

SELF STUDY QUESTIONS

Section 7

Fill in the Blank

Module 1

In the space provided, write the word or words to either replace the question mark or answer the question.

1. The right of a stockholder to maintain the same fractional interest in the corporation by purchasing a proportionate number of shares of any additional issuance of stock is referred to as the ?.

SELF STUDY QUESTIONS

Fill in the Blank

In the space provided, write the word or words to either replace the question mark or answer the question.

1. ? common stock represents the number of shares of stock that can be issued legally, as specified in the charter of the corporation.

2. ? common stock represents the number of shares of authorized common stock that have been issued to stockholders to date.

3. ? common stock represents the number of shares issued, less the number of shares repurchased and held as treasury stock.

4. ? value constitutes an arbitrary amount assigned to a share of stock.

SELF STUDY QUESTIONS

Section 7

Fill in the Blank

Module 3

In the space provided, write the word or words to either replace the question mark or answer the question.

1. A corporation's own stock that it has issued and later reacquired is called ? stock.

In the space provided, write the word or words to either replace the question mark or answer the question.

1. What are the names of the four important dates that pertain to a cash dividend?

2. A ? refers to an issuance by a corporation of its own shares of common stock to its common shareholders, without consideration, and under conditions indicating that such action is prompted mainly by a desire to give the recipient shareholders some evidence of their interests in accumulated corporate earnings.

3. A ? refers to an issuance by a corporation of its own shares of common stock to its common shareholders, without consideration, and under conditions indicating that such action is prompted mainly by a desire to effect a reduction in the unit market price of the stock.

Circle the letter of the best answer.

1. Which of the following statements concerning corporations is not true?
 - A. a corporation is created by law and exists as a separate legal entity
 - B. the liability of a stockholder in a corporation does not usually extend beyond the amount he/she has invested in the corporation
 - C. shares of capital stock are the evidence of ownership in a corporation
 - D. the corporate form of business organization is not well suited for raising amounts of capital funds
 - E. the continuity of the life of a corporation is unaffected by stockholder withdrawals or deaths

2. Which of the following statements is true?
 - A. the two broad classes of capital stock that a corporation may issue are common stock and retained earnings
 - B. the number of shares of stock which a corporation has issued and outstanding may at times exceed the number of its authorized shares
 - C. shares of preferred stock and shares of common stock are both representations of ownership in a corporation and both always confer the same privileges
 - D. the number of a corporation's authorized shares of stock may exceed the number of its shares which are issued and outstanding
 - E. none of the above

3. Select the true statement.
 - A. losses decrease the par value of stock while retained earnings increase the par value
 - B. the par value of a share of common stock must be at least \$1
 - C. the par value of a share of capital stock indicates the exact price at which the share must originally be issued
 - D. the par value of a share of capital stock is no indication of the market value or the book value of the share of stock
 - E. none of the above are true

4. The pre-emptive right of a common stockholder is the right
 - A. to share proportionately in corporate assets upon liquidation
 - B. to receive cash dividends before they are distributed to preferred stockholders
 - C. to sell ownership shares without obtaining the permission of the corporation
 - D. to exclude preferred stockholders from voting rights
 - E. none of the above

5. The pre-emptive right, which usually attaches to shares of corporate stock is the right to
- A. convert shares into those of another class of stock
 - B. have shares of stock redeemed by the corporation on demand
 - C. preempt the power of the board of directors to select officers of the corporation
 - D. subscribe to new issues to stock in proportion to the number of shares owned
 - E. none of the above

Circle the letter of the best answer.

1. The excess of the fair value of the consideration received over the stated value of no par common stock should be credited to
 - A. a liability account
 - B. common stock
 - C. additional paid-in capital
 - D. retained earnings

2. When 10,000 shares of \$10 par value common stock are issued at \$12 per share, Paid In Capital in Excess of Par is credited for
 - A. \$ 10,000
 - B. \$ 20,000
 - C. \$100,000
 - D. \$120,000
 - E. none of the above

3. When a corporation issues its capital stock in payment for services, the least appropriate basis for recording the transactions is the
 - A. market value of the services received
 - B. par value of the shares issued
 - C. market value of the shares issued
 - D. any of the above provides an appropriate basis for recording the transaction

4. Authorized capital stock refers to the total number of shares
 - A. outstanding
 - B. issued
 - C. issued, less all treasury shares owned
 - D. that can be issued in conformity with the corporation's charter
 - E. none of the above

Circle the letter of the best answer.

1. Gains and losses on the purchase and resale of treasury stock may only be reflected in
 - A. paid-in capital accounts
 - B. income, paid-in capital, and retained earnings accounts
 - C. retained earnings and paid-in capital accounts
 - D. retained earnings

2. When using the cost method, the account Treasury Stock
 - A. would be shown on the balance sheet as an addition to the contributed capital section of stockholders' equity
 - B. would be shown on the balance sheet as an asset
 - C. would be shown on the balance sheet as a deduction from the common stock account
 - D. would be shown on the balance sheet as a deduction from the total stockholders' equity section

3. At its date of incorporation, Glean, Inc. issued 100,000 shares of its \$10 par common stock at \$11 per share. During the current year, Glean acquired 30,000 shares of its common stock at a price of \$16 per share and accounted for them by the cost method. Subsequently, these shares were reissued at a price of \$12 per share. There have been no other issuances or acquisitions of its own common stock. What effect does the reissuance of the stock have on the following accounts?

	<u>Retained earnings</u>	<u>Additional paid-in capital</u>
A.	decrease	decrease
B.	no effect	decrease
C.	decrease	no effect
D.	no effect	no effect

4. Treasury stock was acquired for cash at a price in excess of its par value. The treasury stock was subsequently reissued for cash at a price in excess of its acquisition price. Assuming that the cost method of accounting for treasury stock transactions is used, what is the effect of the subsequent reissuance of the treasury stock on each of the following?

	<u>Additional paid-in capital</u>	<u>Retained earnings</u>	<u>Total stockholders' equity</u>
A.	decrease	decrease	no effect
B.	increase	increase	increase
C.	increase	no effect	increase
D.	no effect	no effect	no effect

Circle the letter of the best answer.

1. In connection with dividend declarations and payments, the following dates (alphabetically arranged) are of significance: (1) date of declaration, (2) date of payment, and (3) date of record. In terms of time sequence arrangement from earliest to last, in what order do they ordinarily occur?
 - A. declaration, payment, record
 - B. record, declaration, payment
 - C. payment declaration, record
 - D. payment, record, declaration
 - E. declaration, record, payment

2. When do dividends become liabilities?
 - A. on the declaration date
 - B. on the date of record
 - C. on the payment date
 - D. dividends are never liabilities because a company is not required to pay dividends

3. The date on which a board of directors determines which stockholders will receive a dividend is called the
 - A. declaration date
 - B. record date
 - C. payment date
 - D. date of legal equity

4. On January 1, 19x3, the balance in Thurgood Company's retained earnings account was \$50,000. The balance on December 31, 19x3, is \$100,000. On December 10, 19x3, dividends of \$50,000 were declared and are payable January 31, 19x4. Based on this information, net income for 19x3 was
 - A. \$ 0
 - B. \$ 50,000
 - C. \$100,000
 - D. \$150,000

5. The actual total amount of a cash dividend to be paid is determined on the date of
 - A. record
 - B. declaration
 - C. declaration or date of record, whichever is earlier
 - D. payment

SELF STUDY QUESTIONS

Section 7

Multiple Choice

Module 4

6. Declaration and issuance of a dividend in stock
 - A. increases total stockholders' equity
 - B. decreases total stockholders' equity
 - C. decreases the amount of working capital
 - D. none of the above

7. Declaration and issuance of a dividend in stock
 - A. decreases the amount of working capital
 - B. increases total stockholders' equity
 - C. decreases total stockholders' equity
 - D. none of the above

SELF STUDY QUESTIONS

Section 7

Essay

Module 1

1. What are the major advantages of the corporate form of business organization?
2. What are the major disadvantages of the corporate form of business organization?
3. What are the usual rights of common stockholders?

SELF STUDY QUESTIONS

Section 7

Essay

Module 4

1. Explain the significance of the three dates that are important in accounting for cash dividends to stockholders. State the journal entry, if any, needed at each date.
2. Do stockholders have a right to a dividend before it is declared by the board of directors?