

SELF STUDY PROBLEMS 7-1 AND 7-2

Problem 7-1

The Buckner Corporation was organized on January 5, 19x8. On that date the company sold all of its authorized stock of 100,000 shares at 12. Give the entries that are required for issue of stock under each of the following assumptions:

- (a) The shares have a \$10 par value
- (b) The shares are no-par with a stated value of \$5 as assigned by the board of directors
- (c) The shares are no-par with no stated value

Problem 7-2

The Miller Co. issued 50,000 shares of common stock, with a par value of \$1, in exchange for some equipment. Give the entries to record the exchange on the books of the Miller Co. assuming the following separate and unrelated situations:

- (a) The common stock has a well established market price of \$8 per share. The equipment was built to the specifications indicated by the Miller Co. and therefore there is no established market price for the equipment. Management of the Miller Co. estimates that the equipment is worth approximately \$405,000.
- (b) The common stock has traded very thinly in the last few years, the most recent sale price being \$6 per share. The last sale was one month ago. The equipment has a well established selling price of \$350,000.

SELF STUDY PROBLEMS 7-3 AND 7-4

Problem 7-3

On September 15, 19x1, the Caprock Corporation purchased 1,000 shares of its \$10 par common stock at \$50 per share.

Record the necessary journal entries for the following transactions assuming the use of the cost method:

- a. The September 15 acquisition of treasury shares.
- b. Assume that on November 15, 19x1 the 1,000 treasury shares are sold for \$50 per share.
- c. Instead of assumption (b.), suppose that on November 15, 19x1 the 1,000 treasury shares are sold for \$60 per share.
- d. Instead of assumptions (b.) or (c.), suppose the company sold 400 shares of its treasury shares on October 15 for \$60 per share and the remaining 600 shares on December 15 for \$42 per share.

Problem 7-4

During 19x1, the original sale of the \$10 par value common shares of Guidry Company was recorded as follows:

| | | |
|----------------------------------|---------|---------|
| Cash | 860,000 | |
| Common Stock | | 200,000 |
| Paid in Capital in Excess of Par | | 660,000 |

During 19x2 the Guidry Company completed the following treasury stock transactions:

- a. Bought 200 shares of common stock as treasury shares at \$49 per share
- b. Sold 50 shares of treasury stock at \$47 per share.

Record the treasury stock transactions shown above using the cost method.

SELF STUDY PROBLEM 7-5

The stockholders' equity section of the December 31, 19x8 balance sheet for Forgy Steel Corporation is shown below:

Stockholders' Equity

| | |
|---|---------------------------|
| Paid-in Capital | |
| Common stock, \$5 par value, 200,000 shares authorized, 150,000 shares issued, 123,500 shares outstanding | \$ 750,000 |
| Other paid-in capital: | |
| Paid-in capital in excess of par - common | 2,100,000 |
| Paid-in capital from treasury stock transactions | <u>75,000</u> |
| Total paid-in capital | 2,925,000 |
| Retained Earnings | <u>1,420,000</u> |
| Total paid-in capital and retained earnings | 4,345,000 |
| Less: Treasury stock, common, 26,500 shares at cost | <u>609,500</u> |
| Total Stockholders' Equity | <u><u>\$3,735,500</u></u> |

Required:

Using the data contained in the stockholders' equity section presented above for Forgy Steel Corporation, answer the following questions:

- How many shares of common stock are outstanding?
- What was the average price at which the common stock was originally issued?
- What is the cost per share of the treasury stock?
- Assuming all the treasury stock was purchased at one time, and that 28,000 shares were originally purchased, what was the average price received for the 1,500 shares of the treasury stock that were resold?
- Assume 1,000 shares of the treasury stock are sold for \$50 per share. Make the journal entry to record the sale.
- Assume a subsequent sale of 1,000 shares of the treasury stock are sold for \$8 per share. Make the journal entry to record the sale.

SELF STUDY PROBLEMS 7-6 AND 7-7

Problem 7-6

On September 15, 19x1, the Caprock Corporation purchased 1,000 shares of its \$10 par common stock at \$50 per share.

Record the necessary journal entries for the following transactions assuming the use of the cost method:

- a. The September 15 acquisition of treasury shares.
- b. Assume that on November 15, 19x1 the 1,000 treasury shares are sold for \$50 per share.
- c. Instead of assumption (b.), suppose that on November 15, 19x1 the 1,000 treasury shares are sold for \$60 per share.
- d. Instead of assumptions (b.) or (c.), suppose the company sold 400 shares of its treasury shares on October 15 for \$60 per share and the remaining 600 shares on December 15 for \$42 per share.

Problem 7-7

During 19x1, the original sale of the \$10 par value common shares of Guidry Company was recorded as follows:

| | | |
|----------------------------------|---------|---------|
| Cash | 860,000 | |
| Common Stock | | 200,000 |
| Paid in Capital in Excess of Par | | 660,000 |

During 19x2 the Guidry Company completed the following treasury stock transactions:

- a. Bought 200 shares of common stock as treasury shares at \$49 per share
- b. Sold 50 shares of treasury stock at \$47 per share.

Record the treasury stock transactions shown below using the cost method.

SELF STUDY PROBLEM 7-8 AND 7-9

Problem 7-8

Record in general journal form the entries necessary as a result of the following transactions for the Johnson Corporation:

19x2

Dec. 31 The corporation declared a cash dividend on common stock, the total dividend amounting to \$26,000. The dividend is payable on March 1, 19x3 to stockholders of record February 8, 19x3.

19x3

Feb. 8 Refer to December 31, 19x2 entry.

Mar. 1 Paid the cash dividend declared on December 31, 19x2.

Problem 7-9

Gentry Company has 600,000 shares of \$5 par common stock issued and outstanding. The current market price of the common stock is \$30 per share. Record the necessary entries on the date of declaration and the date of payment assuming that the corporation declared

- (a) a 10% stock dividend
- (b) a 100% stock dividend
- (c) a 2-for-1 stock split, par value changed to \$2.50 per share

SELF STUDY PROBLEMS 7-1 AND 7-2
ANSWERS

Problem 7-1

| | | |
|-----|--|-----------|
| (a) | Cash | 1,200,000 |
| | Common Stock | 1,000,000 |
| | Paid in Capital in Excess of Par - Common Stock | 200,000 |
| (b) | Cash | 1,200,000 |
| | Common Stock | 500,000 |
| | Paid in Capital in Excess of Stated Val. - Comm. St. | 700,000 |
| (c) | Cash | 1,200,000 |
| | Common Stock | 1,200,000 |

Problem 7-2

| | | |
|-----|---|---------|
| (a) | Equipment | 400,000 |
| | Common Stock | 50,000 |
| | Paid in Capital in Excess of Par - Common Stock | 350,000 |
| (b) | Equipment | 350,000 |
| | Common Stock | 50,000 |
| | Paid in Capital in Excess of Par - Common Stock | 300,000 |

SELF STUDY PROBLEMS 7-3 AND 7-4
ANSWERS

Problem 7-3

| | | | | |
|-----|----------|---------------------------------|--------|--------|
| (a) | Sept. 15 | Treasury Stock (Common) | 50,000 | |
| | | Cash | | 50,000 |
| (b) | Nov. 15 | Cash | | 50,000 |
| | | Treasury Stock (Common) | | 50,000 |
| (c) | Nov. 15 | Cash | | 60,000 |
| | | Treasury Stock (Common) | | 50,000 |
| | | Paid-in Capital, Treasury Stock | | 10,000 |
| (d) | Oct. 15 | Cash | | 24,000 |
| | | Treasury Stock (Common) | | 20,000 |
| | | Paid-in Capital, Treasury Stock | | 4,000 |
| | Dec. 15 | Cash | | 25,200 |
| | | Paid-in Capital, Treasury Stock | 4,000 | |
| | | Retained Earnings | 800 | |
| | | Treasury Stock (Common) | | 30,000 |

Problem 7-4

| | | | |
|-----|--------------------------------------|-------|-------|
| (a) | Treasury Stock (Common) (200 x \$49) | 9,800 | |
| | Cash | | 9,800 |
| (b) | Cash (50 x \$47) | 2,350 | |
| | Retained Earnings | 100 | |
| | Treasury Stock (Common) | | 2,450 |

Treasury Stock: 50 x \$49 = \$2,450

SELF STUDY PROBLEM 7-5
ANSWERS

- (a) 150,000 shares issued minus 26,500 treasury shares = 123,500 shares outstanding.
- (b) \$750,000 par value plus \$2,100,000 paid-in capital in excess of par value = \$2,850,000
 $\$2,850,000 / 150,000 \text{ shares} = \19 per share
- (c) $\$609,500 / 26,500 = \23 per share
- (d) Since there is paid-in capital from treasury stock transactions amounting to \$75,000, the the 1,500 shares of treasury stock must have been sold for \$50 ($\$75,000 / 1,500$) above cost of \$23. Thus the amount received must equal \$23 + \$50 + \$73 per share.

| | | | |
|-----|---------------------------------|--------|--------|
| (e) | Cash (1,000 x \$50) | 50,000 | |
| | Treasury Stock (Common) | | 23,000 |
| | Paid-in Capital, Treasury Stock | | 27,000 |

Treasury Stock: 1,000 x \$23 per share (cost) = \$23,000
Paid-in Capital: plug figure

| | | | |
|-----|---------------------------------|--------|--------|
| (f) | Cash (1,000 x \$8) | 8,000 | |
| | Paid-in Capital, Treasury Stock | 15,000 | |
| | Treasury Stock (Common) | | 23,000 |

Treasury Stock: 1,000 x \$23 per share (cost) = \$23,000
Paid-in Capital: plug figure

SELF STUDY PROBLEMS 7-6 AND 7-7
ANSWERS

Problem 7-6

| | | | | |
|-----|----------|---------------------------------|--------|--------|
| (a) | Sept. 15 | Treasury Stock (Common) | 50,000 | |
| | | Cash | | 50,000 |
| (b) | Nov. 15 | Cash | | 50,000 |
| | | Treasury Stock (Common) | | 50,000 |
| (c) | Nov. 15 | Cash | | 60,000 |
| | | Treasury Stock (Common) | | 50,000 |
| | | Paid-in Capital, Treasury Stock | | 10,000 |
| (d) | Oct. 15 | Cash | | 24,000 |
| | | Treasury Stock (Common) | | 20,000 |
| | | Paid-in Capital, Treasury Stock | | 4,000 |
| | Dec. 15 | Cash | | 25,200 |
| | | Paid-in Capital, Treasury Stock | 4,000 | |
| | | Retained Earnings | 800 | |
| | | Treasury Stock (Common) | | 30,000 |

Problem 7-7

| | | | | |
|-----|--|--------------------------------------|-------|-------|
| (a) | | Treasury Stock (Common) (200 x \$49) | 9,800 | |
| | | Cash | | 9,800 |
| (b) | | Cash (50 x \$47) | 2,350 | |
| | | Retained Earnings | 100 | |
| | | Treasury Stock (Common) | | 2,450 |

Treasury Stock: $50 \times \$49 = \$2,450$

SELF STUDY PROBLEMS 7-8 AND 7-9
ANSWERS

Problem 7-8

| | | | |
|---------|-----------------------------------|--------|--------|
| 19x2 | | | |
| Dec. 31 | Retained Earnings (300,000 x \$1) | 26,000 | |
| | Cash Dividends Payable | | 26,000 |

| | | | |
|--------|------------------------|--------|--------|
| 19x3 | | | |
| Feb. 8 | No entry | | |
| Mar. 1 | Cash Dividends Payable | 26,000 | |
| | Cash | | 26,000 |

Problem 7-9

| | | | |
|-------------------------|--|-----------|-----------|
| (a) Date of Declaration | | | |
| | Retained Earnings (600,000 x 10% x \$30) | 1,800,000 | |
| | Stock Dividend Distributable (par) | | 300,000 |
| | Paid in Capital in Excess of Par - Comm. St. | | 1,500,000 |

| | | | |
|-----------------|------------------------------|---------|---------|
| Date of Payment | | | |
| | Stock Dividend Distributable | 300,000 | |
| | Common Stock | | 300,000 |

| | | | |
|-------------------------|--|-----------|-----------|
| (b) Date of Declaration | | | |
| | Retained Earnings (600,000 x 100% x \$5) | 3,000,000 | |
| | Stock Dividend Distributable (par) | | 3,000,000 |

| | | | |
|-----------------|------------------------------|-----------|-----------|
| Date of Payment | | | |
| | Stock Dividend Distributable | 3,000,000 | |
| | Common Stock | | 3,000,000 |

(c) Date of Declaration
No entry other than a memorandum entry recorded in the general journal indicating that a stock split has been declared.

Date of Payment
No entry other than a memorandum entry recorded in the general journal indicating that a stock split has been distributed, resulting in the issuance of 600,000 additional shares and a reduction of the par value from \$5 per share to \$2.50 per share. Alternatively, an entry could be made as follows:

| | | |
|---------------------------|-----------|-----------|
| Common Stock (\$5 par) | 3,000,000 | |
| Common Stock (\$2.50 par) | | 3,000,000 |