CHAPTER 14

CORPORATIONS: DIVIDENDS, RETAINED EARNINGS, AND INCOME REPORTING

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	7.	2	K	13.	2	C	19.	4	K	25.	5	K
2.	1	K	8.	2	K	14.	3	K	20.	4	K	[sg]26.	1	K
3.	1	K	9.	2	K	15.	3	K	21.	5	K	[sg]27.	1	K
4.	1	C	10.	2	K	16.	3	K	22.	5	K	[sg]28.	2	K
5.	1	C	11.	2	K	17.	3	K	23.	5	K	[sg]29.	4	C
6.	2	K	12.	2	K	18.	4	C	24.	5	K	[sg]30.	5	K
Multiple Choice Questions														
31.	1	K	53.	1	C	75.	1	C	97.	2	C	119.	5	AP
32.	1	K	54.	1	C	76.	1	AP	98.	2	K	120.	5	K
33.	1	K	55.	1	C	77.	1	AP	99.	2	K	121.	5	K
34.	1	K	56.	1	AP	78.	1	AP	100.	2	C	122.	5	AP
35.	1	K	57.	1	AP	79.	1	AP	101.	2	K	123.	5	K
36.	1	C	58.	1	AP	80.	1	AP	102.	2	C	[sg]124.	1	C
37.	1	C	59.	1	AP	81.	1	AP	103.	2	C	[st]125.	1	K
38.	1	K	60.	1	AP	82.	1	AP	104.	3	K	[sg]126.	1	K
39.	1	C	61.	1	K	83.	1	AP	105.	3	K	[sg]127.	2	C
40.	1	C	62.	1	K	84.	1	AP	106.	3	K	[st]128.	2	K
41.	1	C	63.	1	C	85.	1	AP	107.	3	AP	[sg]129.	3	AP
42.	1	C	64.	1	C	86.	1	AP	108.	3	AP	[st]130.	3	K
43.	1	K	65.	1	K	87.	1	AP	109.	5	AP	[sg]131.	5	AP
44.	1	K	66.	1	K	88.	1	AP	110.	3	AP	[sg]132.	5	K
45.	1	K	67.	1	K	89.	1	AP	111.	5	AP	[sg]133.	5	K
46.	1	K	68.	1	C	90.	1	AP	112.	4	C	134.	6	K
47.	1	K	69.	1	C	91.	2	AP	113.	4	C	135.	6	K
48.	1	K	70.	1	C	92.	2	AP	114.	4	C	136.	6	K
49.	1	K	71.	1	AP	93.	2	K	115.	4	K	137.	6	K
50.	1	C	72.	1	AP	94.	2	K	116.	4	AP	138.	6	K
51.	1	K	73.	1	AP	95.	2	C	117.	4	AP			
52.	1	C	74.	1	C	96.	2	C	118.	5	AP			
Brief Exercises														
139.	1	AP	141.	1	AP	143.	1	C	145.	2	AP	147.	4	AP
140.	1	AP	142.	1	AP	144.	2	K	146.	3	AP			
Exercises														
148.	1	AP	153.	1–3	C	158.	2	AP	163.	3	AP	168.	4	AP
149.	1	AP	154.	1	AP	159.	2	AP	164.	3	AP	169.	5	AP
150.	1	AP	155.	1,3	AP	160.	2	AP	165.	3,4	AP	170.	5	AP
151.	1	AP	156.	1	AP	161.	3	AP	166.	3,5	AP	171.	5	AP
152.	1	AP	157.	2	AN	162.	3	AP	167.	4,5	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

Completion Statements														
172.	1	K	174.	1	K	176.	2	K	178.	3	K	180.	5	K
173.	1	K	175.	2	K	177.	3	K	179.	4	K	181.	5	K
Matching Statements														
182.	2	K												
Short-Answer Essay														
183.	3	K	185.	1	K	187.	1	K	189.	1	K			
184.	3	K	186.	1	K	188.	2	K	190.	3	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	37.	MC	50.	MC	63.	MC	76.	MC	89.	MC	151.	Ex
2.	TF	38.	MC	51.	MC	64.	MC	77.	MC	90.	MC	152.	Ex
3.	TF	39.	MC	52.	MC	65.	MC	78.	MC	124.	MC	153.	Ex
4.	TF	40.	MC	53.	MC	66.	MC	79.	MC	125.	MC	154.	Ex
5.	TF	41.	MC	54.	MC	67.	MC	80.	MC	126.	MC	155.	Ex
26.	TF	42.	MC	55.	MC	68.	MC	81.	MC	139.	BE	156.	Ex
27.	TF	43.	MC	56.	MC	69.	MC	82.	MC	140.	BE	172.	C
31.	MC	44.	MC	57.	MC	70.	MC	83.	MC	141.	BE	173.	C
32.	MC	45.	MC	58.	MC	71.	MC	84.	MC	142.	BE	174.	C
33.	MC	46.	MC	59.	MC	72.	MC	85.	MC	143.	BE	185.	SA
34.	MC	47.	MC	60.	MC	73.	MC	86.	MC	148.	Ex	186.	SA
35.	MC	48.	MC	61.	MC	74.	MC	87.	MC	149.	Ex	187.	SA
36.	MC	49.	MC	62.	MC	75.	MC	88.	MC	150.	Ex	189.	SA
Learning Objective 2													
6.	TF	11.	TF	92.	MC	97.	MC	102.	MC	145.	BE	160.	Ex
7.	TF	12.	TF	93.	MC	98.	MC	103.	MC	153.	Ex	175.	C
8.	TF	13.	TF	94.	MC	99.	MC	127.	MC	157.	Ex	176.	C
9.	TF	28.	TF	95.	MC	100.	MC	128.	MC	158.	Ex	182.	M
10.	TF	91.	MC	96.	MC	101.	MC	144.	BE	159.	Ex	188.	SA
Learning Objective 3													
14.	TF	104.	MC	108.	MC	146.	BE	162.	Ex	166.	Ex	184.	SA
15.	TF	105.	MC	110.	MC	153.	Ex	163.	Ex	177.	C	190.	SA
16.	TF	106.	MC	129.	MC	155.	Ex	164.	C	178.	C		
17.	TF	107.	MC	130.	MC	161.	Ex	165.	Ex	183.	SA		
Learning Objective 4													
18.	TF	29.	TF	114.	MC	117.	MC	167.	Ex				
19.	TF	112.	MC	115.	MC	147.	BE	168.	Ex				
20.	TF	113.	MC	116.	MC	165.	Ex	179.	C				

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

SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Learning Objective 5													
21.	TF	25.	TF	118.	MC	122.	MC	133.	MC	170.	Ex		
22.	TF	30.	TF	119.	MC	123.	MC	166.	Ex	171.	Ex		
23.	TF	109.	MC	120.	MC	131.	MC	167.	Ex	180.	C		
24.	TF	111.	MC	121.	MC	132.	MC	169.	Ex	181.	C		
Learning Objective 6													
134.	MC	135.	MC	136.	MC	137.	MC	138.	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 eight Short-Answer Essay questions.

CHAPTER LEARNING OBJECTIVES

1. ***Prepare the entries for cash dividends and stock dividends.*** Companies make entries for both cash and stock dividends at the declaration date and at the payment date. At the declaration date the entries are: cash dividend—debit Cash Dividends, and credit Dividends Payable; small stock dividend—debit Stock Dividends, credit Paid-in Capital in Excess of Par (or Stated Value Common Stock), and credit Common Stock Dividends Distributable. At the payment date, the entries for cash and stock dividends are: cash dividend—debit Dividends Payable and credit Cash; small stock dividend—debit Common Stock Dividends Distributable and credit Common Stock.

2. ***Identify the items reported in a retained earnings statement.*** Companies report each of the individual debits and credits to retained earnings in the retained earnings statement. Additions consist of net income and prior period adjustments to correct understatements of prior years' net income. Deductions consist of net loss, adjustments to correct overstatements of prior years' net income, cash and stock dividends, and some disposals of treasury stock.

3. ***Prepare and analyze a comprehensive stockholders' equity section.*** A comprehensive stockholders' equity section includes all stockholders' equity accounts. It consists of two sections: paid-in capital and retained earnings. It should also include notes to the financial statements that explain any restrictions on retained earnings and any dividends in arrears. One measure of profitability is the return on common stockholders' equity. It is calculated by dividing net income minus preferred stock dividends by average common stockholders' equity.

4. ***Describe the form and content of corporation income statements.*** The form and content of corporation income statements are similar to the statements of proprietorships and partnerships with one exception: Corporations must report income taxes or income tax expense in a separate section before net income in the income statement.

5. ***Compute earnings per share.*** Companies compute earnings per share by dividing net income by the weighted-average number of common shares outstanding during the period. When preferred stock dividends exist, they must be deducted from net income in order to calculate EPS.

TRUE-FALSE STATEMENTS

1. Dividends may be declared and paid in cash or stock.

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

2. Cash dividends are not a liability of the corporation until they are declared by the board of directors.

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

3. The amount of a cash dividend liability is recorded on the date of record because it is on that date that the persons or entities who will receive the dividend are identified.

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

4. A 10% stock dividend will increase the number of shares outstanding but the par value per share will stay the same.

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

5. A 3-for-1 common stock split will increase total stockholders' equity but reduce the par or stated value per share of common stock.

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

6. Retained earnings represents the amount of cash available for dividends.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

7. Net income of a corporation should be closed to retained earnings and net losses should be closed to paid-in capital accounts.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

8. A debit balance in the Retained Earnings account is identified as a deficit.

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

9. A correction in income of a prior period involves either a debit or credit to the Retained Earnings account.

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

10. Prior period adjustments to income are reported in the current year's income statement.

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

11. Retained earnings that are restricted are unavailable for dividends.

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

12. Restricted retained earnings are available for preferred stock dividends but unavailable for common stock dividends.

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

13. A retained earnings statement shows the same information as a corporation income statement.

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

14. A detailed stockholders' equity section in the balance sheet will list the names of individuals who are eligible to receive dividends on the date of record.

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

15. Common Stock Dividends Distributable is shown within the Paid-in Capital subdivision of the stockholders' equity section of the balance sheet.

Ans: T, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

16. Return on common stockholders' equity is computed by dividing net income by ending stockholders' equity.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Industry/Sector, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

17. Many companies prepare a stockholders' equity statement instead of presenting a detailed stockholders' equity section in the balance sheet.

Ans: T, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

18. A major difference among corporations, proprietorships, and partnerships is that a corporation's income statement reports income tax expense.

Ans: T, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

19. A corporation incurs income tax expense only if it pays dividends to stockholders.

Ans: F, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

20. Income tax expense usually appears as a separate section on a corporation income statement.

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

21. Earnings per share is calculated by dividing net income by the weighted-average number of shares of preferred stock and common stock outstanding.

Ans: F, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Industry/Sector, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

22. Preferred dividends paid are added back to net income in calculating earnings per share for common stockholders.

Ans: F, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Industry/Sector, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

23. Earnings per share indicates the net income earned by each share of outstanding common stock.

Ans: T, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Industry/Sector, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

24. Earnings per share is reported for both preferred and common stock.

Ans: F, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Industry/Sector, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

25. Most companies are required to report earnings per share on the face of the income statement.

Ans: T, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

26. A dividend based on paid-in capital is termed a liquidating dividend.

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

27. Common Stock Dividends Distributable is reported as additional paid-in capital in the stockholders' equity section.

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

28. A prior period adjustment is reported as an adjustment of the beginning balance of Retained Earnings.

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

29. Income tax expense and the related liability for income taxes payable are recorded when taxes are paid.

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

30. Earnings per share is reported only for common stock.

Ans: T, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Industry/Sector, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

Answers to True-False Statements

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

MULTIPLE CHOICE QUESTIONS

31. Each of the following decreases retained earnings **except** a
    a. cash dividend.
    b. liquidating dividend.
    c. stock dividend.
    d. All of these decrease retained earnings.

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

32. Each of the following decreases total stockholders' equity **except** a
    a. cash dividend.
    b. liquidating dividend.
    c. stock dividend.
    d. All of these decrease total stockholders' equity.

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

33. Which one of the following is **not** necessary in order for a corporation to pay a cash dividend?
    a. Adequate cash
    b. Approval of stockholders
    c. Declaration of dividends by the board of directors
    d. Retained earnings

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

34. If a corporation declares a dividend based upon paid-in capital, it is known as a
    a. scrip dividend.
    b. property dividend.
    c. paid dividend.
    d. liquidating dividend.

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

35. The date on which a cash dividend becomes a binding legal obligation is on the
    a. declaration date.
    b. date of record.
    c. payment date.
    d. last day of the fiscal year-end.

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

36. The effect of the declaration of a cash dividend by the board of directors is to

	Increase	Decrease
a.	Stockholders' equity	Assets
b.	Assets	Liabilities
c.	Liabilities	Stockholders' equity
d.	Liabilities	Assets

Ans: c, LO: 1, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

37. The cumulative effect of the declaration and payment of a cash dividend on a company's financial statements is to
    a. decrease total liabilities and stockholders' equity.
    b. increase total expenses and total liabilities.
    c. increase total assets and stockholders' equity.
    d. decrease total assets and stockholders' equity.

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

38. Common Stock Dividends Distributable is classified as a(n)
    a. asset account.
    b. stockholders' equity account.
    c. expense account.
    d. liability account.

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

39. The effect of a stock dividend is to
    a. decrease total assets and stockholders' equity.
    b. change the composition of stockholders' equity.
    c. decrease total assets and total liabilities.
    d. increase the book value per share of common stock.

Ans: b, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

40. If a corporation declares a 10% stock dividend on its common stock, the account to be debited on the date of declaration is
    a. Common Stock Dividends Distributable.
    b. Common Stock.
    c. Paid-in Capital in Excess of Par.
    d. Stock Dividends.

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

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

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

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

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

Ans: b, LO: 1, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Communication, IMA: FSA

43. Dividends are predominantly paid in
    a. earnings.
    b. property.
    c. cash.
    d. stock.

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

44. If a stockholder receives a dividend that reduces retained earnings by the fair value of the stock, the stockholder has received a
    a. large stock dividend.
    b. cash dividend.
    c. contingent dividend.
    d. small stock dividend.

Ans: d, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Industry/Sector, AICPA FN: Measurement, AICPA PC: Communication, IMA: FSA

45. Of the various dividends types, the two most common types in practice are
    a. cash and large stock.
    b. cash and property.
    c. cash and small stock.
    d. property and small stock.

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

46. Regular dividends are declared out of
    a. Paid-in Capital in Excess of Par.
    b. Treasury Stock.
    c. Common Stock.
    d. Retained Earnings.

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

47. A corporation is **not** committed to a legal obligation when it declares
    a. a cash dividend.
    b. either a cash dividend or a stock dividend.
    c. a stock dividend.
    d. a distribution date.

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

48. Which of the following is **not** a significant date with respect to dividends?
    a. The declaration date
    b. The incorporation date
    c. The record date
    d. The payment date

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

49. On the dividend record date,
    a. a dividend becomes a current obligation.
    b. no entry is required.
    c. an entry may be required if it is a stock dividend.
    d. Dividends Payable is debited.

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

50. Which of the following statements regarding the date of a cash dividend declaration is **not** accurate?
    a. The dividend can be rescinded once it has been declared.
    b. The corporation is committed to a legal, binding obligation.
    c. The board of directors formally authorizes the cash dividend.
    d. A liability account must be increased.

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

51. Dividends Payable is classified as a
    a. long-term liability.
    b. contra stockholders' equity account to Retained Earnings.
    c. current liability.
    d. stockholders' equity account.

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

52. Indicate the respective effects of the declaration of a cash dividend on the following balance sheet sections:

	Total Assets	Total Liabilities	Total Stockholders' Equity
a.	Increase	Decrease	No change
b.	No change	Increase	Decrease
c.	Decrease	Increase	Decrease
d.	Decrease	No change	Increase

Ans: b, LO: 1, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Industry/Sector, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

53. Which of the following statements about dividends is **not** accurate?
    a. Many companies declare and pay cash quarterly dividends.
    b. Low dividends may mean high stock returns.
    c. The board of directors is obligated to declare dividends.
    d. A legal dividend may not be a feasible one.

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

54. The cumulative effect of the declaration and payment of a cash dividend on a company's balance sheet is to
    a. decrease current liabilities and stockholders' equity.
    b. increase total assets and stockholders' equity.
    c. increase current liabilities and stockholders' equity.
    d. decrease stockholders' equity and total assets.

Ans: d, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Industry/Sector, AICPA FN: Measurement, AICPA PC: Communication, IMA: FSA

55. The declaration and distribution of a stock dividend will
    a. increase total stockholders' equity.
    b. increase total assets.
    c. decrease total assets.
    d. have no effect on total assets.

Ans: d, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Industry/Sector, AICPA FN: Measurement, AICPA PC: Communication, IMA: FSA

56. Solaris, Inc. has 2,000 shares of 5%, $10 par value, cumulative preferred stock and 50,000 shares of $1 par value common stock outstanding at December 31, 2014. What is the annual dividend on the preferred stock?
    a. $5 per share
    b. $1,000 in total
    c. $10,000 in total
    d. $.05 per share

Ans: b, LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Industry/Sector, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: (.05) ($10) (2,000) = $1,000

57. Peabody, Inc. has 5,000 shares of 7%, $100 par value, cumulative preferred stock and 50,000 shares of $1 par value common stock outstanding at December 31, 2014. If the board of directors declares a $30,000 dividend, the
    a. preferred shareholders will receive 1/10th of what the common shareholders will receive.
    b. preferred shareholders will receive the entire $30,000.
    c. $30,000 will be held as restricted retained earnings and paid out at some future date.
    d. preferred shareholders will receive $15,000 and the common shareholders will receive $15,000.

Ans: b, LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Industry/Sector, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: (5,000) (.07) ($100) = $35,000

58. Rendezvous, Inc. has 10,000 shares of 5%, $100 par value, noncumulative preferred stock and 20,000 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 $110,000 dividend in 2014. What is the amount of dividends received by the common stockholders in 2014?
    a. $0
    b. $50,000
    c. $110,000
    d. $60,000

Ans: d, LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Industry/Sector, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: (10,000) (.05) ($100) = $50,000; $110,000 − $50,000 = $60,000

59. Burnell, Inc. has 5,000 shares of 4%, $50 par value, cumulative preferred stock and 100,000 shares of $1 par value common stock outstanding at December 31, 2013, and December 31, 2012. The board of directors declared and paid a $8,000 dividend in 2013. In 2014, $30,000 of dividends are declared and paid. What are the dividends received by the preferred and common shareholders in 2014?

	Preferred	Common
a.	$18,000	$12,000
b.	$15,000	$15,000
c.	$12,000	$18,000
d.	$10,000	$20,000

Ans: c, LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Industry/Sector, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: (5,000) (.04) ($50) = $10,000; $10,000 − $8,000 = $2,000; $10,000 + $2,000 = $12,000; $30,000 − $12,000 = $18,000

60. Bodkin, Inc. has 5,000 shares of 5%, $100 par value, noncumulative preferred stock and 50,000 shares of $1 par value common stock outstanding at December 31, 2014, and December 31, 2015. The board of directors declared and paid a $25,000 dividend in 2014. In 2015, $55,000 of dividends are declared and paid. What are the dividends received by the preferred and common shareholders in 2015?

	Preferred	Common
a.	$0	$55,000
b.	$25,000	$30,000
c.	$27,500	$27,500
d.	$35,000	$20,000

Ans: b, LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Industry/Sector, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: (5,000) (.05) ($100) = $25,000; $55,000 − $25,000 = $30,000

61. The board of directors must assign a per share value to a stock dividend declared that is
   a. greater than the par or stated value.
   b. less than the par or stated value.
   c. equal to the par or stated value.
   d. at least equal to the par or stated value.

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

62. Corporations generally issue stock dividends in order to
   a. increase the market price per share.
   b. exceed stockholders' dividend expectations.
   c. increase the marketability of the stock.
   d. decrease the amount of capital in the corporation.

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

63. A stockholder who receives a stock dividend would
   a. expect the market price per share to increase.
   b. own more shares of stock.
   c. expect retained earnings to increase.
   d. expect the par value of the stock to change.

Ans: b, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Communication, IMA: Business Economics

64. When stock dividends are distributed,
    a. Common Stock Dividends Distributable is decreased.
    b. Retained Earnings is decreased.
    c. Paid-in Capital in Excess of Par is debited if it is a small stock dividend.
    d. no entry is necessary if it is a large stock dividend.

Ans: a, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Industry/Sector, AICPA FN: Measurement, AICPA PC: Communication, IMA: FSA

65. A small stock dividend is defined as
    a. less than 30% but greater than 25% of the corporation's issued stock.
    b. between 50% and 100% of the corporation's issued stock.
    c. more than 30% of the corporation's issued stock.
    d. less than 20–25% of the corporation's issued stock.

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

66. The per share amount normally assigned by the board of directors to a large stock dividend is
    a. the market value of the stock on the date of declaration.
    b. the average price paid by stockholders on outstanding shares.
    c. the par or stated value of the stock.
    d. zero.

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

67. The per share amount normally assigned by the board of directors to a small stock dividend is
    a. the market value of the stock on the date of declaration.
    b. the average price paid by stockholders on outstanding shares.
    c. the par or stated value of the stock.
    d. zero.

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

68. Identify the effect the declaration and distribution of a stock dividend has on the par value per share.
    a. Increase
    b. Decrease
    c. Increase or decrease
    d. No effect

Ans: d, LO: 1, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Industry/Sector, AICPA FN: Measurement, AICPA PC: Communication, IMA: Reporting

69. The declaration of a stock dividend will
    a. increase paid-in capital.
    b. change the total of stockholders' equity.
    c. increase total liabilities.
    d. increase total assets.

Ans: a, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Industry/Sector, AICPA FN: Measurement, AICPA PC: Communication, IMA: FSA

70. Which of the following show the proper effect of a stock split and a stock dividend?

	Item	Stock Split	Stock Dividend
a.	Total paid-in capital	Increase	Increase
b.	Total retained earnings	Decrease	Decrease
c.	Total par value (common)	Decrease	Increase
d.	Par value per share	Decrease	No change

Ans: d, LO: 1, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Industry/Sector, AICPA FN: Measurement, AICPA PC: Communication, IMA: FSA

71. A stock split
   a. may occur in the absence of retained earnings.
   b. will increase total paid-in capital.
   c. will increase the total par value of the stock.
   d. will have no effect on the par value per share of stock.

Ans: a, LO: 1, Bloom: AP, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Industry/Sector, AICPA FN: Measurement, AICPA PC: Communication, IMA: FSA

72. Outstanding stock of the Larson Corporation included 40,000 shares of $5 par common stock and 10,000 shares of 5%, $10 par noncumulative preferred stock. In 2013, Larson declared and paid dividends of $4,000. In 2014, Larson declared and paid dividends of $12,000. How much of the 2014 dividend was distributed to preferred shareholders?
   a. $6,000
   b. $7,000
   c. $5,000
   d. None of these answer choices are correct

Ans: c, LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: (10,000) (.05) ($10) = $5,000

73. Outstanding stock of the Crevusse Corporation included 40,000 shares of $5 par common stock and 20,000 shares of 5%, $10 par noncumulative preferred stock. In 2013, Crevusse declared and paid dividends of $8,000. In 2014, Crevusse declared and paid dividends of $24,000. How much of the 2014 dividend was distributed to preferred shareholders?
   a. $14,000
   b. $8,000
   c. $10,000
   d. None of these answer choices are correct

Ans: c, LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: (20,000) (.05) ($10) = $10,000

74. On January 1, Ecuyer Corporation had 1,600,000 shares of $10 par value common stock outstanding. On March 31, the company declared a 15% stock dividend. Market value of the stock was $15/share. As a result of this event,
   a. Ecuyer's Paid-in Capital in Excess of Par account increased $1,200,000.
   b. Ecuyer's total stockholders' equity was unaffected.
   c. Ecuyer's Stock Dividends account increased $3,600,000.
   d. All of these answer choices are correct.

Ans: d, LO: 1, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: (1,600,000) (.15) ($15) = $3,600,000

75. On January 1, Key Corporation had 2,000,000 shares of $10 par value common stock outstanding. On March 31, the company declared a 20% stock dividend. Market value of the stock was $15/share. As a result of this event,
    a. Key's Paid-in Capital in Excess of Par account increased $2,000,000.
    b. Key's total stockholders' equity was unaffected.
    c. Key's Stock Dividends account increased $6,000,000.
    d All of these answer choices are correct.

Ans: d, LO: 1, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: (2,000,000 × .20) ($15) = $6,000,000

76. Somento Forest Inc. has 10,000 shares of 6%, $100 par value, cumulative preferred stock and 100,000 shares of $1 par value common stock outstanding at December 31, 2014. What is the annual dividend on the preferred stock?
    a. $60 per share
    b. $60,000 in total
    c. $100,000 in total
    d. $0.60 per share

Ans: b, LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: (.06) ($100) (10,000) = $60,000

77. River Forest, Inc., has 5,000 shares of 6%, $100 par value, noncumulative preferred stock and 50,000 shares of $1 par value common stock outstanding at December 31, 2014. If the board of directors declares a $100,000 dividend, the
    a. preferred stockholders will receive 1/10th of what the common stockholders will receive.
    b. preferred stockholders will receive the entire $100,000.
    c. $30,000 will be held as restricted retained earnings and paid out at some future date.
    d. preferred stockholders will receive $30,000 and the common stockholders will receive $70,000.

Ans: d, LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: (.06) ($100) (5,000) = $30,000; $100,000 − $30,000 = $70,000

78. Dabney, Inc., has 5,000 shares of 5%, $100 par value, noncumulative preferred stock and 40,000 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 $60,000 dividend in 2014. What is the amount of dividends received by the common stockholders in 2014?
    a. $0
    b. $25,000
    c. $10,000
    d. $35,000

Ans: d, LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: (.05) ($100) (5,000) = $25,000; $60,000 − $25,000 = $35,000

79. Laser Inc., has 1,000 shares of 6%, $50 par value, cumulative preferred stock and 100,000 shares of $1 par value common stock outstanding at December 31, 2014, and December 31, 2013. The board of directors declared and paid a $2,500 dividend in 2013. In 2014, $12,000 of dividends are declared and paid. What are the dividends received by the preferred stockholders in 2014?
   a. $8,500
   b. $6,000
   c. $3,500
   d. $3,000

Ans: c, LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: (1,000) (.06) ($50) = $3,000; $3,000 − $2,500 = $500; $3,000 + $500 = $3,500

80. Art, Inc., has 2,500 shares of 5%, $100 par value, cumulative preferred stock and 20,000 shares of $1 par value common stock outstanding from December 31, 2013 through Dec. 31, 2015. There were no dividends declared in 2013. The board of directors declares and pays a $22,500 dividend in 2014 and in 2015. What is the amount of dividends received by the common stockholders in 2015?
   a. $7,500
   b. $12,500
   c. $22,500
   d. $0

Ans: a, LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: (2,500) (.05) ($100) = $12,500; (2) ($22,500) − (3) ($12,500) = $7,500

81. CCCR Inc., has 2,000 shares of 6%, $50 par value, cumulative preferred stock and 100,000 shares of $1 par value common stock outstanding at December 31, 2013, and December 31, 2014. The board of directors declared and paid a $4,000 dividend in 2013. In 2014, $24,000 of dividends are declared and paid. What are the dividends received by the common stockholders in 2014?
   a. $16,000
   b. $12,000
   c. $8,000
   d. $6,000

Ans: a, LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: (2,000) (.06) ($50) = $6,000; $24,000 − $6,000 − ($6,000 −$4,000) = $16,000

82. On January 1, Sly Corporation had 120,000 shares of $10 par value common stock outstanding. On March 17, the company declared a 15% stock dividend to stockholders of record on March 20. Market value of the stock was $13 on March 17. The entry to record the transaction of March 17 would include a
   a. credit to Stock Dividends for $54,000.
   b. credit to Cash for $234,000.
   c. credit to Common Stock Dividends Distributable for $180,000.
   d. debit to Common Stock Dividends Distributable for $180,000.

Ans: c, LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: (120,000) (.15) ($10) = $180,000

83. On January 1, Sly Corporation had 120,000 shares of $10 par value common stock outstanding. On March 17, the company declared a 18% stock dividend to stockholders of record on March 20. Market value of the stock was $13 on March 17. The stock was distributed on March 30. The entry to record the transaction of March 30 would include a
    a. credit to Cash for $216,000.
    b. debit to Common Stock Dividends Distributable for $216,000.
    c. credit to Paid-in Capital in Excess of Par for $64,800.
    d. debit to Stock Dividends for $64,800.

Ans: b, LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: (120,000) (.18) ($10) = $216,000

84. On January 1, Layline Corporation had 160,000 shares of $10 par value common stock outstanding. On June 17, the company declared a 15% stock dividend to stockholders of record on June 20. Market value of the stock was $15 on June 17. The entry to record the transaction of June 17 would include a
    a. debit to Stock Dividends for $360,000.
    b. credit to Cash for $360,000.
    c. credit to Common Stock Dividends Distributable for $360,000.
    d. credit to Common Stock Dividends Distributable for $120,000.

Ans: a, LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: (160,000) (.15) ($15) = $360,000

85. On January 1, Layline Corporation had 160,000 shares of $10 par value common stock outstanding. On June 17, the company declared a 15% stock dividend to stockholders of record on June 20. Market value of the stock was $15 on June 17. The stock was distributed on June 30. The entry to record the transaction of June 30 would include a
    a. credit to Common Stock for $240,000.
    b. debit to Common Stock Dividends Distributable for $360,000.
    c. credit to Paid-in Capital in Excess of Par for $120,000.
    d. debit to Stock Dividends for $120,000.

Ans: a, LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: (160,000) (.15) ($10) = $240,000

86. Sebastiani Inc. declared a $80,000 cash dividend. It currently has 3,000 shares of 7%, $100 par value cumulative preferred stock outstanding. It is one year in arrears on its preferred stock. How much cash will Sebastiani distribute to the common stockholders?
    a. $38,000.
    b. $42,000.
    c. $59,000.
    d. None of these answer choices are correct.

Ans: a, LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $80,000 – (3,000) (.07) ($100) (2)

87. Eggers Inc. has retained earnings of $1,600,000 and total stockholders' equity of $4,000,000. It has 400,000 shares of $5 par value common stock outstanding, which is currently selling for $30 per share. If Eggers declares a 10% stock dividend on its common stock:
    a. net income will decrease by $200,000.
    b. retained earnings will decrease by $200,000 and total stockholders' equity will increase by $200,000.
    c. retained earnings will decrease by $1,200,000 and total stockholders' equity will increase by $1,200,000.
    d. retained earnings will decrease by $1,200,000 and total paid-in capital will increase by $1,200,000.

Ans: d, LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: (400,000) (.10) ($30) = $1,200,000

88. On December 31, 2014, Stanford, Inc. has 1,500 shares of 6% $100 par value cumulative preferred stock and 90,000 shares of $10 par value common stock outstanding. On December 31, 2014, the directors declare a $30,000 cash dividend. The entry to record the declaration of the dividend would include:
    a. a credit of $30,000 to Cash Dividends.
    b. a note in the financial statements that dividends of $3 per share are in arrears on preferred stock for 2014.
    c. a debit of $30,000 to Common Stock.
    d. a credit of $30,000 to Dividends Payable.

Ans: d, LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

89. Nola, Inc. declares a 10% common stock dividend when it has 60,000 shares of $10 par value common stock outstanding. If the market value of $24 per share is used, the amounts debited to Stock Dividends and credited to Paid-in Capital in Excess of Par are:

	Stock Dividends	Paid-in Capital in Excess of Par
a.	$60,000	$0
b.	$144,000	$84,000
c.	$144,000	$60,000
d.	$60,000	$84,000

Ans: b, LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: (60,000) (.10) ($24) = $144,000; $144,000 − ($6,000) ($10) = $84,000

90. Sebold Manufacturing declared a 10% stock dividend when it had 700,000 shares of $3 par value common stock outstanding. The market price per common share was $12 per share when the dividend was declared. The entry to record this dividend declaration includes a credit to
    a. Stock Dividends for $210,000.
    b. Paid-in Capital in Excess of Par for $630,000.
    c. Common Stock for $210,000.
    d. Common Stock Dividends Distributable for $840,000.

Ans: b, LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Communication, IMA: FSA

Solution: (700,000) (.10) ($3) = $210,000

91. The following selected amounts are available for Vizio Company.

Retained earnings (beginning)	$1,600
Net loss	300
Cash dividends declared	200
Stock dividends declared	200

What is its ending retained earnings balance?
a. $1,300
b. $1,400
c. $900
d. $1,200

Ans: c, LO: 2, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $1,600 – $300 – $200 – $200 = $900

92. Kramer Co. had retained earnings of $30,000 on the balance sheet but disclosed in the footnotes that $6,000 of retained earnings was restricted for building expansion and $2,000 was restricted for bond repayments. Cash of $4,000 had been set aside for the plant expansion. How much of retained earnings is available for dividends?
a. $22,000
b. $24,000
c. $30,000
d. $18,000

Ans: a, LO: 2, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $30,000 – $6,000 – $2,000 = $22,000

93. Bento, Inc. had 500,000 shares of common stock outstanding before a stock split occurred, and 1,500,000 shares outstanding after the stock split. The stock split was
a. 2-for-5.
b. 5-for-1.
c. 1-for-5.
d. 3-for-1.

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

Solution: $1,500,000 / $500,000 = 3

94. Restricting retained earnings for the cost of treasury stock purchased is a
a. contractual restriction.
b. legal restriction.
c. stock restriction.
d. voluntary restriction.

Ans: b, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Communication, IMA: FSA

95. A prior period adjustment that corrects income of a prior period requires that an entry be made to
a. an income statement account.
b. a current year revenue or expense account.
c. the retained earnings account.
d. an asset account.

Ans: c, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Communication, IMA: FSA

96. If the board of directors authorizes a $1,000,000 restriction of retained earnings for a future plant expansion, the effect of this action is to
    a. decrease total assets and total stockholders' equity.
    b. increase stockholders' equity and decrease total liabilities.
    c. decrease total retained earnings and increase total liabilities.
    d. reduce the amount of retained earnings available for dividend declarations.

Ans: d, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Communication, IMA: FSA

97. A credit balance in retained earnings represents
    a. the amount of cash retained in the business.
    b. a claim on specific assets of the corporation.
    c. a claim on the aggregate assets of the corporation.
    d. the amount of stockholders' equity exempted from the stockholders' claim on total assets.

Ans: c, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Communication, IMA: FSA

98. A net loss
    a. occurs if operating expenses exceed cost of goods sold.
    b. is not closed to Retained Earnings if it would result in a debit balance.
    c. is closed to Retained Earnings even if it would result in a debit balance.
    d. is closed to the paid-in capital account of the stockholders' equity section of the balance sheet.

Ans: c, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Communication, IMA: FSA

99. Prior period adjustments are reported
    a. in the footnotes of the current year's financial statements.
    b. on the current year's balance sheet.
    c. on the current year's income statement.
    d. on the current year's retained earnings statement.

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

100. Retained earnings are occasionally restricted
    a. to set aside cash for dividends.
    b. to keep the legal capital associated with paid-in capital intact.
    c. due to contractual loan restrictions.
    d. if preferred dividends are in arrears.

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

101. Retained earnings is increased by each of the following **except**
    a. net income.
    b. prior period adjustments.
    c. some disposals of treasury stock.
    d. All of these increase retained earnings.

Ans: c, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Communication, IMA: FSA

102. A prior period adjustment for understatement of net income will
   a. be credited to the Retained Earnings account.
   b. be debited to the Retained Earnings account.
   c. show as a gain on the current year's Income Statement.
   d. show as an asset on the current year's Balance Sheet.

Ans: a, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Communication, IMA: FSA

103. The retained earnings statement
   a. is the owners' equity statement for a corporation.
   b. will show an addition to the beginning retained earnings balance for an understatement of net income in a prior year.
   c. will not reflect net losses.
   d. will, in some cases, fail to reconcile the beginning and ending retained earnings balances.

Ans: b, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

104. In the stockholders' equity section of the balance sheet,
   a. Common Stock Dividends Distributable will be classified as part of additional paid-in capital.
   b. Common Stock Dividends Distributable will appear in its own subsection of the stock-holders' equity.
   c. Additional Paid-in Capital appears under the subsection Paid-in Capital.
   d. Dividends in arrears will appear as a restriction of Retained Earnings.

Ans: c, LO: 3, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

105. The return on common stockholders' equity is computed by dividing net income available to common stockholders by
   a. ending total stockholders' equity.
   b. ending common stockholders' equity.
   c. average total stockholders' equity.
   d. average common stockholders' equity.

Ans: d, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

106. The return on common stockholders' equity is computed by dividing
   a. net income by ending common stockholders' equity.
   b. net income by average common stockholders' equity.
   c. net income less preferred dividends by ending common stockholders' equity.
   d. net income less preferred dividends by average common stockholders' equity.

Ans: d, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Industry/Sector, AICPA FN: Measurement, AICPA PC: Communication, IMA: FSA

107. Cooney Inc. reported net income of $540,000 during 2014 and paid dividends of $52,000 on common stock. It also has 20,000 shares of 6%, $100 par value preferred stock outstanding. Common stockholders' equity was $2,400,000 on January 1, 2014, and $3,200,000 on December 31, 2014. The company's return on common stockholders' equity for 2014 is:
   a. 17.4%
   b. 15.0%
   c. 13.1%
   d. 19.3%

Ans: b, LO: 3, Bloom: AP, Difficulty: Hard, Min: 3, AACSB: Analytic, AICPA BB: Industry/Sector, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: [$540,000 − (20,000) (.06) ($100)] / [($3,200,000 + $2,400,000) / 2] = 15%

108. VAS Corporation had net income of $500,000 and paid dividends of $800,000 to common stockholders and $20,000 to preferred stockholders in 2014. VAS Corporation's common stockholders' equity at the beginning and end of 2014 was $1,740,000 and $2,260,000, respectively. There are 200,000 weighted-average shares of common stock outstanding. VAS Corporation's return on common stockholders' equity was
   a. 10%.
   b. 24%.
   c. 20%.
   d. 17.7%.

Ans: b, LO: 3, Bloom: AP, Difficulty: Hard, Min: 3, AACSB: Analytic, AICPA BB: Industry/Sector, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: ($500,000 − 20,000) / [($2,260,000 + $1,740,000) / 2] = 24%

109. Ellis Corporation had net income of $500,000 and paid dividends of $100,000 to common stockholders and $20,000 to preferred stockholders in 2014. Ellis Corporation's common stockholders' equity at the beginning and end of 2014 was $1,740,000 and $2,260,000, respectively. There are 400,000 weighted-average shares of common stock outstanding. Ellis Corporation's earnings per share for 2014 was
   a. $6.20.
   b. $1.20.
   c. $1.25.
   d. $5.00.

Ans: b, LO: 5, Bloom: AP, Difficulty: Hard, Min: 3, AACSB: Analytic, AICPA BB: Industry/Sector, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: ($500,000 − $20,000) / 400,000 = $1.20

110. Assume that all balance sheet amounts for Hiro Company represent average balance figures.

Stockholders' equity—common	$300,000
Total stockholders' equity	400,000
Sales revenue	200,000
Net income	54,000
Number of shares of common stock	20,000
Common stock dividends	20,000
Preferred stock dividends	8,000

What is the return on common stockholders' equity ratio for Hiro?

a. 18.0%
b. 15.3%
c. 11.3%
d. 8.7%

Ans: b, LO: 3, Bloom: AP, Difficulty: Hard, Min: 3, AACSB: Analytic, AICPA BB: Industry/Sector, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: ($54,000 – $8,000) / $300,000 = 15.3%

111. Assume that all balance sheet amounts for Carolina Company represent average balance figures.

Stockholders' equity—common	$360,000
Total stockholders' equity	800,000
Sales revenue	400,000
Net income	76,000
Number of shares of common stock	40,000
Common stock dividends	24,000
Preferred stock dividends	4,000

What is the earnings per share for Carolina?

a. $1.90
b. $1.80
c. $1.20
d. $2.00

Ans: b, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Industry/Sector, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: ($76,000 – $4,000) / 40,000 = 1.80%

112. A corporation differs from a proprietorship and a partnership in that

a. assets and liabilities are presented differently on the balance sheet.
b. a corporation is considered a separate legal entity for taxation purposes.
c. the historical cost principle only applies to proprietorships and partnerships.
d the owners of the corporation do not have a claim on the net assets of the business.

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

113. Income statements for corporations are the same as the statements for proprietorships **except** for the reporting of

a. gross profit.
b. income from operations.
c. income tax expense.
d. other revenues and gains.

Ans: c, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: FSA

114. Corporations report which of the following in a separate section of the income statement?
   a. Cost of goods sold.
   b. Income tax expense.
   c. Gross profit.
   d. Other revenues and gains.

Ans: b, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

115. Corporation income tax expense is
   a. usually accrued in the adjusting entry process.
   b. not usually accrued because it is not known what the exact liability will be until the tax return is filed.
   c. not reported in a separate section of a corporate income statement.
   d. reported similarly for corporations and partnerships.

Ans: a, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

116. Dixie Company reports the following amounts for 2014.

Net income	$300,000
Average, stockholders' equity	2,000,000
Preferred dividends	84,000
Par value preferred stock	400,000

The 2014 rate of return on common stockholders' equity is
   a. 18.8%.
   b. 13.5%.
   c. 15.0%.
   d. 10.8%.

Ans: b, LO: 4, Bloom: AP, Difficulty: Hard, Min: 2, AACSB: Analytic, AICPA BB: Industry/Sector, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: ($300,000 – $84,000) / ($2,000,000 – $400,000) = 13.5%

117. During 2014 Miami Inc. had sales revenue $1,328,000, gross profit $728,000, operating expenses $398,000, cash dividends $90,000, other expenses and losses $40,000. Its corporate tax rate is 30%. What was Miami's income tax expense for the year?
   a. $60,000
   b. $180,000
   c. $398,400
   d. $87,000

Ans: d, LO: 4, Bloom: AP, Difficulty: Hard, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: ($728,000 – $398,000 – $40,000) (.3) = $87,000

118. Daytona Corporation had 800,000 shares of common stock outstanding during the year. Daytona declared and paid cash dividends of $400,000 on the common stock and $320,000 on the preferred stock. Net income for the year was $1,760,000. What is Daytona's earnings per share?
   a. $1.75
   b. $1.70
   c. $1.80
   d. $1.30

Ans: c, LO: 5, Bloom: AP, Difficulty: Hard, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: FSA

Solution: ($1,760,000 – $320,000) / 800,000 = $1.80

119. The income statement for Manassa Inc. shows income before income taxes $1,600,000, income tax expenses $820,000, and net income $780,000. If Manassa declared $300,000 of cash dividends on preferred stock and has 200,000 shares of common stock outstanding throughout the year, earnings per share is:
    a. $8.00
    b. $2.40
    c. $1.50
    d. $3.90

Ans: b, LO: 5, Bloom: AP, Difficulty: Hard, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: ($780,000 – $300,000) / 200,000 = $2.40

120. When computing earnings per share,
    a. an adjustment related to preferred stock dividends is made in the numerator and denominator of the earnings per share formula.
    b. an adjustment for the preferred dividends is made in the denominator of the earnings per share formula.
    c. the dividends for cumulative preferred stock are deducted from net income only if the preferred dividends have been declared.
    d. the dividends for cumulative preferred stock are deducted from net income whether or not preferred dividends have been declared.

Ans: d, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

121. Each of the following statements is correct **except** that earnings per share is reported
    a. below net income.
    b. for both common and preferred stock.
    c. on the face of the income statement.
    d. based on the weighted-average number of common shares outstanding.

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

122. Blanco, Inc. has a net income of $300,000 for 2014, and there are 200,000 weighted-average shares of common stock outstanding. Dividends declared and paid during the year amounted to $40,000 on the preferred stock and $60,000 on the common stock. The earnings per share for 2014 is
    a. $2.50.
    b. $1.20.
    c. $1.30.
    d. $1.00.

Ans: c, LO: 5, Bloom: AP, Difficulty: Hard, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: FSA

Solution: ($300,000 – $40,000) / 200,000 = $1.30

123. The formula for computing earnings per share is net income
    a. divided by the ending common shares outstanding.
    b. divided by the weighted-average number of common shares outstanding.
    c. less preferred dividends divided by the ending common shares outstanding.
    d. less preferred dividends divided by the weighted-average number of common shares outstanding.

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

124. Which of the following statements about a cash dividend is **incorrect**?
   a. The legality of a cash dividend depends on state corporation laws.
   b. The legality of a dividend does not indicate a company's ability to pay a dividend.
   c. Dividends are not a liability until declared.
   d. Shareholders usually vote to determine the amount of income to be distributed in the form of a dividend.

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

125. The date a cash dividend becomes a binding legal obligation to a corporation is the
   a. declaration date.
   b. earnings date.
   c. payment date.
   d. record date.

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

126. Paiva Corporation splits its common stock 2 for 1, when the market value is $80 per share. Prior to the split, Paiva had 100,000 shares of $10 par value common stock issued and outstanding. After the split, the par value of the stock
   a. remains the same.
   b. is reduced to $2 per share.
   c. is reduced to $5 per share.
   d. is reduced to $20 per share.

Ans: c, LO: 1, Bloom: K, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $10 / 2 = $5

127. Which of the following statements about retained earnings restrictions is **incorrect**?
   a. Many states require a corporation to restrict retained earnings for the cost of treasury stock purchased.
   b. Long-term debt contracts may impose a restriction on retained earnings as a condition for the loan.
   c. The board of directors of a corporation may voluntarily create retained earnings restrictions for specific purposes.
   d. Retained earnings restrictions are generally disclosed through a journal entry on the books of a company.

Ans: d, LO: 2, Bloom: C, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

128. Prior period adjustments
   a. may only increase retained earnings.
   b. may only decrease retained earnings.
   c. may either increase or decrease retained earnings.
   d. do not affect retained earnings.

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

129. Farmer Company reports the following amounts for 2014:

Net income	$270,000
Average, stockholders' equity	1,000,000
Preferred dividends	70,000
Par value preferred stock	200,000

The 2014 rate of return on common stockholders' equity is

a. 25.0%.
b. 22.5%.
c. 27.0%.
d. 33.8%.

Ans: a, LO: 3, Bloom: AP, Difficulty: Hard, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: ($270,000 – $70,000) / ($1,000,000 – $200,000) = 25%

130. The return on common stockholders' equity is computed by dividing

a. net income by ending common stockholders' equity.
b. net income by average common stockholders' equity.
c. net income minus preferred dividends by ending common stockholders' equity.
d. net income minus preferred dividends by average common stockholders' equity.

Ans: d, LO: 3, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

131. Bedazzle Corporation had 440,000 shares of common stock outstanding during the year. Norman declared and paid cash dividends of $400,000 on the common stock and $320,000 on the preferred stock. Net income for the year was $1,760,000. What is Bedazzle's earnings per share?

a. $3.09
b. $4.00
c. $3.27
d. $2.36

Ans: c, LO: 5, Bloom: AP, Difficulty: Hard, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: ($1,760,000 – $320,000) / 440,000 = $3.27

132. When a corporation has both preferred and common stock outstanding, earnings per share is computed by dividing net income

a. by ending common shares outstanding.
b. by weighted average common shares outstanding.
c. less preferred dividends by ending common shares outstanding.
d. less preferred dividends by the weighted average of common shares outstanding.

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

133. In determining earnings per share, dividends for the current year on noncumulative preferred stock should be

a. disregarded.
b. added back to net income whether declared or not.
c. deducted from net income only if declared.
d. deducted from net income whether declared or not.

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

134. Reserves include each of the following **except**
   a. other comprehensive income items.
   b. revaluation surplus.
   c. share premium.
   d. unrealized gains on available-for-sale securities.

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

135. Previously issued financial statements with errors are required to be restated under
   a. GAAP only.
   b. IFRS only.
   c. Both GAAP and IFRS.
   d. Neither GAAP or IFRS.

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

136. The accounting is essentially the same under IFRS and GAAP for
   a. prior period adjustments.
   b. revaluation surplus.
   c. treasury stock.
   d. All of the answer choices are correct.

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

137. The income statement using IFRS is called the statement of
   a. profit and loss.
   b. financial position.
   c. earnings.
   d. comprehensive income.

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

138. A statement of comprehensive income is presented in
   a. a single-statement format only.
   b. a two-statement format only.
   c. an operating format.
   d. either a one- or two-statement format.

IFRS Ans: d, LO: 6, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Analytic, 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.
31.	b	47.	d	63.	b	79.	c	95.	c	111.	b	127.	d
32.	c	48.	b	64.	a	80.	a	96.	d	112.	b	128.	c
33.	b	49.	b	65.	d	81.	a	97.	c	113.	c	129.	a
34.	d	50.	a	66.	c	82.	c	98.	c	114.	b	130.	d
35.	a	51.	c	67.	a	83.	b	99.	d	115.	a	131.	c
36.	c	52.	b	68.	d	84.	a	100.	c	116.	b	132.	d
37.	d	53.	c	69.	a	85.	a	101.	c	117.	d	133.	c
38.	b	54.	d	70.	d	86.	a	102.	a	118.	c	134.	c
39.	b	55.	d	71.	a	87.	d	103.	b	119.	b	135.	c
40.	d	56.	b	72.	c	88.	d	104.	c	120.	d	136.	a
41.	a	57.	b	73.	c	89.	b	105.	d	121.	b	137.	d
42.	b	58.	d	74.	d	90.	b	106.	d	122.	c	138.	d
43.	c	59.	c	75.	d	91.	c	107.	b	123.	d		
44.	d	60.	b	76.	b	92.	a	108.	b	124.	d		
45.	c	61.	d	77.	d	93.	d	109.	b	125.	a		
46.	d	62.	c	78.	d	94.	b	110.	b	126.	c		

BRIEF EXERCISES

BE 139

On November 27, the board of directors of Beth Company declared a $.60 per share dividend. The dividend is payable to shareholders of record on December 7 on December 24. Beth has 25,500 shares of $1 par common stock outstanding at November 27. Journalize the entries needed on the declaration and payment dates.

Ans: N/A, LO: 1, Bloom: AP, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 139 (4 min.)

Nov. 27	Cash Dividends	15,300	
	Dividends Payable		15,300
Dec. 24	Dividends Payable	15,300	
	Cash		15,300

BE 140

On October 10, the board of directors of Pinto Corporation declared a 10% stock dividend. On October 10, the company had 10,000 shares of $1 par common stock issued and outstanding with a market price of $16 per share. The stock dividend will be distributed on October 31 to shareholders of record on October 25. Journalize the entries needed for the declaration and distribution of the stock dividend.

Ans: N/A, LO: 1, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 140 (5 min.)
Number of shares to be issued: 1,000 shares (small stock dividend)

Oct. 10	Stock Dividends (1,000 × $16)	16,000	
	Common Stock Dividends Distributable		1,000
	Paid in Capital in Excess of Par		15,000
Oct. 31	Common Stock Dividends Distributable	1,000	
	Common Stock		1,000

BE 141
Farber Company has 24,000 shares of $1 par common stock issued and outstanding. The company also has 2,000 shares of $100 par 4% cumulative preferred stock outstanding. The company did not pay the preferred dividends in 2013 or 2014. What amount of dividends must the company pay the preferred shareholders in 2015 if they wish to pay the common stockholders a dividend?

Ans: N/A, LO: 1, Bloom: AP, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 141 (4 min.)
Annual preferred dividend: 2,000 × $100 × 4% = $8,000

Dividends for 2013, 2014 and 2015: $8,000 × 3 = $24,000

BE 142
On November 1, 2012, Nixon Corporation's stockholders' equity section is as follows:

Common stock, $10 par value	$600,000
Paid-in capital in excess of par	180,000
Retained earnings	200,000
Total stockholders' equity	$980,000

On November 1, Nixon declares and distributes an 18% stock dividend when the market value of the stock is $14 per share.

Instructions
Indicate the balances in the stockholders' equity accounts after the stock dividend has been distributed.

Ans: N/A, LO: 1, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 142 (5 min.)

Common Stock	$708,000*
Paid-in Capital in Excess of Par	223,200**
Retained Earnings	48,800***
Total Stockholders' Equity	$980,000

*$600,000 + (60,000 × .18 × $10)
**$180,000 + (60,000 × .18 × $4)
***$200,000 – (60,000 × .18 × $14)

BE 143

Match each item/event pair below with the indicated change in the item. An individual classification may be used more than once, or not at all. For each dividend, assume that both declaration and payment or distribution has occurred.

Classifications

A. Item increases
B. Item decreases
C. Item is unchanged
D. Direction of change cannot be determined

		Item	*Event*
____	1.	Par value per share	Stock split
____	2.	Total retained earnings	Stock dividend
____	3.	Total stockholders' equity	Prior period adjustment increases last year's net income
____	4.	Earnings per common share	Restriction of retained Earnings
____	5.	Total retained earnings	Cash dividend
____	6.	Total paid-in capital	Stock dividend

Ans: N/A, LO: 1, Bloom: C, Difficulty: Easy, Min: 3, AACSB: Analytic, AICPA BB: Industry/Sector, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 143 (3 min.)

1. B	4. C
2 B	5. B
3. A	6. A

BE 144

Identify which of the following items would be reported as additions (A) or deductions (D) in a Retained Earnings Statement.

1. Net Income
2. Net Loss
3. Cash Dividends
4. Stock Dividends
5. Prior period adjustments to correct for overstatement of prior years' net income
6. Prior period adjustments to correct for understatement of prior years' net income

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 3, AACSB: Analytic, AICPA BB: Industry/Sector, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 144 (3 min.)

1. A	4. D
2. D	5. D
3. D	6. A

BE 145

The balance in retained earnings on January 1, 2014, for Hotel Plaza Inc., was $575,000. During the year, the corporation paid cash dividends of $70,000 and distributed a stock dividend of $15,000. In addition, the company determined that it had overstated its depreciation expense in prior years by $50,000. Net income for 2014 was $120,000.

Instructions

Prepare the retained earnings statement for 2014.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 145 (5 min.)

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

Balance, January 1 as reported		$575,000
Correction for understatement of net income in prior period (depreciation expense error)		50,000
Balance, January 1, as adjusted		625,000
Add: Net income		120,000
		745,000
Less: Cash dividends	$70,000	
Stock dividend	15,000	85,000
Balance, December 31		$660,000

BE 146

The following information is available for Evans Corporation:

	2015	2014
Average common stockholders' equity	$1,500,000	$1,000,000
Average total stockholders' equity	2,000,000	1,500,000
Common dividends declared and paid	72,000	50,000
Preferred dividends declared and paid	30,000	30,000
Net income	350,000	300,000

Instructions

Compute the return on common stockholders' equity ratio for both years. Briefly comment on your findings.

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analytic, AICPA BB: Industry/Sector, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 146 (5 min.)

	2014	2015
Return on common stockholders' equity ratio:	$\frac{\$300,000 - \$30,000}{\$1,000,000} = \underline{\underline{27\%}}$	$\frac{\$350,000 - \$30,000}{\$1,500,000} = \underline{\underline{21.3\%}}$

Evans' return on common stockholders' equity ratio decreased approximately 5.7% during 2015. Evans' earnings increased during 2015 by 16.7%, but its average common stockholders' equity increased by 50%, causing the return on common stockholders' equity to decline by 5.7%.

BE 147
The following information is available for Westglow Corporation for the year ended December 31, 2014:

Corrected overstatement of 2013 depreciation expense	$ 15,000
Cost of goods sold	700,000
Declared cash dividends	50,000
Operating expenses	170,000
Other expenses and losses	40,000
Other revenues and gains	50,000
Sales revenue	1,200,000
Tax rate	40%

Instructions
Prepare a corporate income statement in good form.

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 147 (5 min.)

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

Sales revenue		$1,200,000
Cost of goods sold		700,000
Gross profit		500,000
Operating expenses		170,000
Income from operations		330,000
Other revenues and gains	$50,000	
Other expenses and losses	40,000	10,000
Income before income taxes		340,000
Income tax expense ($340,000 × 40%)		136,000
Net Income		$ 204,000

EXERCISES

Ex. 148
The stockholders' equity section of Echota Corporation at December 31, 2013, included the following:

5% preferred stock, $100 par value, cumulative, 10,000 shares authorized, 8,000 shares issued and outstanding	$ 800,000
Common stock, $10 par value, 250,000 shares authorized, 200,000 shares issued and outstanding	$2,000,000

Dividends were not declared on the preferred stock in 2013 and are in arrears.

On September 15, 2014, the board of directors of Echota Corporation declared dividends on the preferred stock for 2013 and 2014, to stockholders of record on October 1, 2014, payable on October 15, 2014.

On November 1, 2014, the board of directors declared a $.75 per share dividend on the common stock, payable November 30, 2014, to stockholders of record on November 15, 2014.

Instructions
Prepare the journal entries that should be made by Echota Corporation on the dates indicated below:

September 15, 2014	November 1, 2014
October 1, 2014	November 15, 2014
October 15, 2014	November 30, 2014

Ans: N/A, LO: 1, Bloom: AP, Difficulty: Medium, Min: 12, AACSB: Analytic, AICPA BB: Industry/Sector, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 148 (12–15 min.)

9/15/14	Cash Dividends ($800,000 × .05 × 2).................................	80,000	
	Dividends Payable		80,000
	(To record declaration of dividends in arrears and the current year's preferred dividend)		
10/1/14	(No entry required.)		
10/15/14	Dividends Payable..	80,000	
	Cash		80,000
	(To record payment of cash preferred dividend)		
11/1/14	Cash Dividends	150,000	
	Dividends Payable		150,000
	(To record declaration of cash dividend on common stock)		
11/15/14	(No entry required.)		
11/30/14	Dividends Payable..	150,000	
	Cash		150,000
	(To record payment of common cash dividends)		

Ex. 149

Chetola Corporation has 120,000 shares of $5 par value common stock outstanding. It declared a 15% stock dividend on June 1 when the market price per share was $13. The shares were issued on June 30.

Instructions

Prepare the necessary entries for the declaration and payment of the stock dividend.

Ans: N/A, LO: 1, Bloom: AP, Difficulty: Medium, Min: 6, AACSB: Analytic, AICPA BB: Industry/Sector, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 149 (6–8 min.)

June 1	Stock Dividends (120,000 × .15 × $13)	234,000	
	Common Stock Dividends Distributable		90,000
	Paid-in Capital in Excess of Par		144,000
June 30	Common Stock Dividends Distributable	90,000	
	Common Stock		90,000

Ex. 150

Juno Corporation's stockholders' equity section at December 31, 2013 appears below:

Stockholders' equity		
Paid-in capital		
Common stock, $10 par, 60,000 outstanding	$600,000	
Paid-in capital in excess of par	150,000	
Total paid-in capital		$750,000
Retained earnings		150,000
Total stockholders' equity		$900,000

On June 30, 2014, the board of directors of Juno Corporation declared a 20% stock dividend, payable on July 31, 2014, to stockholders of record on July 15, 2014. The fair value of Juno Corporation's stock on June 30, 2014, was $15.

On December 1, 2014, the board of directors declared a 2 for 1 stock split effective December 15, 2014. Juno Corporation's stock was selling for $20 on December 1, 2014, before the stock split was declared. Par value of the stock was adjusted. Net income for 2014 was $190,000 and there were no cash dividends declared.

Instructions

(a) Prepare the journal entries on the appropriate dates to record the stock dividend and the stock split.

(b) Fill in the amount that would appear in the stockholders' equity section for Juno Corporation at December 31, 2014, for the following items:

1. Common stock $____________
2. Number of shares outstanding ____________
3. Par value per share $____________
4. Paid-in capital in excess of par $____________
5. Retained earnings $____________
6. Total stockholders' equity $____________

Ans: N/A, LO: 1, Bloom: AP, Difficulty: Medium, Min: 12, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 150 (12–16 min.)

(a)	6/30/14	Stock Dividends	180,000	
		Common Stock Dividends Distributable		120,000
		Paid-in Capital in Excess of Par		60,000
		(To record declaration of 20% stock dividend, 60,000 × 20% = 12,000 × $15 = $180,000)		
	7/15/14	(No entry required.)		
	7/31/14	Common Stock Dividends Distributable	120,000	
		Common Stock		120,000
		(To record issuance of 12,000 shares in a stock dividend)		
	12/1/14	(No entry required.)		
	12/15/14	Memo: 144,000 common shares outstanding $5 par value.		

(b)

1.	Common stock	$ 720,000
2.	Number of shares outstanding	144,000
3.	Par value per share	$ 5
4.	Paid-in capital in excess of par	$ 210,000
5.	Retained earnings	$ 160,000
6.	Total stockholders' equity	$1,090,000

Ex. 151

Timber Ridge Corporation was organized on January 1, 2013. During its first year, the corporation issued 40,000 shares of $5 par value preferred stock and 400,000 shares of $1 par value common stock. At December 31, the company declared the following cash dividends:

2013	$ 8,000
2014	$30,000
2015	$70,000

Instructions

(a) Show the allocation of dividends to each class of stock, assuming the preferred stock dividend is 5% and not cumulative.

(b) Show the allocation of dividends to each class of stock, assuming the preferred stock dividend is 6% and cumulative.

(c) Journalize the declaration of the cash dividend at December 31, 2015 using the assumption of part (b).

Ans: N/A, LO: 1, Bloom: AP, Difficulty: Hard, Min: 12, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 151 (12–17 min.)

(a)

	Preferred	Common	Total
2013	$ 8,000	$ -0-	$ 8,000
2014	10,000	20,000	30,000
2015	10,000	60,000	70,000

(b)

	Preferred	Common	Total
2013	$ 8,000	$ -0-	$ 8,000
2014	16,000	14,000	30,000
2015	12,000	58,000	70,000

(c)

Cash Dividends	70,000	
Preferred Dividends Payable		12,000
Common Dividends Payable		58,000

Ex. 152

On November 1, 2014, Taxton Corporation's stockholders' equity section is as follows:

Common stock, $10 par value	$ 600,000
Paid-in capital in excess of par	205,000
Retained earnings	240,000
Total stockholders' equity	$1,045,000

On November 1, Taxton declares and distributes a 15% stock dividend when the market value of the stock is $13 per share.

Instructions

Indicate the balances in the stockholders' equity accounts after the stock dividend has been distributed.

Ans: N/A, LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 152 (3–5 min.)

Common Stock	$ 690,000
Paid-in Capital in Excess of Par	232,000
Retained Earnings	123,000
Total Stockholders' Equity	$1,045,000

Ex. 153

During 2014, Red Dragon Corporation had the following transactions and events:

1. Issued par value preferred stock for cash at par value.
2. Issued par value common stock for cash at an amount greater than par value.
3. Completed a 2 for 1 stock split in which the $10 par value common stock was changed to $5 par value stock.
4. Declared a small stock dividend when the market value was higher than the par value.
5. Declared a cash dividend.
6. Made a prior period adjustment for understatement of net income.
7. Issued par value common stock for cash at par value.
8. Paid the cash dividend.
9. Issued the shares of common stock required by the stock dividend declaration in 4. above.

Instructions
Indicate the effect(s) of each of the foregoing items on the subdivisions of stockholders' equity. Present your answers in tabular form with the following columns. Use (I) for increase, (D) for decrease, and (NE) for no effect.

	Paid-in Capital		
Item	Capital Stock	Additional Paid-in Capital	Retained Earnings

Ans: N/A, LO: 1, 2, 3, Bloom: C, Difficulty: Medium, Min: 9, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 153 (9–13 min.)

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

Ex. 154
The following information is available for Blowing Rock Corporation:

Common Stock ($5 par)	$1,600,000
Retained Earnings	1,200,000

A 18% stock dividend is declared and paid when the market value was $16 per share.

Instructions
Compute each of the following after the stock dividend.
(a) Total stockholders' equity.
(b) Number of shares outstanding.

Ans: N/A, LO: 1, Bloom: AP, Difficulty: Hard, Min: 6, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 154 (6–8 min.)
(a) Total stockholders' equity = $2,800,000 ($1,600,000 + $1,200,000)*
*or ($1,600,000 × 118%) + [($16 – $5) × 57,600] + [$1,200,000 – (57,600 × $16)]

(b) Number of shares outstanding = 377,600
[($1,600,000 ÷ $5) × 118%]

Ex. 155

On January 1, 2014, Raleish Corporation had $2,000,000 of $10 par value common stock outstanding that was issued at par and retained earnings of $1,000,000. The company issued 200,000 shares of common stock at $12 per share on July 1. On December 15, the board of directors declared a 15% stock dividend to stockholders of record on December 31, 2014, payable on January 15, 2015. The market value of Raleish Corporation stock was $15 per share on December 15 and $16 per share on December 31. Net income for 2014 was $500,000.

Instructions

(1) Journalize the issuance of stock on July 1 and the declaration of the stock dividend on December 15.

(2) Prepare the stockholders' equity section of the balance sheet for Raleish Corporation at December 31, 2014.

Ans: N/A, LO: 1, 3, Bloom: AP, Difficulty: Hard, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 155 (10–15 min.)

(1)	July	1	Cash	2,400,000	
			Common Stock		2,000,000
			Paid-in Capital in Excess of Par		400,000
	Dec.	15	Stock Dividends (60,000 × $15/sh)	900,000	
			Common Stock Dividends Distributable		600,000
			Paid-in Capital in Excess of Par		300,000

($2,000,000 ÷ $10 = 200,000 + 200,000 = 400,000 shares × .15 = 60,000 shares)

(2) Stockholders' equity

Paid-in capital	
Capital stock	
Common stock, $10 par value, 400,000 shares issued and outstanding	$4,000,000
Common stock dividends distributable	600,000
Total capital stock	4,600,000
Additional paid-in capital in excess of par	700,000
Total paid-in capital	5,300,000
Retained earnings	600,000
Total stockholders' equity	$5,900,000

Ex. 156

On January 1, 2014, Triad Corporation had 60,000 shares of $1 par value common stock issued and outstanding. During the year, the following transactions occurred:

Mar.	1	Issued 25,000 shares of common stock for $550,000.
June	1	Declared a cash dividend of $2.00 per share to stockholders of record on June 15.
June	30	Paid the $2.00 cash dividend.
Dec.	1	Purchased 5,000 shares of common stock for the treasury for $22 per share.
Dec.	15	Declared a cash dividend on outstanding shares of $2.25 per share to stockholders of record on December 31.

Instructions
Prepare journal entries to record the above transactions.

Ans: N/A, LO: 1, Bloom: AP, Difficulty: Medium, Min: 12, AACSB: Analytic, AICPA BB: Industry/Sector, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 156 (12–17 min.)

Mar. 1	Cash	550,000	
	Common Stock		25,000
	Paid-in Capital in Excess of Par		525,000
June 1	Cash Dividends	170,000	
	Dividends Payable		170,000
	(85,000 × $2 = $170,000)		
June 30	Dividends Payable	170,000	
	Cash		170,000
Dec. 1	Treasury Stock	110,000	
	Cash		110,000
Dec. 15	Cash Dividends (80,000 × $2.25)	180,000	
	Dividends Payable		180,000

Ex. 157
Record the following transactions for Tri-State Corporation on the dates indicated.

1. On March 31, 2014, Tri-State Corporation discovered that Depreciation Expense on equipment for the year ended December 31, 2013, had been recorded twice, for a total amount of $84,000 instead of the correct amount of $42,000.
2. On June 30, 2014, the company's internal auditors discovered that the April 2014 telephone bill for $3,700 had erroneously been charged to the Interest Expense account.
3. On August 14, 2014, cash dividends on preferred stock of $150,000 declared on July 1, 2014, were paid.

Ans: N/A, LO: 2, Bloom: AN, Difficulty: Medium, Min: 8, AACSB: Analytic, AICPA BB: Industry/Sector, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 157 (8–12 min.)

1. March 31, 2014

Accumulated Depreciation—Equipment	42,000	
Retained Earnings		42,000
(To adjust depreciation error in a prior period)		

2. June 30, 2014

Utilities Expense	3,700	
Interest Expense		3,700
(To correct current period error)		

3. August 14, 2014

Dividends Payable	150,000	
Cash		150,000
(To record payment of preferred dividends)		

Ex. 158
The following information is available for Xavier Corporation:

Retained Earnings, December 31, 2014	$1,500,000
Net Income for the year ended December 31, 2015	$ 200,000

The company accountant, in preparing financial statements for the year ending December 31, 2015, has discovered the following information:

The company's previous bookkeeper, who has been fired, had recorded depreciation expense on equipment in 2013 and 2014 using the double-declining-balance method of depreciation. The bookkeeper neglected to use the straight-line method of depreciation which is the company's policy. The cumulative effects of the error on prior years was $25,000, ignoring income taxes. Depreciation was computed by the straight-line method in 2015.

Instructions
(a) Prepare the entry for the prior period adjustment.
(b) Prepare the retained earnings statement for 2015.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Hard, Min: 12, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 158 (12–15 min.)

(a)	Accumulated Depreciation—Equipment	25,000	
	Retained Earnings		25,000
	(To adjust for depreciation error in prior periods)		

(b)

XAVIER CORPORATION
Retained Earnings Statement
For the Year Ended December 31, 2015

Balance January 1, as reported	$1,500,000
Correction for overstatement of depreciation in prior period	25,000
Balance, January 1, as adjusted	1,525,000
Add: Net income	200,000
Balance, December 31	$1,725,000

Ex. 159
The following information is available for Grey Goose Inc.:

Beginning retained earnings	$600,000
Cash dividends declared	60,000
Net income for 2014	120,000
Stock dividend declared	15,000
Understatement of last year's depreciation expense	30,000

Instructions
Based on the preceding information, prepare a retained earnings statement for 2014.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Hard, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 159 (10 min.)

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

Beginning balance			$600,000
Correction for overstatement of 2013 net income			(30,000)
Beginning balance, as adjusted			570,000
Add:	Net income		120,000
			690,000
Less:	Cash dividends	$60,000	
	Stock dividends	15,000	75,000
Ending balance			$615,000

Ex. 160

Wando Company reported retained earnings at December 31, 2013, of $410,000. Wando had 160,000 shares of common stock outstanding throughout 2014.

The following transactions occurred during 2014.

1. An error was discovered in the 2012 accounting records, depreciation expense was recorded at $60,000, but the correct amount was $50,000.
2. A cash dividend of $0.50 per share was declared and paid.
3. A 5% stock dividend was declared and distributed when the market price per share was $15 per share.
4. Net income was $225,000.

Instructions

Prepare a retained earnings statement for 2014.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Hard, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 160

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

Balance, January 1, as reported			$410,000
Correction for understatement of 2012 net income			10,000
Balance, January 1, as adjusted			420,000
Add:	Net income		225,000
			645,000
Less:	Cash dividends	$80,000[1]	
	Stock dividends	120,000[2]	(200,000)
Balance, December, 31			$445,000

[1](160,000 X $.50/sh) [2](160,000 X .05 X $15/sh)

Ex. 161
Tortola Company reported the following balances at December 31, 2013: common stock $500,000; paid-in capital in excess of par value $100,000; retained earnings $250,000. During 2014, the following transactions affected stockholders' equity.

1. Issued preferred stock with a par value of $150,000 for $200,000.
2. Purchased treasury stock (common) for $40,000.
3. Earned net income of $140,000.
4. Declared and paid cash dividends of $75,000.

Instructions
Prepare the stockholders' equity section of Tortola Company's December 31, 2014, balance sheet.

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Hard, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 161

TORTOLA COMPANY
Balance Sheet (Partial)
December 31, 2014

Paid-in capital			
Capital stock			
Preferred stock		$150,000	
Common stock		500,000	
Total capital stock			$ 650,000
Additional paid-in capital			
In excess of par–preferred stock	$ 50,000		
In excess of par–common stock	100,000		
Total additional paid-in capital			150,000
Total paid-in capital			800,000
Retained earnings			315,000*
Total paid-in capital and retained earnings			1,115,000
Less treasury stock–common			(40,000)
Total stockholder's equity			$1,075,000

*$250,000 + $140,000 – $75,000

Ex. 162
On January 1, 2014, Lundy Corporation had Retained Earnings of $400,000. During the year, Lundy had the following selected transactions:
1. Declared stock dividends of $50,000.
2. Declared cash dividends of $90,000.
3. A 2 for 1 stock split involving the issuance of 200,000 shares of $5 par value common stock for 100,000 shares of $10 par value common stock.
4. Suffered a net loss of $70,000.
5. Corrected understatement of 2013 net income because of an inventory error of $48,000.

Instructions
Prepare a retained earnings statement for the year.

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Hard, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 162 (15 min.)

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

Balance, January 1, as reported		$400,000
Correction for understatement of 2013 net income (inventory error)		48,000
Balance, January 1, as adjusted		448,000
Less: Net loss		(70,000)
		378,000
Less: Cash dividends	$90,000	
Stock dividends	50,000	(140,000)
Balance, December 31		$238,000

Ex. 163

The following accounts appear in the ledger of Rowlands Inc. after the books are closed at December 31, 2014.

Common Stock, $1 par value, 500,000 shares authorized, 400,000 shares issued	$400,000
Common Stock Dividends Distributable	60,000
Paid-in Capital in Excess of Par—Common Stock	650,000
Preferred Stock, $100 par value, 6%, 10,000 shares authorized; 2,000 shares issued	200,000
Retained Earnings	920,000
Treasury Stock (10,000 common shares)	85,000
Paid-in Capital in Excess of Par—Preferred Stock	310,000

Instructions

Prepare the stockholders' equity section at December 31, 2014, assuming that retained earnings is restricted for plant expansion in the amount of $200,000.

Ans: N/A, LO: 3, Bloom: APP, Difficulty: Hard, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 163 (15–20 min.)

ROWLANDS INC.
December 31, 2014

Stockholders' equity		
Paid-in capital		
Capital stock		
6% preferred stock, $100 par value, 10,000 shares authorized, 2,000 shares issued		$ 200,000
Common stock, $1 par value, 500,000 shares authorized, 400,000 shares issued, 390,000 shares outstanding	$400,000	
Common stock dividends distributable	60,000	460,000
Total capital stock		660,000
Additional paid-in capital		
In excess of par—preferred	310,000	
In excess of par—common	650,000	
Total additional paid-in capital		960,000
Total paid-in capital		1,620,000
Retained earnings (See note)		920,000
Total paid-in capital and retained earnings		2,540,000
Less: Treasury stock		(85,000)
Total stockholders' equity		$2,455,000

Note: Retained earnings is restricted in the amount of $200,000 for plant expansion.

Ex. 164

The following information is available for Richmond Hill Corporation:

Beginning common stockholders' equity	$700,000
Dividends paid to common stockholders	50,000
Dividends paid to preferred stockholders	30,000
Ending common stockholders' equity	1,000,000
Net income	200,000

Instructions

Based on the preceding information, calculate return on common stockholders' equity.

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 164 (4 min.)

$$\text{Return on common stockholders' equity} = \frac{\$200,000 - \$30,000}{\$850,000^*} = .20$$

*($700,000 + $1,000,000) ÷ 2

Ex. 165

In 2014, Spanish Fort Corporation had net sales of $500,000 and cost of goods sold of $300,000. Operating expenses were $93,000, and interest expense was $7,500. The corporation's tax rate is 30%. The corporation declared preferred dividends of $7,000 in 2014, and its average common stockholders' equity during the year was $500,000.

Instructions

(a) Prepare an income statement for Spanish Fort Corporation.
(b) Compute Tubb Corporation's return on common stockholders' equity for 2014.

Ans: N/A, LO: 3, 4, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 165 (9 min.)

(a)

SPANISH FORT CORPORATION
Income Statement
For the Year Ended December 31, 2014

Net sales	$500,000
Cost of goods sold	300,000
Gross profit	200,000
Operating expenses	93,000
Income from operations	107,000
Interest expense	7,500
Income before income taxes	99,500
Income tax expense (30% × $99,500)	29,850
Net income	$ 69,650

(b) $\dfrac{\text{Net income - preferred dividends}}{\text{Average common stockholders' equity}} = \dfrac{\$69,650 - \$7,000}{\$500,000} = 12.53\%$

Ex. 166

The following financial information is available for Makoto Corporation.

	2014	2013
Average common stockholders' equity	$1,600,000	$1,200,000
Dividends paid to common stockholders	50,000	30,000
Dividends paid to preferred stockholders	20,000	20,000
Net income	260,000	182,000

The weighted average number of shares of common stock outstanding was 80,000 for 2013 and 100,000 for 2014.

Instructions

Calculate earnings per share and return on common stockholders' equity for 2014 and 2013.

Ans: N/A, LO: 3, 5, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 166 (8 min.)

	2014	2013
Earnings per share	$\frac{\$260,000-\$20,000}{100,000}$ = \$2.40	$\frac{\$182,000-\$20,000}{80,000}$ = \$2.03
Return on common stockholders' equity	$\frac{\$260,000-\$20,000}{\$1,600,000}$ = 15%	$\frac{\$182,000-\$20,000}{\$1,200,000}$ = 13.5%

Ex. 167

The following information is available for Rubio Corporation for the year ended December 31, 2014: Sales $900,000; Other revenues and gains $72,000; Operating expenses $110,000; Cost of goods sold $520,000; Other expenses and losses $32,000; Preferred stock dividends $30,000. The company's tax rate was 20%, and it had 40,000 shares outstanding during the entire year.

Instructions

(a) Prepare a corporate income statement.
(b) Calculate earnings per share.

Ans: N/A, LO: 4, 5, Bloom: AP, Difficulty: Hard, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 167 (9 min.)

(a)

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

Sales revenue		$900,000
Cost of goods sold		520,000
Gross profit		380,000
Operating expenses		110,000
Income from operations		270,000
Other revenues and gains	$ 72,000	
Other expenses and losses	(32,000)	40,000
Income before income taxes		310,000
Income tax expense ($310,000 × 20%)		62,000
Net income		$248,000

(b) Earnings per share = $5.45, or [($248,000 - $30,000) ÷ 40,000]

Ex. 168

Prepare a 2014 income statement for Shanta Corporation based on the following information:

Cost of goods sold	$490,000
Operating expenses	100,000
Other expenses and losses	30,000
Sales revenue	700,000
Tax rate	30%

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Hard, Min: 7, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 168 (7–10 min.)

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

Sales revenue	$700,000
Cost of goods sold	490,000
Gross profit	210,000
Operating expenses	100,000
Income from operations	110,000
Other expenses and losses	(30,000)
Income before income taxes	80,000
Income tax expense ($80,000 × .30)	24,000
Net income	$56,000

Ex. 169
Santos Corporation gathered the following information for the fiscal year ended December 31, 2014:

Sales	$1,500,000
Operating expenses	160,000
Cost of goods sold	960,000
Loss on disposal of equipment	40,000

Santos Corporation is subject to a 30% income tax rate.

Instructions
Prepare a partial income statement, beginning with income from operations.

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

Solution 169 (6–8 min.)

SANTOS CORPORATION
Partial Income Statement
For the Fiscal Year Ended December 31, 2014

Income from operations ($1,500,000 – $960,000 – $160,000)	$380,000
Loss on disposal of equipment	40,000
Income before income taxes	340,000
Income tax expense ($340,000 × 30%)	102,000
Net income	$238,000

Ex. 170

At December 31, 2014, Florrict Company has $500,000 of $100 par value, 6%, cumulative preferred stock outstanding and $2,000,000 of $10 par value common stock issued. Florrict's net income for the year is $410,000.

Instructions

Compute earnings per share of common stock for 2014 under the following independent situations. (Round to two decimals.)

(a) The dividend to preferred stockholders was declared, and there has been no change in the number of shares of common stock outstanding during the year.

(b) The dividend to preferred stockholders was not declared, and 10,000 shares of common treasury stock were held throughout the year. The preferred stock is cumulative.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 9, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 170 (9–12 min.)

(a) ($410,000 – $30,000) ÷ 200,000 = $1.90

(b) ($410,000 – $30,000) ÷ 190,000 = $2.00
200,000 – 10,000 = 190,000

(Dividends on preferred stock that are cumulative must be deducted in the numerator, even if not declared.)

Ex. 171

The following information is available for Hildebrand Corporation:

Dividends paid to common stockholders	$ 45,000
Dividends paid to preferred stockholders	20,000
Net income	295,000
Weighted average common shares outstanding	100,000

Instructions

Compute the earnings per share of common stock.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 171 (4 min.)

Earnings per share = $2.75 [($295,000 – $20,000) ÷ 100,000]

COMPLETION STATEMENTS

172. Three important dates associated with dividends are the: (1)__________________, (2)__________________, and (3)__________________.

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

173. The entry to record the declaration of a stock dividend increases _______________, and decreases ________________.

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

174. Both a stock split and a stock dividend will ________________ the number of shares outstanding and have ________________ on total stockholders' equity.

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

175. Corporations sometimes segregate retained earnings into two categories: (1)________________ retained earnings and (2)________________ retained earnings.

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

176. The correction of an error in previously issued financial statements is known as a ________________.

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

177. The return on ________________ shows how many dollars of net income were earned for each dollar invested by owners.

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

178. The return on common stockholders' equity is computed by dividing _____________ minus _______________ dividends by average common stockholders' equity.

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

179. Income statements for corporations report _______________ in a separate section before net income.

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

180. Earnings per share is reported only for ________________.

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

181. Earnings per share is calculated by dividing _______________ available for common stockholders by the ________________ number of common shares outstanding.

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

Answers to Completion Statements

172. declaration date, record date, payment date
173. Paid-in Capital, Retained Earnings
174. increase, no effect
175. restricted, unrestricted
176. prior period adjustment
177. common stockholders' equity
178. net income, preferred
179. income tax expense
180. common stock
181. net income, weighted-average

MATCHING

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

A.	Deficit	F.	Return on common stockholders' equity
B.	Prior period adjustment	G.	Cash dividend
C.	Liquidating dividend	H.	Declaration date
D.	Retained earnings restrictions	I.	Stock dividend
E.	Earnings per share	J.	Stock split

____ 1. A dividend declared out of paid-in capital.

____ 2. Retained earnings currently unavailable for dividends.

____ 3. The correction of an error in previously issued financial statements.

____ 4. A pro rata distribution of cash to stockholders.

____ 5. A debit balance in retained earnings.

____ 6. A pro rata distribution of the corporation's own stock to stockholders.

____ 7. Shows how many dollars of net income were earned for each dollar invested by the owners.

____ 8. The date the board of directors formally declares the dividend and announces it to stockholders.

____ 9. The issuance of additional shares of stock to stockholders accompanied by a reduction in the par or stated value per share.

____ 10. Widely used by stockholders and potential investors in evaluating the profitability of a company.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Answers to Matching

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

SHORT-ANSWER ESSAY QUESTIONS

S-A E 183
The ultimate effect of incurring an expense is to reduce stockholders' equity. The declaration of a cash dividend also reduces stockholders' equity. Explain the difference between an expense and a cash dividend and explain why they have the same effect on stockholders' equity.

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

Solution 183
An expense is the cost of assets consumed or services used in the process of earning revenue. A cash dividend is part of the net income that is distributed to the stockholders. Thus, an expense is a cost incurred to earn net income while a cash dividend is a distribution to the stockholders of the net income earned.

An expense and a cash dividend, however, both result in a decrease in stockholders' equity, or more specifically, retained earnings. Expenses and cash dividends both decrease the amount of earned capital that is retained in the corporation.

S-A E 184
A large stock dividend and stock split can frequently have the same effect on the market price of a corporation's stock. Explain how stock dividends and stock splits affect the market price of a corporation's stock.

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

Solution 184
Stock dividends and stock splits both involve the issuance of additional shares of stock to the stockholders. The market price of a corporation's stock is affected because of an increase in the stock's marketability. A small stock dividend does not result in a large increase in the number of shares outstanding and therefore will not increase the stock's marketability. Thus, a small stock dividend will have little effect on the market price per share. However, both a large stock dividend and a stock split will cause a large increase in the number of shares outstanding. This increase in the number of shares outstanding makes the stock marketable to a larger number of individuals. Consequently, the market price per share will decrease.

S-A E 185
Why must a corporation have sufficient retained earnings before it may declare cash dividends?

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

Solution 185
By definition, a dividend is the distribution of profits to the corporate owners. Accordingly, to pay a dividend that exceeds existing retained earnings is, in substance, to return a portion of the stockholders' investment and in many states is illegal. In addition, companies are frequently constrained by agreements with their lenders to pay dividends only from retained earnings.

S-A E 186

Three dates are important in connection with cash dividends. Identify these dates, and explain their significance to the corporation and its stockholders.

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

Solution 186

The declaration date is the date when the board of directors formally declares the cash dividend and announces it to stockholders. The declaration commits the corporation to a binding legal obligation that cannot be rescinded.
The record date is the date that marks the time when ownership of the outstanding shares is determined from the stockholder records maintained by the corporation. The purpose of this date is to identify the persons or entities that will receive the dividend.
The payment date is the date on which the dividend checks are mailed to the stockholders.

S-A E 187

Mike Mergenthaler asks, "Since stock dividends don't change anything, why declare them?" What is your answer to Mike?

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

Solution 187

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

S-A E 188

A prior period adjustment is occasionally reported in company financial statements. What is a prior period adjustment, and how is it reported in the financial statements?

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 188

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

S-A E 189 (Ethics)

Jason Gorni, the president and CEO of Better Earth, Inc., a waste management firm, was recently hospitalized, suffering from exhaustion and a heart ailment. Immediately prior to his hospitalization, Better Earth 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. Gomi 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. Sean Casey, 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. Better Earth has paid cash dividends every quarter for over ten years.

Required:

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

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

Solution 189

1. There is no definite answer as to whether Mr. Casey'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 (assuming 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. Common shareholders 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 common shareholders, 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 190 (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: 3, Bloom: K, Difficulty: Easy, Min: 3, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 190

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.