Financial & Managerial Accounting for Decision Makers, 3rd Edition by Dyckman, Hanlon, Magee, Pfeiffer, Hartgraves, and Morse

Chapter 11—Reporting and Analyzing Stockholders' Equity

Practice Quiz

1. Tyson Corporation issued 350,000 shares of $1.50 par value capital stock at its date of incorporation for cash at a price of $6 per share. During the first year of operations, the company earned $150,000 and declared a dividend of $50,000.

At the end of this first year of operations, the balance of the Common Stock account is:

a. $ 625,000
b. $2,200,000
c. $ 525,000
d. $1,675,000

2. In March 2016, Towson Company announced a 4-for-1 stock split. This brought the number of shares outstanding from 88 million shares to _____ shares.

a. 22 million
b. 176 million
c. 264 million
d. 352 million

3. Carlson Company reported net income of $1,750 million in 2016. The weighted average number of common shares outstanding during 2016 was 525 million shares. Carlson paid $30 million in dividends on preferred stock, which was convertible into 15 million shares of common stock.

What is the basic earnings per share amount for 2016?

a. $3.24
b. $3.19
c. $3.33
d. $3.28

4. Evans Company reported net income of $1,050 million in 2016. The weighted average number of common shares outstanding during 2016 was 480 million shares. Evans paid $50 million in dividends on preferred stock, which was convertible into 40 million shares of common stock.

What is the diluted earnings per share amount for 2016?

a. $2.02
b. $2.19
c. $1.92
d. $2.12

5. If a company issues 2,000 shares of common stock at a market price of $25 per share, which of the following is the correct balance sheet entry?

a. Increase cash by $50,000 and increase the contributed capital section by $50,000
b. Increase cash by $50,000 and increase earned capital by $50,000
c. Decrease revenues by $20,000
d. Stock issuances are not reported on the balance sheet

6. Shaw Company has total stockholders' equity of $5,400,000. The company's outstanding capital stock includes 60,000 shares of $10 par value common stock and 15,000 shares of 6%, $50 par value preferred stock. There are no dividends are in arrears.

Based on this information, the book value per share of common stock is:

a. $62.00
b. $67.50
c. $90.00
d. $77.50

7. Below is the stockholders' equity section of the balance sheet of Craft Corporation (with certain details omitted):

Stockholders' equity:	
6% preferred stock, $100 par, 10,000 shares authorized and ? shares issued	$800,000
Common Stock, $25 par, 50,000 shares authorized, ? shares issued	625,000
Additional paid-in capital:	
Preferred stock	150,000
Common stock	225,000
Total paid-in capital	$1,800,000
Retained earnings	950,000
Total stockholders' equity ………………………………	$2,750,000

The balance in retained earnings at the beginning of the current year was $675,000, and there were no dividends in arrears. Net income for the current year was $350,000.

Based on this information, what is the amount of the dividends declared on each share of common stock during the current year?

a. $1.08
b. $3.00
c. $4.46
d. $2.27

8. Treasury stock that is reissued at a price above its cost results in which of the following?

a. Total paid-in capital is increased.
b. The corporation recognizes a gain to be recorded on the income statement.
c. Retained earnings is increased.
d. The reissued price is treated as an extraordinary item in the corporation's income statement.

9. On January 1, 2016, Morgan Company issued 60,000 shares of its total 200,000 authorized shares of $4 par value common stock for $4 per share. On December 31, 2016, Morgan Company's common stock is trading at $8 per share.

If Morgan Company does not issue any more common stock in 2016, how does the increase in value of its outstanding stock affect Morgan?

a. This increase in market value of outstanding stock is not recorded in the financial statements of Morgan Company.
b. Morgan should recognize additional net income for 2016 of $4 per share, or $240,000.
c. Each shareholder must pay an additional $4 per share to Morgan.
d. Paid-in capital at December 31, 2016, is $480,000 (or 60,000 shares times $8 per share).

10. Which of the following is *not* a characteristic of most preferred stocks?

a. Preference as to dividends.
b. No voting power.
c. Detachable conversion options are not valued on the balance sheet.
d. Preference as to assets in the event of liquidation of the company.