

SELF STUDY QUESTIONS

Fill in the Blank

Section 7

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

Section 7

Module 2

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

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. The declaration of a stock split, wherein the par values of the shares is split in relation to the stock split, will result in
 - A. an increase in total stockholders' equity
 - B. no net effect in total stockholders' equity
 - C. a decrease in total stockholders' equity
 - D. the effect upon total stockholders' equity cannot be determined

8. 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

9. The issuer of a 5% common stock dividend to common stockholders preferably should transfer from retained earnings to contributed capital an amount equal to the
 - A. market value of the shares issued
 - B. book value of the shares issued
 - C. minimum legal requirement
 - D. par or stated value of the shares issued
 - E. none of the above

10. Andrew Corporation declared and issued a stock dividend of 5,000 shares (representing a 5% stock dividend) when the par value was \$1 per share, and the market value was \$4 per share. How does the entry to record this declaration affect total stockholders' equity?
 - A. no effect
 - B. \$ 5,000 increase
 - C. \$ 5,000 decrease
 - D. \$20,000 increase
 - E. \$20,000 decrease

11. When a 40 percent stock dividend is declared and issued, a company normally
 - A. debits retained earnings and credits common stock
 - B. makes only a memorandum entry
 - C. debits unappropriated retained earnings and credits appropriated retained earnings for stock dividends
 - D. debits common stock and credits cash

12. The dollar amount of total stockholders' equity remains the same when there is a(n)
- A. issuance of preferred stock in exchange for convertible debentures
 - B. declaration of a stock dividend
 - C. declaration of a cash dividend
 - D. none of the above
13. As a minimum, how large in relation to total outstanding shares may a stock distribution be before it should be accounted for as a large stock dividend instead of as a small stock dividend?
- A. no less than 2% to 5%
 - B. no less than 10% to 15%
 - C. no less than 20% to 25%
 - D. no less than 45% to 50%
14. The declaration and issuance of a stock dividend larger than 25% of the shares previously outstanding
- A. increases common stock outstanding and increases total stockholders' equity
 - B. decreases retained earnings but does not change total stockholders' equity
 - C. may increase or decrease paid-in capital in excess of par but does not change total stockholders' equity
 - D. increases retained earnings and increases total stockholders' equity
 - E. none of the above
15. Milner Company issues what is called a "100% stock dividend" on its common stock. Milner did not change the par value of the common stock. At what amount per share, if any, should either paid-in capital or retained earnings be reduced for this transaction?
- A. zero because no entry is made
 - B. par value
 - C. market value at the declaration date
 - D. market value at the date of issuance

16. On December 31, 19x2, when the DE Company's stock was selling at \$36 per share, its capital accounts were as follows:

Capital stock (par value 100,000 shares issued)	\$2,000,000
Contributed capital in excess of par	800,000
Retained earnings	4,550,000

If a 100 percent stock dividend were declared and issued, the par value was unchanged, then

- A. an entry need not be made to record the dividend
 B. Capital Stock would increase to \$5,600,000
 C. Capital Stock would increase to \$4,000,000
 D. total capital would decrease
 E. none of the above
17. Maple Corporation has 50,000 shares of \$10 par value common stock outstanding. If the corporation declares a 10 percent stock dividend and the market value of the stock on the date of declaration is \$20 per share, what amount should be debited to retained earnings?
- A. \$ 0
 B. \$ 5,000
 C. \$ 10,000
 D. \$ 50,000
 E. \$100,000
18. On June 30, 19x1, Rickert Corporation declared and issued a 10% common stock dividend. Prior to this dividend, Rickert had 10,000 shares of \$5 par value common stock issued and outstanding. The market price of Rickert's common stock on June 30 was \$12 per share. As a result of this stock dividend, by what amount should Rickert's total stockholders' equity increase (decrease)?
- A. \$ 0
 B. \$ 5,000
 C. \$ 7,000
 D. \$(12,000)
19. Gilbert Corporation issued a 40% stock split on its common stock which had a par value of \$10 before and after the split. By what amount should retained earnings be decreased for the additional shares issued?
- A. there should be no decrease of retained earnings
 B. par value
 C. market value on the declaration date
 D. market value on the payment date

20. Wexler Corporation declared a 30% stock dividend on its \$10 par common stock. What amount of retained earnings should be capitalized for the additional shares of common stock issued?
- no retained earnings should be capitalized
 - par value of the additional shares
 - market value of the additional shares on the declaration date
 - market value of the additional shares on the distribution date
 - none of the foregoing
21. Gant Corporation declared a 15% stock dividend on its \$50 par common stock. What amount of retained earnings should be capitalized for the additional shares of common stock issued?
- no retained earnings should be capitalized
 - par value of the additional shares
 - market value of the additional shares on the declaration date
 - market value of the additional shares on the distribution date
 - none of the foregoing
22. The account Stock Dividend Distributable (or Stock Dividend Payable) should be classified as
- an asset
 - an addition to the stockholders' equity section
 - a liability
 - a contra asset
23. On September 30, 19x2, Grey Company issued 3,000 shares of its \$10 par common stock in connection with a stock dividend. No entry was made on the stock dividend declaration date. The market value per share immediately after issuance was \$15. Grey's stockholders' equity accounts immediately before issuance of the stock dividend shares were as follows:

Common stock, \$10 par; 50,000 shares	
authorized; 20,000 shares outstanding	\$200,000
Additional paid-in capital	300,000
Retained earnings	350,000

What should be the retained earnings balance immediately after the stock dividend?

- \$305,000
- \$320,000
- \$327,500
- \$350,000

24. What effect does the issuance of a 2-for-1 stock split have on each of the following?

	<u>Par Value per Share</u>	<u>Retained Earnings</u>	<u>Total Stockholders' Equity</u>
A.	no effect	no effect	no effect
B.	increase	no effect	no effect
C.	decrease	decrease	no effect
D.	decrease	decrease	increase
E.	none of the above		

25. Assuming the issuing company has only one class of stock, a transfer from Retained Earnings to capital stock equal to the market value of the shares issued is ordinarily characteristic of

- A. a stock dividend but not a stock split
- B. a stock split but not a stock dividend
- C. either a stock dividend or a stock split
- D. neither a stock dividend nor a stock split

26. Martin Corporation has 2,000,000 authorized share of \$9 par common stock with 300,000 shares issued and outstanding. After a 3-for-1 stock split, Martin Corporation would usually have

- A. 100,000 shares of common stock issued and outstanding at \$27 par
- B. 600,000 shares of common stock issued and outstanding at \$4.50 par
- C. 4,000,000 shares of common stock authorized at \$3 par
- D. 900,000 shares of common stock issued and outstanding at \$3 par

27. Effective April 27, 19x1, the stockholders of Bennett Corporation approved a two-for-one split of the company's common stock, and an increase in authorized common shares from 100,000 shares (par value \$20 per share) to 200,000 shares (par value \$10 per share). Bennett's stockholders' equity accounts immediately before issuance of the stock split shares were as follows:

Common stock, par value \$20; 100,000 shares authorized; 50,000 shares outstanding	\$1,000,000
Additional paid-in capital (premium of \$3 per share on issuance of common stock)	150,000
Retained earnings	1,350,000

What should be the balances in Bennett's additional paid-in capital and retained earnings accounts immediately after the stock split is effected?

	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>
A.	\$ 0	\$ 500,000
B.	\$ 150,000	\$ 350,000
C.	\$ 150,000	\$1,350,000
D.	\$1,150,000	\$ 350,000

28. On May 1, 19x9, Rhud Corp. declared and issued 10% common stock dividend. Prior to this dividend, Rhud had 100,000 shares of \$1 par value common stock issued and outstanding. The fair value of Rhud's common stock was \$30 per share on May 1, 19x9. As a result of this stock dividend, Rhud's total stockholders' equity

- A. increased by \$300,000
- B. decreased by \$300,000
- C. decreased by \$10,000
- D. did not change

29. In what type of organization is a retained earnings account used?

- A. partnership
- B. corporation
- C. sole proprietorship
- D. a retained earnings account is used in all three types of businesses

30. After closing entries are posted, the retained earnings account will

- A. have been closed for the year
- B. always be equal to the net income for the year
- C. be reported as an asset on the balance sheet
- 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?

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?
3. If a balance sheet is prepared between the date of declaration and the date of distribution of a dividend, how should the dividend be shown if it is to be distributed in (a) cash and (b) stock?
4. What is the effect of an ordinary 10 percent common stock dividend on retained earnings and total stockholders' equity?
5. What is the guideline used in accounting to distinguish between a large stock dividend and a small stock dividend?