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

Chapter 11—Reporting and Analyzing Stockholders' Equity

Solutions to 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

Answer: c
Rationale: $350,000 x $1.50 = $525,000

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

Answer: d
Rationale: A 4-for-1 stock split simply means that the company distributes three additional shares of stock for each share owned by a current shareholder. 88 million x 4 = 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

Answer: d
Rationale: ($1,750 – 30) / 525 = $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

Answer: a
Rationale: $1,050 / 520 = $2.02

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

Answer: a
Rationale: Cash increases by the number of shares issued times the market price; contributed capital also increases by the same amount. The latter is broken down into two segments: (1) common stock, which increases by the original par value of the shares sold, and (2) additional paid-in capital, which makes up the balance. Revenue is an Income Statement category and therefore irrelevant in this case.

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

Answer: d
Rationale: $5,400,000 – (15,000 x $50) = $4,650,000; $4,650,000/60,000 = $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

Answer: a

Rationale:

Retained earnings, beginning of year	$ 675,000
Add: Net income for the year	350,000
	$1,025,000
Less: Retained earnings, end of year	950,000
Total dividends declared during the year	$ 75,000
Less: Total dividend declared to preferred stockholders (6% x $800,000 = $48,000)	(48,000)
Total dividend declared to common stockholders	$ 27,000
Dividend declared per share of common stock ($27,000/25,000)	$1.08

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.

Answer: a

Rationale: In this case Cash would be debited, Treasury stock would be credited and Additional Paid-In Capital would be credited. The result is an increase in total paid-in capital.

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).

Answer: a

Rationale: Market value increase is not recognized for outstanding stock.

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.

Answer: C

Rationale: Detachable conversion options are valued on the balance sheet separate from the security.