

CHAPTER 11

ACCOUNTING FOR EQUITY

Key Terms and Concepts to Know

Forms of business organization and ownership:

- Sole proprietorship
- Partnership
- Corporation

Corporations and the advantages of being one

- Limited liability for owners
- Unlimited life
- Separate existence from the owners
- Files and pays its own taxes
- Operates as a legal person: may enter into contracts, sue and be sued, etc.
- Disadvantage is that dividends paid to owners are taxed twice (once at the corporate level before being paid and again as income to the owner recipient)

Corporate Ownership and Capital Stock

- Capital stock is a generic term referring to all forms of stock.
- Corporate ownership is evidenced by capital stock which can be purchased directly from the issuing corporation or on a stock market such as the New York Stock Exchange.
- Transactions by a corporation in its own stock are investment transactions. As such, they do not create revenue, expense, gain or loss. They add to or reduce paid-in capital within owners' equity. Occasionally, these transactions may affect retained earnings as well.
- Authorized Shares – number of shares a corporation is legally entitled to issue
- Issued Shares – number of shares sold to stockholders
- Outstanding Shares – shares issued minus any shares reacquired by the corporation; i.e., the number of shares still owned by shareholders
- Common Stock – basic class of stock ownership with right to vote
- Preferred Stock – stock with a preferential right to dividends (preferred shareholders receive their stated dividend before common shareholders may receive a dividend)

- Cumulative Preferred Stock – stockholders have the right to receive dividends in arrears (their regular dividends passed or not paid in previous years) before common shareholders may receive a dividend.
- Par value is an arbitrary, meaningless value assigned to stock by the issuing corporation.
- Stock may also be issued as no par stock, with or without a stated value. Stated value is accounted for in the same manner as par value.

Treasury Stock

- Treasury stock is stock issued and subsequently repurchased by a corporation.
- It is held by the corporation (perhaps in its vault or treasury) for subsequent use.
- It may be resold at a price greater or less than purchase cost.

Dividends

- Dividends are income to the recipient in the period received; however they are not an expense to the corporation that pays them.
- Dividends and interest differ in a number of ways:
 - Dividends are paid at the discretion of the company whereas interest is required to be paid under the terms of the debt agreement.
 - Dividends relate to ownership of the corporation whereas interest relates to debt used to finance operations.
 - Dividends are not an expense and do not appear on the income statement whereas interest paid is an expense and does appear on the income statement.
 - Interest is typically paid in cash whereas dividends are most often paid in cash but may also be distributed to owners in the form of stock.
 - In a sense, dividends are a “gift” from the corporation to its shareholders whereas interest is an obligation of the debtor.
- Dividends on common stock are declared and paid at the discretion of the corporation’s board of directors. If the board does not declare a dividend for accounting period, the common shareholders do not have the right to ask for that dividend to be declared and paid in a subsequent accounting period.
- Dividends on common stock are declared and paid at the discretion of the corporation’s board of directors. If the board does not declare a dividend for accounting period, the preferred shareholders do not have the right to ask for that dividend to be declared and paid in a subsequent accounting period.
- However, dividends on preferred stock can be much more complex:
 - Preferred stock dividends may be cumulative, meaning that the rights to receive undeclared dividends accumulate “in arrears” until the next time the board declares a dividend. Then the preferred shareholders receive up to the total of the dividends in arrears plus the current period’s dividends before the common shareholder receive any dividends.
 - Preferred stock dividends may be participating, meaning that the preferred shareholders receive their current period dividends first and then share any

remaining dividends declared with the common shareholders. That is, they “double dip” on dividends.

- There are four basic steps to distribute dividends and calculate dividends per share:
 - If there is outstanding cumulative preferred stock, distribute dividends in arrears followed by the current year’s dividend to preferred shareholders.
 - If there is outstanding non-cumulative preferred stock, distribute the current year’s dividend to preferred shareholders.
 - Distribute the remaining dividends, if any, to common stockholders.
 - Divide by the respective number of shares to obtain dividends per share

Key Topics to Know

Transactions to Issue Stock

The value of the common or preferred stock issued is based on the market value given or received, whichever is more reliable. If stock is issued for cash, then the cash received dictates market value. If the stock is issued in exchange for non-cash assets, then either the market value of the assets or the market value of the stock may be used to value the transaction, whichever has the more reliable evidence of market value.

The stock account is always credited for shares issued x par value. Any difference between the total par value of the shares issued and market value is credited to a separate account, Paid-in Capital in Excess of Par. Cash or the non-cash asset account is debited. These entries apply to common or preferred stock. The only difference is that Preferred is substituted for Common in the account names.

The general form of the journal entry to issue capital stock is:

Cash	<i>shares issued x market price</i>	xxx	
	Common stock	<i>shares issues x par</i>	xxx
	Paid-in capital in excess of par	<i>difference</i>	xxx

Example #1 and Solution #1:

Corporation X issued 5,000 shares of \$100 par common stock.

a)	Issuance of Stock at Par		
	Cash	500,000	
	Common stock		500,000
b)	Issuance of Stock at \$110 per share		
	Cash	550,000	
	Common stock		500,000
	Paid-in capital in excess of par		

Corporation X issued 5,000 shares of no par common stock with \$100 stated value

c) Issuance of Stock at stated value			
Cash	500,000		
Common stock			500,000
d) Issuance of Stock at \$110 per share			
Cash	550,000		
Common stock			500,000
Paid-in capital in excess of stated value			50,000

Corporation X issued 5,000 shares of no par common stock

e) Issuance of Stock at \$100 per share			
Cash	500,000		
Common stock			500,000
f) Issuance of Stock at \$110 per share			
Cash	550,000		
Common stock			550,000

Treasury Stock Transactions

Treasury stock transactions are investment transactions and, as such, affect only the balance sheet and have no effect on the income statement. Treasury stock is a contra-equity account and is deducted at the end of the owners' equity section.

Example #2 and Solution #2:

Company X purchased 200 shares of its own \$100 par common stock for \$105. The stock was subsequently sold in three transactions: 100 shares at \$112, 50 shares at \$96 and 50 shares at \$92.

g) Purchase of treasury stock			
Treasury stock	21,000		
Cash			21,000
h) Sale of 100 shares at \$112 per share			
Cash	11,200		
Treasury stock			10,500
Paid-in capital-treasury stock			700

i) Sale of 50 shares at \$96 per share		
Cash	4,800	
Treasury stock		5,250
Paid-in capital-treasury stock	450	
j) Sale of 50 shares at \$92 per share		
Cash	4,600	
Treasury stock		5,250
Paid-in capital-treasury stock	250	
Retained earnings	400	
<i>Retained earnings is debited for the remainder because the paid-in capital-treasury stock account has been reduced to zero.</i>		

Practice Problem #1:

The following selected accounts appear in the ledger of Cyma Environmental Corporation on January 1, 2003.

Preferred 4% Stock, \$100 par (10,000 shares authorized, 8,000 shares issued)	\$800,000
Paid-in capital in excess of par-preferred	80,000
Common Stock, \$20 par (60,000 shares authorized, 30,000 shares issued)	600,000
Paid-in capital in excess of par-common	900,000
Retained Earnings	1,277,000

Required:

Journalize the entries to record the following transactions.

- a) Issued 20,000 shares of common stock at \$32 receiving cash.
- b) Sold 1,000 shares of preferred 4% stock at \$120.
- c) Purchased 5,000 shares of treasury common for \$220,000
- d) Sold 2,000 shares of treasury common for \$84,000
- e) Sold 1,500 shares of treasury common for \$68,500
- f) Issued 10,000 shares of common stock in exchange for Land costing \$385,000

Dividends

Dividends are payments by the corporation to its shareholders.

- Dividends are declared and paid at the discretion of the corporation.
- Dividends are declared and paid based on the number of outstanding shares of stock. The number of shares outstanding changes with each stock issuance and each purchase or sale of treasury stock.

- Dividends are never paid or distributed to treasury stock since this would amount to the corporation paying or distributing shares to itself.
- There are three important dates for dividends:
 - Date of Declaration – Journalize the entry to record cash dividends payable or shares distributable.
 - Date of Record – All stockholders on this date will receive the dividend (no entry).
 - Date of Payment – Journalize the entry to pay cash dividends to shareholders or distribute the shares of stock.

Cash Dividends

- Most dividends are declared and paid in cash on a per share basis.
- Declared and unpaid dividends represent a current liability to the corporation.

The general form of the journal entries for cash dividends is:

Date of Declaration:

Cash Dividends	xxx	
Cash Dividends Payable		xxx
<i>Outstanding shares x dividend per share</i>		

Date of Payment:

Cash Dividends Payable	xxx	
Cash		xxx

Example #3 and Solution #3:

Prior to the treasury stock transactions, Company X declared a dividend of \$.50 per share on February 15 to be paid on April 1 to shareholders of record on March 1.

Date of Declaration:

k) Cash Dividends	2,500	
Cash Dividends Payable		2,500

Date of Payment:

l) Cash Dividends Payable	2,500	
Cash		2,500

Stock Dividends

- Some dividends are declared and distributed i.e., "paid", in common stock so as to conserve the company's cash.
- Stock dividends distribute common stock rather than cash to the shareholders.
- Stock dividends do not affect total assets, total liabilities or total stockholders' equity.
- Declared and unpaid stock dividends are not a liability. They represent common stock to be distributed and are part of owners' equity.
- All of the accounts used to record stock dividends are equity accounts.
- Stock dividends capitalize a portion of retained earnings transferring it to paid-in capital. Therefore retained earnings decreases by the same amount as the total increase in common stock and paid-in capital in excess of par.
- Accounting for stock dividends differs depending on the size of the stock dividend, i.e., the percentage of outstanding shares to be distributed.
- Small stock dividends, up to 25% of the outstanding shares, are recorded by capitalizing an amount equal to the number of shares in the dividend times the current market price.
- Large stock dividends are recorded by capitalizing an amount equal to the number of shares in the dividend times the par value.

Small Stock Dividends

Small stock dividends are less than 25% of the outstanding shares.

Example #4 and Solution #4:

Prior to the treasury stock transactions, Company X declared a 10% stock dividend on May 15 to be paid on July 1 to shareholders of record on June 1. The stock price on May 15 was \$113.

Date of Declaration:

Stock Dividends <i>shares x market price</i>	56,500	
Stock Dividends Distributable <i>shares x par</i>		50,000
Paid-in capital in excess of par-common <i>difference</i>		6,500

Date of Payment:

Stock Dividends Distributable	50,000	
Common stock		50,000

Large Stock Dividends

Large stock dividends are at least 25% of the outstanding shares.

Example #5 and Solution #5:

After the small stock dividend and prior to the treasury stock transactions, Company X declared a 40% stock dividend on August 15 to be paid on October 1 to shareholders of record on September 1. The stock price on August 15 was \$118.

Date of Declaration:

Stock Dividends <i>shares x market price</i>	220,000	
Stock Dividends Distributable		220,000

Date of Payment:

Stock Dividends Distributable	220,000	
Common stock		220,000

Practice Problem #2:

Olsen Company has completed the following transactions. Journalize the entries to record the transactions.

- March 4 Purchased 5,000 shares of its own common stock at \$32, recording the stock at cost. (Prior to the purchase, there were 50,000 shares of \$20 par common stock outstanding.)
- June 3 Declared a semiannual dividend of \$1 on the 8,000 shares of preferred stock and a \$.40 dividend on the common stock to stockholders of record on June 30, payable July 15.
- July 15 Paid the cash dividends.
- Oct. 14 Sold 2,000 shares of treasury stock at \$35, receiving cash.
- Nov. 5 Declared semiannual dividends of \$1 on the preferred stock and \$.40 on the common stock (before the stock dividend). In addition, a 5% common stock dividend was declared on the common stock outstanding, to be capitalized at the fair market value of the common stock, which is estimated at \$30.
- Dec. 10 Paid the cash dividends and issued the certificates for the common stock dividend.

Preferred Stock Dividends

As explained above, preferred stock dividends can be cumulative, participating, cumulative and participating or none of the above.

Determining the proper amount of dividends for each class of stock means that preferred shareholders receive their first and then the common shareholders receive the remaining amount of dividends declared.

Example #6:

Myers Inc. has stock outstanding as follows: 20,000 shares of \$4.00 cumulative, nonparticipating preferred stock of \$100 par, and 60,000 shares of \$20 par common stock. During its first five years of operations, the following amounts were distributed as dividends: first year, none; second year, \$30,000; third year, \$150,000; fourth year, \$260,000; fifth year, \$140,000.

Required: Calculate the dividends paid and dividends per share on each class of stock.

Solution #6:

Preferred shareholders are entitled to receive \$80,000 (20,000 shares * 4.00/share) per year in dividends.

Year 1

Dividends per share are \$0 for both preferred and common stock.

Preferred Stock has \$80,000 dividends in arrears.

<u>Year 2</u>	<u>Preferred</u>	<u>Common</u>	<u>Total</u>
Shares Outstanding	20,000	60,000	
Dividends Distributed			\$30,000
Dividends Paid	\$30,000	0	30,000
Dividends per Share	\$1.50		

Dividends in Arrears:	From year 1	\$50,000	80,000 owed – 30,000 paid
	From year 2	<u>80,000</u>	
	Total	\$130,000	

<u>Year 3</u>	<u>Preferred</u>	<u>Common</u>	<u>Total</u>
Shares Outstanding	20,000	60,000	
Dividends Distributed			\$150,000
Dividends Paid	\$150,000	0	150,000
Dividends per Share	\$7.50		

Dividends in Arrears:	From year 1	\$0	50,000 in arrears – 50,000 paid
	From year 2	0	80,000 in arrears – 80,000 paid
	From year 3	<u>60,000</u>	80,000 owed – 20,000 paid
	Total	\$60,000	

<u>Year 4</u>	<u>Preferred</u>	<u>Common</u>	<u>Total</u>
Shares Outstanding	20,000	60,000	
Dividends Distributed			\$260,000
Dividends Paid	\$140,000	120,000	260,000
Dividends per Share	\$7.00	\$2.00	

Dividends in Arrears:	From year 3	\$0	60,000 in arrears – 60,000 paid
	From year 4	<u>0</u>	80,000 owed – 80,000 paid
	Total	\$0	

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<u>Year 5</u>	<u>Preferred</u>	<u>Common</u>	<u>Total</u>
Shares Outstanding	20,000	60,000	
Dividends Distributed			\$140,000
Dividends Paid	\$80,000	60,000	140,000
Dividends per Share	\$4.00	\$1.00	

Practice Problem #3

Canton, Inc. has stock outstanding as follows: 25,000 shares of \$2.00 cumulative, nonparticipating preferred stock of \$50 par, and 100,000 shares of \$25 par common. During its first five years of operations, the following amounts were distributed as dividends: first year, none; second year, \$20,000; third year, \$90,000; fourth year, \$180,000; fifth year, \$250,000.

Required:

- Calculate the dividends per share on each class of stock for each of the five years.
- Calculate the dividends per share on each class of stock for each of the five years, assuming the stock is non-cumulative.

Practice Problem #4

Selected transactions completed by Zebra Company appear below. Journalize the transactions.

Jan. 5	Split the common stock 4 for 1 and reduced the par from \$100 to \$25 per share. After the split, there were 100,000 common shares outstanding.
Feb. 20	Purchased 10,000 shares of treasury stock for \$300,000.
Mar. 12	Declared the semiannual dividends of \$4 on 20,000 shares of preferred stock and \$.50 on the outstanding common stock.
April 12	Paid the cash dividends.
June 5	Sold 5,000 shares of treasury stock at \$33, receiving cash.
Sept. 2	Declared semiannual dividends of \$4 on preferred stock, and \$.50 on common stock (before the stock dividend). In addition, a 4% common stock dividend was declared when the fair market value of the common stock was estimated at \$40.
Oct. 5	Paid the cash dividends and issued the certificates for the common stock dividend.
Dec. 12	Declared a 40% common stock dividend. The fair market value of the common stock was estimated at \$50.

Sample True / False Questions

1. Paid-in Capital is the amount stockholders have invested in the company.
True False
2. All publicly held corporations are regulated by the Securities and Exchange Commission.
True False
3. Limited liability means that even in the event of bankruptcy, stockholders in a corporation can lose no more than the amount they invested in the company.
True False
4. Authorized stock is the number of shares that have been sold to investors.
True False
5. Par value has a direct relationship to the market value of the common stock.
True False
6. The number of shares outstanding is equal to the number of shares issued minus the number of shares bought back.
True False
7. Treasury stock is the repurchase of a company's own issued stock.
True False
8. Stock repurchases reduce the number of shares outstanding, thereby increasing earnings per share.
True False
9. We record treasury stock at the cost of the shares reacquired.
True False
10. Dividends are paid on all shares issued by the company including treasury stock.
True False
11. Small stock dividends are recorded by debiting Retained Earnings for the par value per share.
True False
12. A company credits Additional Paid-in Capital for the portion of the cash proceeds above par value received for the issuance of stock.
True False

13. Cumulative preferred stock means that dividends accumulate interest during the year.
True False
14. Treasury stock is a contra-equity account since treasury stock increases total stockholders' equity.
True False
15. When treasury stock is reissued, the difference between its cost and the cash received is reported as an increase/decrease in additional paid-in capital.
True False
16. Retained earnings represent the earnings retained in the corporation - earnings not paid out as dividends to stockholders.
True False
17. Total assets, total liabilities, and total stockholders' equity do not change as a result of a stock dividend.
True False
18. Small stock dividends are recorded by debiting Retained Earnings for the par value per share.
True False
19. No journal entry is made to record a stock split.
True False
20. Earnings per share (EPS) measures the net income earned per share of common stock outstanding.
True False

Sample Multiple Choice Questions

1. Investors who are most interested in the dividend yield are those who invest for
 - a) Current income flow
 - b) Market price appreciation
 - c) Both market price appreciation and current income flow
 - d) Neither market price appreciation or current income flow

2. Organization Costs is included on the balance sheet as a(n):
 - a) Plant asset
 - b) Investment
 - c) Current asset
 - d) Intangible asset

3. Retained earnings:
 - a) is the same as contributed capital
 - b) changes are summarized in the Retained Earnings Statement
 - c) cannot have a debit balance
 - d) over time will have a direct relationship with the amount of cash on hand if the corporation is profitable.

4. The charter of a corporation provides for the issuance of 100,000 shares of common stock. Assume that 20,000 shares were originally issued and 2,500 were subsequently reacquired. What is the number of shares outstanding?
 - a) 22,500
 - b) 17,500
 - c) 20,000
 - d) 82,500

5. A Company acquired land in exchange for 5,000 shares of its \$10 par common stock. The fair market value of the land is \$63,000, it is appraised at \$60,000 and the stock is widely traded and was selling for \$12.50 per share when exchanged for the land. At what amount should the land be recorded by A Company?
 - a) \$50,000
 - b) \$62,500
 - c) \$63,000
 - d) \$60,000

6. The excess of sales price of treasury stock over its cost should be credited to:
 - a) Treasury Stock Receivable
 - b) Premium on Capital Stock
 - c) Income from Sale of Treasury Stock
 - d) Paid-In Capital from Sale of Treasury Stock

7. A corporation purchases 10,000 shares of its own \$10 par common stock for \$17.50 per share, recording it at cost. What will be the effect on total stockholders' equity?
 - a) Decrease, \$175,000
 - b) Decrease, \$100,000
 - c) Increase, \$175,000
 - d) Increase, \$100,000

8. A corporation has 25,000 shares of \$100 par value stock outstanding. If the corporation issues a 2-for-1 split or a 100% stock dividend, the number of shares outstanding after the split or dividend will be:
 - a) 25,000 shares
 - b) 50,000 shares
 - c) 75,000 shares
 - d) 100,000 shares

9. The charter of a corporation provides for the issuance of 100,000 shares of common stock. Assume that 60,000 shares were originally issued and 10,000 were subsequently reacquired. What is the amount of cash dividends to be paid if a \$1 per share dividend is declared?
 - a) \$50,000
 - b) \$100,000
 - c) \$70,000
 - d) \$60,000

10. A company with 100,000 authorized shares of \$5 par common stock issued 80,000 shares at \$7. Subsequently, the company declared a 2% stock dividend on a date when the market price was \$10 a share. The effect of the declaration and issuance of the stock dividend is to:
 - a) Decrease retained earnings, increase common stock, and decrease paid-in capital
 - b) Increase retained earnings, decrease common stock, and decrease paid-in capital
 - c) Increase retained earnings, decrease commons tock, and increase paid-in capital
 - d) Decrease retained earnings, increase common stock, and increase paid-in capital

11. Easy transfer of ownership is a characteristic of which form of business organization?
 - a) Sole proprietorship
 - b) Partnership
 - c) Corporation
 - d) All of the above

12. In which forms of business organization are the owners personally liable for all the debts of the business?
 - a) Sole proprietorship and corporation
 - b) Sole proprietorship and partnerships
 - c) Partnership and corporation
 - d) All of them

13. Issuing stock to investors for cash at a price above par would result in
 - a) a debit to Common Stock and a credit to Cash
 - b) a debit to Cash and a credit to Common Stock
 - c) a debit to Cash and PIC-excess of par-common and a credit to Common Stock
 - d) a debit to Cash and a credit to Common Stock and PIC-excess of par-common

14. The par value of the shares issued represents:
 - a) A corporation's legal capital.
 - b) A corporation's stated capital.
 - c) A corporation's invested capital.
 - d) A corporation's owners' capital.

15. When treasury stock is purchased, the number of outstanding shares:
 - a) Increases
 - b) Decreases
 - c) Remains the same
 - d) Splits

16. Dividends in arrears are:
 - a) Reported as a current liability on the balance sheet.
 - b) Reported as a contra-equity account
 - c) Not recorded until dividends are declared.
 - d) Debited to retained earnings.

17. On the date of record:
 - a) Cash dividends is debited for the amount of dividends to be paid.
 - b) Dividends payable is debited for the amount of dividends to be paid.
 - c) Dividends distributable is credited for the value of the common shares to be distributed
 - d) No entry is required.

18. Which of the following is not a characteristic of a corporation?
 - a) Separate legal existence
 - b) Unlimited liability for stockholders
 - c) Easy transferability of ownership interests
 - d) Ability to acquire capital easily

19. Which of the following is not a disadvantage of the corporate business form?
 - a) Organization Costs
 - b) Government regulation
 - c) Continuous life
 - d) Additional taxes

20. Which of the following is not a stockholder right?
 - a) The preemptive right
 - b) The right to share in dividends
 - c) The right to vote on the board of directors
 - d) The right to participate in management decisions

21. Which of the following represents the maximum number of shares that a corporation can issue?
 - a) Outstanding shares
 - b) Issued shares
 - c) Authorized shares
 - d) Treasury shares

22. Which of the following decreases when a corporation purchases treasury stock?
 - a) Authorized shares
 - b) Issued shares
 - c) Treasury shares
 - d) Outstanding shares

23. Sting, Inc. issued 1,000 shares of common stock at \$10 per share. If the stock has a par value of \$4 a share, the journal entry to record the issuance would include a
- a) Credit to Common Stock for \$4,000.
 - b) Debit to Cash for \$4,000.
 - c) Credit to Paid-in-Capital in Excess of Par for \$10,000
 - d) Debit to Retained Earnings for \$6,000
24. Sting, Inc. issued 1,000 shares of common stock at \$10 per share. If the stock was no-par stock, the journal entry to record the issuance would include a
- a) debit to Cash for \$6,000
 - b) credit to Paid-in-Capital in Excess of Par for 6,000
 - c) credit to Common Stock for \$10,000
 - d) debit to Paid-in-Capital in Excess of Par for \$10,000
25. If 1,000 shares of \$5 par common stock are reacquired by a corporation for \$12 a share, total stockholders' equity will be reduced by
- a) \$5,000
 - b) \$12,000
 - c) \$0
 - d) \$7,000
26. Which of the following will increase the Paid-in-Capital section of the balance sheet?
- a) Stock split
 - b) Stock dividend
 - c) Cash dividend
 - d) Property dividend
27. Buzz, Inc. has 8,000 shares of 5%, \$50 par, cumulative preferred stock and 50,000 shares of \$3 par common stock outstanding. No dividends were declared last year; however, a dividend of \$50,000 was declared and paid this year. What amount of the total dividend was paid to common stockholders?
- a) \$10,000
 - b) \$30,000
 - c) \$15,000
 - d) \$50,000

28. Scratch, Inc. has 2,000 shares of 5%, \$100 par, cumulative preferred stock and 80,000 shares of \$4 par common stock outstanding. Last year the board of directors declared and paid an \$8,000 dividend. This year the dividend declared and paid was \$15,000. What amount of this year's total dividend was paid to preferred stockholders?
- a) \$15,000
 - b) \$10,000
 - c) \$0
 - d) \$12,000
29. Visor, Inc. had 300,000 shares of \$20 par common stock outstanding when a 3% stock dividend was declared and paid. How many shares were outstanding after the stock dividend?
- a) 390,000
 - b) 330,000
 - c) 300,000
 - d) 309,000
30. Visor, Inc. had 300,000 shares of \$20 par common stock outstanding when a 3% stock dividend was declared. The market price of the stock at the time of the declaration was \$22 per share. The journal entry to record the dividend declaration would include a credit to
- a) Common Stock for \$180,000
 - b) PIC-excess of par-CS for \$198,000
 - c) Stock Dividends for \$198,000
 - d) Stock Dividends Distributable for \$180,000

Solutions to Practice Problems

Practice Problem #1

a)	Cash	640,000	
	Common Stock		400,000
	Paid-in capital-excess of par-common		240,000
b)	Cash	120,000	
	Preferred stock		100,000
	Paid-in capital-excess of par-preferred		20,000
c)	Treasury Stock	220,000	
	Cash		220,000
d)	Cash	84,000	
	Paid-in capital-Sale of Treasury Stock	4,000	
	Treasury Stock		88,000
	<i>(2,000 * 44 cost per share)</i>		
e)	Cash	68,500	
	Treasury Stock		66,000
	Paid-in capital-Treasury Stock		2,500
	<i>(1,500 * 44 cost per share)</i>		
f)	Land	385,000	
	Common Stock		200,000
	Paid-in capital-excess of par-common		185,000

Practice Problem #2

March 4	Treasury Stock	160,000	
	Cash		160,000
	<i>(Outstanding Shares: 50,000 – 5,000 = 45,000)</i>		
June 3	Cash dividends	26,000	
	Dividends payable		26,000
	<i>preferred: 8,000 * 1 = \$8,000</i>		
	<i>common: 45,000 * .40 = \$18,000</i>		
July 15	Cash Dividends Payable	26,000	
	Cash		26,000
October 14	Cash	70,000	
	Treasury Stock		64,000
	Paid-in capital-Treasury Stock		6,000
	<i>Outstanding Shares: 45,000 + 2,000 = 47,000</i>		
Nov. 5	Cash Dividends	26,800	
	Cash Dividends Payable		26,800
	<i>preferred: 8,000 * 1 = \$8,000;</i>		
	<i>common: 47,000 * .40 = 18,800</i>		
	Stock dividends	70,500	
	Stock dividends distributable		47,000
	Paid-in capital-excess of par-common		23,500
	<i>Stock Dividend: Shares issued = 47,000 * 5% = 2,350</i>		
	<i>2,350 * \$30.00 = \$70,500</i>		
Dec. 10	Cash Dividends Payable	26,800	
	Cash		26,800
	Stock Dividends Distributable	47,000	
	Common stock		47,000

Practice Problem #3

Preferred shareholders are entitled to receive \$50,000 = 25,000 shares * \$2.00/share per year in dividends.

a)

Year 1

Dividends per share are \$0 for both preferred and common stock.
Preferred Stock has \$50,000 dividends in arrears.

<u>Year 2</u>	<u>Preferred</u>	<u>Common</u>	<u>Total</u>
Shares Outstanding	25,000	100,000	
Dividends Distributed			\$20,000
Dividends Paid	\$20,000	0	20,000
Dividends per Share	\$.80		
Dividends in Arrears:	From year 1	\$30,000	50,000 owed – 20,000 paid
	From year 2	<u>50,000</u>	
	Total	\$80,000	

<u>Year 3</u>	<u>Preferred</u>	<u>Common</u>	<u>Total</u>
Shares Outstanding	25,000	100,000	
Dividends Distributed			\$90,000
Dividends Paid	\$150,000	0	90,000
Dividends per Share	\$6.00		
Dividends in Arrears:	From year 1	\$0	30,000 in arrears – 30,000 paid
	From year 2	0	50,000 in arrears – 50,000 paid
	From year 3	<u>40,000</u>	50,000 owed – 10,000 paid
	Total	\$40,000	

<u>Year 4</u>	<u>Preferred</u>	<u>Common</u>	<u>Total</u>
Shares Outstanding	25,000	100,000	
Dividends Distributed			\$180,000
Dividends Paid	\$90,000	90,000	180,000
Dividends per Share	\$3.60	\$.90	
Dividends in Arrears:	From year 3	\$0	40,000 in arrears – 40,000 paid
	From year 4	<u>0</u>	50,000 owed – 50,000 paid
	Total	\$0	

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<u>Year 5</u>	<u>Preferred</u>	<u>Common</u>	<u>Total</u>
Shares Outstanding	25,000	100,000	
Dividends Distributed			\$250,000
Dividends Paid	\$50,000	200,000	250,000
Dividends per Share	\$2.00	\$2.00	

b)

Year 1

Dividends per share are \$0 for both preferred and common stock.
Preferred Stock has \$50,000 dividends in arrears.

<u>Year 2</u>	<u>Preferred</u>	<u>Common</u>	<u>Total</u>
Shares Outstanding	25,000	100,000	
Dividends Distributed			\$20,000
Dividends Paid	\$20,000	0	20,000
Dividends per Share	\$.80		

<u>Year 3</u>	<u>Preferred</u>	<u>Common</u>	<u>Total</u>
Shares Outstanding	25,000	100,000	
Dividends Distributed			\$90,000
Dividends Paid	\$50,000	\$40,000	90,000
Dividends per Share	\$2.00	\$.40	

<u>Year 4</u>	<u>Preferred</u>	<u>Common</u>	<u>Total</u>
Shares Outstanding	25,000	100,000	
Dividends Distributed			\$180,000
Dividends Paid	\$50,000	\$130,000	180,000
Dividends per Share	\$2.00	\$1.30	

<u>Year 5</u>	<u>Preferred</u>	<u>Common</u>	<u>Total</u>
Shares Outstanding	25,000	100,000	
Dividends Distributed			\$250,000
Dividends Paid	\$50,000	200,000	250,000
Dividends per Share	\$2.00	\$2.00	

Practice Problem #4

January 5	No entry required <i>Outstanding Shares: 100,000</i>		
February 20	Treasury Stock	300,000	
	Cash		300,000
	<i>Outstanding Shares: 100,000 – 10,000 = 90,000</i>		
March 12	Cash Dividends Payable	125,000	
	Cash Dividends Payable		125,000
	<i>preferred: 20,000 * \$4 = 80,000 +</i> <i>common: 90,000 * \$.50 = 45,000</i>		
April 12	Cash Dividends Payable	125,000	
	Cash		125,000
June 5	Cash	165,000	
	Treasury Stock		150,000
	Paid-in capital-Treasury Stock		15,000
	<i>Outstanding Shares: 90,000 + 5,000 = 95,000</i>		
September 2	Cash Dividends Payable	127,500	
	Cash Dividends Payable		127,500
	<i>preferred: 20,000 * \$4 = 80,000 +</i> <i>common: 95,000 * \$.50 = 47,500</i>		
	Stock dividends	152,000	
	Stock dividends distributable		95,000
	Paid-in capital-excess of par- common		57,000
	<i>Stock Dividend: Shares issued = 4% * 95,000 = 3,800</i> <i>3,800 * \$40.00 = \$152,000</i>		
October 5	Cash Dividends Payable	127,500	
	Cash		127,500
	Stock Dividends Distributable	95,000	
	Common stock		95,000
December 12	Stock dividends	950,000	
	Stock dividends distributable		950,000
	<i>Stock Dividend: Shares issued = 40% * 95,000 = 38,000</i> <i>38,000 * \$25.00 = \$950,000</i>		

Solutions to True / False Questions

1. True
2. True
3. True
4. False - Authorized stock is the total number of shares available to sell, stated in the company's articles of incorporation. Issued stock is the number of shares that have been sold to investors.
5. False - Par value is the legal capital per share of stock that's assigned when the corporation is first established. Par value has no relationship to the market value of the common stock.
6. True
7. True
8. True
9. True
10. False - Dividends are not paid on treasury shares repurchased by the company.
11. False - Small stock dividends are recorded by debiting Retained Earnings for the market value, rather than the par value, per share.
12. True
13. False - Cumulative preferred stock means shares receive priority for future dividends, if dividends are not paid in a given year.
14. False - Treasury stock is a contra-equity account since treasury stock *decreases* total stockholders' equity.
15. True
16. True
17. True
18. False - Small stock dividends are recorded by debiting Retained Earnings for the market value, rather than the par value, per share.
19. True
20. True

Solutions to Multiple Choice Questions

1. A
2. D
3. B
4. B
5. C
6. D
7. A
8. B
9. A
10. D
11. C
12. B
13. D
14. A
15. B
16. C
17. D
18. B
19. C
20. D
21. C
22. D
23. A
24. C
25. B
26. B
27. A
28. D
29. D
30. D