Financial Accounting for Executives & MBAs, 3rd Edition by Simko, Ferris & Wallace

Practice Quiz

Chapter 11 – Equity Financing and Shareholders' Equity

Multiple Choice Questions. Identify the answer that BEST completes the statement or answers the question.

1. During the year, Smith & Sons issued 1,000 shares of its $1.00 par value common stock for $15 per share, and declared and paid cash dividends totaling $0.50 per share.

By what amount does contributed capital increase as a result of these events?

a. $15,000
b. $ 500
c. $14,500
d. $14,750

2. The Claremont Company began the year with a balance in retained earnings of $60,000 and 40,000 shares of $1 par common stock outstanding. During the year, the company reported sales of $240,000, expenses of $200,000, and declared and paid a $0.40 per share cash dividend.

How much is the balance in the Retained Earnings account at the end of the year?

a. $ 80,000
b. $104,000
c. $ 84,000
d. $ 23,000

3. Keck Enterprises reported the following information at December 31:

Preferred Stock, $5 par, 10,000 shares authorized	$ 7,500
Additional paid-in capital – preferred stock	9,900
Common stock, $1.00 par, 6,000 shares authorized	3,300
Additional paid-in capital – common stock	8,700
Retained earnings	17,000
Treasury stock, at cost of $4 per share	(2,000)
Total	$44,400

How many shares of common stock are outstanding?

a. 2,200
b. 3,300
c. 2,800
d. 5,600

4. Keck Enterprises reported the following information at December 31:

Preferred Stock, $5 par, 10,000 shares authorized	$ 7,500
Additional paid-in capital – preferred stock	9,900
Common stock, $1.00 par, 6,000 shares authorized	3,300
Additional paid-in capital – common stock	8,700
Retained earnings	17,000
Treasury stock, at cost of $4 per share	(2,000)
Total	$44,400

What is the average selling price for each share of preferred stock?

a. $5.00
b. $0.75
c. $2,500
d. $11.60

5. Keck Enterprises reported the following information at December 31:

Preferred Stock, $5 par, 10,000 shares authorized	$ 7,500
Additional paid-in capital – preferred stock	9,900
Common stock, $1.00 par, 6,000 shares authorized	3,300
Additional paid-in capital – common stock	8,700
Retained earnings	17,000
Treasury stock, at cost of $4 per share	(2,000)
Total	$44,400

Keck's stock was selling for $22 per share at year-end.

If the company declares a 10% common stock dividend, what will be the amount of total shareholders' equity at year-end?

a. $44,400
b. $27,400
c. $10,800
d. $28,600

6. Pomona Enterprises has 1,000,000 authorized shares of $1 par value common stock, with 100,000 shares issued and outstanding with a total current market value of $150,000. You are the owner of 12% of the stock.

Which statement describes what happens when the company executes a 3-for-1 forward stock split?

a. You will own 36% of the company's stock after the split
b. Your ownership is worth $450,000 after the split
c. You return your original shares to the company, and receive 36,000 new shares in exchange
d. You receive 36,000 additional shares of stock

7. Upon submitting its corporate charter to the state, Drucker Corporation was granted permission to issue 5,000 shares of $1.00 par value common stock. Net income for the year was $300,000. In addition, the following transactions took place during the year:

January 2: Investors paid the company $14 each for 2,000 shares of common stock

March 12: Drucker purchased 300 shares of its own common stock for $13 per share

October 31: Drucker declared a 2-for-1 forward stock split

As of December 31, how many shares are issued, and how many shares are outstanding?

a. Issued, 4,000; Outstanding, 3,400
b. Issued, 3,200; Outstanding, 3,400
c. Issued, 3,800; Outstanding, 1,600
d. Issued, 3,400; Outstanding, 3,400

The following information applies to Questions 8 and 9:

Office Supply Corporation purchased 8,000 shares of treasury stock at $14 per share. The stock had a par value of $5 and had been issued at an average price of $8.

8. To record the acquisition of the treasury stock would require:

a. An increase to Treasury Stock for $112,000
b. A decrease to Common Stock for $40,000
c. A decrease to Additional Paid-In Capital, Common Stock for $32,000
d. An increase to Treasury Stock for $64,000

9. A few months later, 3,000 shares of the treasury stock were reissued at $20 per share. To record this transaction requires an increase to:

a. Additional Paid-in Capital, Treasury Stock for $45,000
b. Common Stock for $15,000
c. Treasury Stock for $60,000
d. Additional Paid-in Capital, Treasury Stock for $18,000

10. Dividends in arrears (unpaid in prior years) on cumulative preferred stock:

a. Are considered to be a non-current liability
b. Are considered to be a current liability
c. Only occur when preferred dividends have been declared
d. Should be disclosed in the notes to the financial statements