, 2014, Vidalia Company issued 30,000 shares of $2 par value common stock for $150,000. On March 1, 2014, the company purchased 6,000 shares of its common stock for $8 per share for the treasury. On June 1, 2014, 1,500 of the treasury shares are sold for $10 per share. On September 1, 2014, 3,000 treasury shares are sold at $6 per share.

Instructions

Journalize the stock transactions of Vidalia Company in 2014.

Ans: N/A, LO: 3,4, Bloom: AP, Difficulty: Medium, Min: 8, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 176 (8–12 min.)

Jan. 1	Cash		150,000	
		Common Stock		60,000
		Paid-In Capital in Excess of Par		90,000
March 1	Treasury Stock		48,000	
		Cash		48,000
June 1	Cash		15,000	
		Treasury Stock		12,000
		Paid-In Capital from Treasury Stock		3,000

Solution 176 (cont.)

Sept. 1	Cash	18,000	
	Paid-In Capital from Treasury Stock	3,000	
	Retained Earnings	3,000	
	Treasury Stock		24,000

Ex. 177

Roca Company originally issued 30,000 shares of $5 par common stock for $240,000 on January 3, 2014. Roca purchased 1,500 shares of treasury stock for $15,000 on November 2, 2014. On December 6, 2014, 600 shares of the treasury stock are sold for $7,200.

Instructions
Prepare journal entries to record these stock transactions.

Ans: N/A, LO: 3,4, Bloom: AP, Difficulty: Medium, Min: 9, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 177 (9–13 min.)

Jan. 3	Cash	240,000	
	Common Stock		150,000
	Paid-In Capital in Excess of Par		90,000
Nov. 2	Treasury Stock	15,000	
	Cash		15,000
Dec. 6	Cash	7,200	
	Treasury Stock		6,000
	Paid-In Capital from Treasury Stock		1,200

Ex. 178

The stockholders' equity section of Makoto Corporation's balance sheet at December 31, 2013, appears below:

Stockholders' equity	
Paid-in capital	
Common stock, $10 par value, 400,000 shares authorized; 250,000 issued and outstanding	$2,500,000
Paid-in capital in excess of par	1,200,000
Total paid-in capital	3,700,000
Retained earnings	600,000
Total stockholders' equity	$4,300,000

During 2014, the following stock transactions occurred:

Jan. 18 Issued 50,000 shares of common stock at $32 per share.

Aug. 20 Purchased 25,000 shares of Makoto Corporation's common stock at $26 per share to be held in the treasury.

Nov. 5 Reissued 9,000 shares of treasury stock for $28 per share.

Instructions
(a) Prepare the journal entries to record the above stock transactions.

(b) Prepare the stockholders' equity section of the balance sheet for Makoto Corporation at December 31, 2014. Assume that net income for the year was $100,000 and that no dividends were declared.

Ans: N/A, LO: 4, 5, 6, Bloom: AP, Difficulty: Medium, Min: 16, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 178 (16–22 min.)

(a)	Jan. 18	Cash	1,600,000	
		Common Stock		500,000
		Paid-in Capital in Excess of Par		1,100,000
		(To record issuance of 50,000 shares of common stock)		
	Aug. 20	Treasury Stock	650,000	
		Cash		650,000
		(To record purchase of 25,000 shares of treasury stock at cost)		
	Nov. 5	Cash	252,000	
		Treasury Stock		234,000
		Paid-in Capital from Treasury Stock		18,000
		(To record sale of 9,000 shares of treasury stock at $28 per share)		

(b) Stockholders' equity

Paid-in capital		
Capital stock		
Common stock, $10 par value, 400,000 shares authorized, 300,000 shares issued, and 284,000 shares outstanding		$3,000,000
Additional paid-in capital		
In excess of par	$2,300,000	
From treasury stock	18,000	2,318,000
Total paid-in capital		5,318,000
Retained earnings		700,000
Total paid-in capital and retained earnings		6,018,000
Less: Treasury stock (16,000 shares)		416,000
Total stockholders' equity		$5,602,000

Ex. 179

Rowlands Corporation has 100,000 shares of $40 par value preferred stock authorized. During the year, it had the following transactions related to its preferred stock.
(a) Issued 20,000 shares at $55 per share.
(b) Issued 10,000 shares for equipment having a $700,000 asking price. The stock had a market value of $75 per share

Instructions
Journalize the transactions.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 179 (5–7 min.)

(a)	Cash	1,100,000	
	Preferred Stock		800,000
	Paid-in Capital in Excess of Par—Preferred		300,000
(b)	Equipment (10,000 × $75)	750,000	
	Preferred Stock		400,000
	Paid-in Capital in Excess of Par—Preferred		350,000

Ex. 180

Echota Corporation has the following capital stock outstanding at December 31, 2014:

7% Preferred stock, $100 par value, cumulative 15,000 shares issued and outstanding	$1,500,000
Common stock, no par, $10 stated value, 500,000 shares authorized, 350,000 shares issued and outstanding	3,500,000

The preferred stock was issued at $120 per share. The common stock was issued at an average per share price of $14.

Instructions
Prepare the paid-in capital section of the balance sheet at December 31, 2014.

Ans: N/A, LO: 5,6, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Industry/Sector, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 180 (10–15 min.)

Stockholders' equity		
Paid-in capital		
Capital stock		
7% Preferred stock, $100 par value, cumulative 15,000 shares issued and outstanding		$1,500,000
Common stock, no par, $10 stated value, 500,000 shares authorized, 350,000 shares issued and outstanding		3,500,000
Total capital stock		5,000,000
Additional paid-in capital		
In excess of par—preferred stock	$ 300,000*	
In excess of stated value—common stock	1,400,000**	
Total additional paid-in capital		1,700,000
Total paid-in capital		$6,700,000

*15,000 shares × $20 = $300,000.
**350,000 shares × $4 = $1,400,000.

Ex. 181

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

Feb.	1	Issued 6,000 shares for cash at $43 per share.
Nov.	1	Issued 3,000 shares for cash at $45 per share.

Instructions

(a) Journalize the transactions.

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

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 8, AACSB: Analytic, AICPA BB: Industry/Sector, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 181 (8–12 min.)

(a)	Feb. 1	Cash	258,000	
		Preferred Stock		60,000
		Paid-in Capital in Excess of Par—Preferred Stock		198,000
		(Issued 6,000 shares at $43 per share)		
	Nov. 1	Cash	135,000	
		Preferred Stock		30,000
		Paid-in Capital in Excess of Par—Preferred Stock		105,000
		(Issued 3,000 shares at $45 per share)		

(b) (1) Preferred stock: $60,000 + $30,000 = $90,000.

(2) Paid-in Capital in Excess of Par—Preferred Stock: $198,000 + $105,000 = $303,000.

Ex. 182

West Jefferson Corporation has the following stockholders' equity accounts:

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

Instructions

Classify each account using the following tabular alignment.

	Paid-in Capital		Retained	
Account	Capital Stock	Additional	Earnings	Other

Ans: N/A, LO: 5, Bloom: C, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Industry/Sector, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 182 (5–9 min.)

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

Ex. 183

Niley-Cook Corporation issued 200,000 shares of $20 par value, cumulative, 6% preferred stock on January 1, 2013, for $4,500,000. In December 2015, Niley-Cook declared its first dividend of $800,000.

Instructions

(a) Prepare Niley-Cook's journal entry to record the issuance of the preferred stock.
(b) If the preferred stock is ***not*** cumulative, how much of the $800,000 would be paid to common stockholders?
(c) If the preferred stock is cumulative, how much of the $800,000 would be paid to common stockholders?

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Industry/Sector, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 183 (5-8 min.)

(a)

Cash	4,500,000	
Preferred Stock (200,000 × $20)		4,000,000
Paid-in Capital in Excess of Par		500,000

(b)

Total Dividend	$ 800,000
Less: Preferred Stock Dividend ($4,000,000 × 6%)	240,000
Common Stock Dividends	$ 560,000

(c)

Total Dividend	$ 800,000
Less: Preferred Stock Dividend [($4,000,000 × 6%) × 3]	720,000
Common Stock Dividends	$ 80,000

Ex. 184

The following stockholders' equity accounts, arranged alphabetically, are in the ledger of Kalmia Corporation at December 31, 2014.

Common Stock ($5 stated value)	$2,200,000
Paid-in Capital in Excess of Par—Preferred Stock	280,000
Paid-in Capital in Excess of Stated Value—Common Stock	800,000
Preferred Stock (8%, $100 par, noncumulative)	500,000
Retained Earnings	1,334,000
Treasury Stock—Common (10,000 shares)	120,000

Instructions
Prepare the stockholders' equity section of the balance sheet at December 31, 2014.

Ans: N/A, LO: 6, Bloom: AP, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 184 (4-6 min.)

KALMIA CORPORATION
Partial Balance Sheet
December 31, 2014

Stockholders' equity		
Paid-in capital		
Capital stock		
8% Preferred stock, $100 par value, noncumulative, 5,000 shares issued		$ 500,000
Common stock, no par, $5 stated value, 440,000 shares issued and 430,000 shares outstanding		2,200,000
Total capital stock		2,700,000
Additional paid-in capital		
In excess of par—preferred stock	$280,000	
In excess of stated value—common stock	800,000	
Total additional paid-in capital		1,080,000
Total paid-in capital		3,780,000
Retained earnings		1,334,000
Total paid-in capital and retained earnings		5,114,000
Less: Treasury stock (10,000 common shares)		120,000
Total stockholders' equity		$4,994,000

Ex. 185

The following information is available for Mint Corporation:

Common Stock ($10 par)	$1,500,000
Paid-in Capital in Excess of Par—Preferred	200,000
Paid-in Capital in Excess of Stated Value—Common	750,000
Preferred Stock	450,000
Retained Earnings	800,000
Treasury Stock—Common	50,000

Instructions
Based on the preceding information, calculate each of the following:
(a) Total paid-in capital.
(b) Total stockholders' equity.

Ans: N/A, LO: 6, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 185 (5 min.)

(a) Total paid-in capital = $2,900,000 ($1,500,000 + $200,000 + $750,000 + $450,000)

(b) Total stockholders' equity = $3,650,000 ($2,900,000 + $800,000 – $50,000)

Ex. 186

Place each of the items listed below in the appropriate subdivision of the stockholders' equity section of a balance sheet.

Common stock, $10 stated value
Retained earnings
8% Preferred stock, $100 par value
Paid-in capital in excess of par
Paid-in capital in excess of stated value
Treasury stock—common
Paid-in capital from treasury stock

Stockholders' equity
    Paid-in capital
        Capital stock

    Additional paid-in capital

        Total additional paid-in capital

        Total paid-in capital
    Retained earnings

        Total paid-in capital and retained earnings

        Total stockholders' equity

Ans: N/A, LO: 6, Bloom: C, Difficulty: Medium, Min: 6, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 186 (6–9 min.)

Stockholders' equity
Paid-in capital
Capital stock
8% Preferred stock, $100 par value
Common stock, $10 stated value
Additional paid-in capital
In excess of par—preferred stock
In excess of stated value—common stock
From treasury stock
Total additional paid-in capital
Total paid-in capital
Retained earnings
Total paid-in capital and retained earnings
Less: Treasury stock—common
Total stockholders' equity

COMPLETION STATEMENTS

187. A corporation has a separate _________________________ apart from its owners.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

188. The major advantages of the corporate form of organization include (1) limited _________________ of owners, (2) continuous ____________________ and (3) ease of transferring ___________________.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

189. Stockholders elect the _______________, who in turn hire the ______________ of the company who have day to day responsibility for running the corporation.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: None, AICPA PC: None, IMA: Business Economics

190. If a corporation's stock is traded on the major stock exchanges, the corporation must generally report periodically to a federal agency known as the ____________________.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

191. Stockholders generally have the right to share in corporate _______________ and in ______________ upon liquidation.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economics

192. Par value of stock represents the __________________ per share that must be retained in the business for the protection of corporate ___________________.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

193. The stockholders' equity section of a corporation's balance sheet is generally divided in two major sections: (1) _____________ and (2) _______________.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

194. If stock is issued in exchange for noncash assets, the assets should be valued at the ____________________ of the consideration ___________________ or the assets ____________________, whichever is more clearly evident.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

195. A corporation's own stock that has been reacquired by the corporation but not canceled is called ___________________ and is deducted from total _______________________ on the balance sheet.

Ans: N/A, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

196. The _______________ feature of preferred stock gives the preferred stockholders the right to receive current-year dividends and unpaid prior-year dividends before common stockholders receive any dividends.

Ans: N/A, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economics

197. Preferred stock has contractual provisions that give it a preference over common stock as to ___________________ and to ___________________ in the event of liquidation.

Ans: N/A, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economics

198. The paid-in capital section of the balance sheet consists of two classifications: ______________________ and ______________________.

Ans: N/A, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Answers to Completion Statements

187. legal existence
188. liability, life, ownership rights
189. board of directors, officers
190. Securities and Exchange Commission (SEC)
191. earnings, assets
192. legal capital, creditors
193. Paid-in capital, Retained earnings
194. fair value, given up, received
195. treasury stock, paid-in capital and retained earnings
196. cumulative
197. dividends, assets
198. capital stock, additional paid-in capital

MATCHING

199. Match the items below by entering the appropriate code letter in the space provided.

A.	Limited liability	F.	Preemptive right
B.	Capital stock	G.	Par value
C.	Board of directors	H.	Legal capital
D.	Paid-in capital	I.	Treasury stock
E.	Retained earnings	J.	Cumulative feature

____ 1. Net income retained in the corporation.

____ 2. The amount that must be retained in the business for the protection of creditors.

____ 3. Preferred stockholders have a right to receive current and unpaid prior-year dividends before common stockholders receive any dividends.

____ 4. Creditors only have corporate assets to satisfy their claims.

____ 5. Responsible to stockholders for corporate activity.

____ 6. The amount assigned to each share of stock in the corporate charter.

____ 7. Unit of ownership in a corporation.

____ 8. Enables stockholders to maintain their same percentage ownership when new shares are issued.

____ 9. Corporation's own stock that has been reacquired by the corporation but not retired.

____ 10. Total amount paid-in on capital stock.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Answers to Matching

1.	E	6.	G
2.	H	7.	B
3.	J	8.	F
4.	A	9.	I
5.	C	10.	D

SHORT-ANSWER ESSAY QUESTIONS

S-A E 200

Identify at least six characteristics of the corporate form of business organization. Contrast each one with the partnership form of organization.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Medium, Min: 5, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Research, AICPA PC: Communication, IMA: FSA

Solution 200

(a) Separate legal existence
(b) Limited liability of stockholders
(c) Transferable ownership rights
(d) Ability to acquire capital
(e) Continuous life
(f) Corporation management
(g) Government regulations
(h) Additional taxes

A partnership is not a separate legal entity because the act of any partner is binding on all other partners. A partnership has unlimited liability because each partner is personally and individually liable for all partnership liabilities. A partnership requires the approval of all the partners before ownership rights can be transferred. A partnership cannot acquire capital as easily as a corporation can. Investors are fearful of investing in a partnership because they then become liable for all partnership liabilities. The life of a corporation, which may be perpetual, is stated in the charter. The life of a partnership is dependent on the partners and any changes in the composition of the partnership. Corporations allow the owners (stockholders) to indirectly manage the corporation through the board of directors and the corporate officers. On the other hand, partners not only are the owners of their business but they also manage the daily operations. A partnership is not subject to as many regulations as a corporation. Many of these regulations are designed to protect the stockholders of the corporation who are not involved in the daily management of the company. Corporations must pay federal and state income taxes and the stockholders must pay taxes on the dividends received. Partners avoid this double taxation because they only have to pay taxes on the income reported on their personal income tax form.

S-A E 201

Companies frequently issue both preferred stock and common stock. What are the major differences in the rights of stockholders between these two classes of stock?

Ans: N/A, LO: 5, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

Solution 201

Common stockholders have the right to vote on corporate actions that require stockholders approval while preferred stockholders generally do not have voting rights. However, preferred stockholders will receive (1) dividends and (2) assets in the event of liquidation prior to common stockholders. Preferred stockholders may also have a cumulative dividend feature or a participating dividend feature. Both of these features increase the amount of dividends paid to the preferred stockholders.

S-A E 202

Define par value, and discuss its significance in accounting.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

Solution 202

Par value is an arbitrary amount established for a share of stock and printed on each stock certificate. It represents the legal capital of the corporation and constitutes a minimum cushion that must remain for the protection of the corporate creditors. Par value is also used for the calculation of preferred dividends.

S-A E 203

Land appraised at $60,000 is purchased by issuing 1,000 shares of $25 par value common stock. The market price of the shares at the time of the exchange, based on active trading in the securities market, is $75 per share. Should the land be recorded at $25,000, $60,000, or $75,000? Explain.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Communication, IMA: FSA

Solution 203

When stock is issued for services or noncash assets, the cost should be measured at either the fair value of the consideration given up (in this case, the stock) or the fair value of the consideration received (in this case, the land), whichever is more clearly evident. In this case, the fair value of the stock is more objectively determinable than that of the land, since the stock is actively traded in the securities market. The appraised value of the land is merely an estimate of the land's value, while the market price of the stock is the amount the stock was actually worth on the date of exchange. Therefore, the land should be recorded at $75,000, the common stock at $25,000, and the excess ($50,000) as paid-in capital in excess of par value.

S-A E 204

Lang, Inc. purchases 1,000 shares of its own previously issued $5 par common stock for $15,000. The treasury stock is resold by Lang, Inc. for $20,000. What effect does this transaction have on (a) net income, (b) total assets, (c) total paid-in capital, and (d) total stockholders' equity?

Ans: N/A, LO: 4, Bloom: K, Difficulty: Medium, Min: 2, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 204

When treasury stock is resold at a price above original cost, Cash is debited for the amount of the proceeds ($20,000), Treasury Stock is credited at cost ($15,000), and the excess ($5,000) is credited to Paid-in Capital from Treasury Stock. Cash is an asset, and the other two accounts are part of stockholders' equity. Therefore, this transaction: (a) has no effect on net income, (b) increases total assets, (c) increases total paid-in capital, and (d) increases total stockholders' equity.

S-A E 205 (Ethics)

Rob Rote, the president and CEO of RRR Waste Management, was recently hospitalized, suffering from exhaustion and a heart ailment. Immediately prior to his hospitalization, RRR had experienced a sharp decline in its stock price, and trading activity became almost nonexistent. The primary reason for this was concern expressed in the media over a new untested waste management system implemented by the company. Mr. Rote had been unwilling to submit the procedure to testing before implementation, but he reluctantly agreed to limited tests after the system was operational. No problems have been identified by the tests to date.

The other members of management called a meeting to determine what they should do. Randy Smith, the marketing manager, suggested that the company purchase a large number of shares of treasury stock. In that way, investors might notice that activity had picked up, and might decide to buy some more shares. This plan would use up most of the company's available cash, so that there will be no money available for a cash dividend. RRR has paid cash dividends every quarter for over ten years.

Required:
1. Is Mr. Smith's suggestion ethical? Explain.
2. Is it ethical to discontinue the cash dividend? Explain.

Ans: N/A, LO: 4, Bloom: K, Difficulty: Medium, Min: 3, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Decision Modeling, AICPA PC: Interaction, IMA: Investment Decisions

Solution 205

1. There is no definite answer as to whether Mr. Smith's suggestion is ethical. There are several points that might be made, supporting either premise. First, it is a large transaction being made in the absence of the CEO, and made entirely to boost stock price. It is not clear what the long-term benefit to the company will be, even if it is successful. Thus, a student might argue that the large purchase of treasury stock, using up most of the available cash, might be unethical because of the potential damage done to the company, without a large enough potential reward. On the other hand, the company might benefit by keeping its stock price high (and supposing that this purchase will enhance the stock price) by being able to issue additional shares of stock to finance future expansion. It is to be hoped that the students can articulate the concept that legality of an action is not the only determinate of whether an action is ethical.

2. A company may discontinue its dividend at will. Holders of common stock should know that they are not entitled to a dividend, even when one has been declared and paid every year. There is no expressed or implied contract to pay a dividend to holders of common stock, and so the discontinuance of the dividend is ethical. However, the company may lose more in share price by discontinuing a long-standing dividend than it gains by its large purchase of treasury stock.

S-A E 206 (Communication)

As part of a Careers in Accounting program sponsored by accounting organizations and supported by your company, you will be taking a group of high school students through the accounting department in your company. You will also provide them with various materials to explain the work of an accountant. One of the materials you will provide is the Stockholders' Equity section of a recent balance sheet.

Required:
Prepare a sentence or two explaining each major section: Common Stock, Additional Paid-in Capital, and Retained Earnings. You should try to be brief but clear.

Ans: N/A, LO: 6, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Communications, AICPA BB: Industry/Sector, AICPA FN: Research, AICPA PC: Communication, IMA: Business Economics

Solution 206

Common Stock: When investors invest in our company, they purchase common stock. Part of the purchase price is shown in this section, and is called "par" value. Par value is a legal term, denoting the amount of money that the company must retain in order to satisfy creditors' claims, if the company should become insolvent.

Additional Paid-in Capital: The remainder of the amount paid by investors who purchase shares of stock in our company is shown in this section. Thus, the Common Stock section and the Additional Paid-in Capital section together show the amount paid by investors to purchase shares of our stock.

Retained Earnings: This shows the earnings that have been retained in the firm to finance future growth. The other earnings were paid to our stockholders as dividends.