# *Financial & Managerial Accounting for Undergraduates*

**2nd Edition**

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**PRACTICE QUIZ**

**Chapter 11: Stockholders' Equity**

**1.** On January 1, the Tlaquepaque Company was authorized to issue 100,000 shares of $4 par value common stock and 50,000 shares of $25 preferred stock.

If Tlaquepaque Company issued 5,000 shares of common stock for $10 per share on January 10, the entry to record the issuance of the stock would include a credit to common stock of:

*a.* $ 50,000
*b.* $ 20,000
*c.* $ 30,000
*d.* $125,000

**2.** Mogollon Inc. is authorized to issue 5,000,000 shares of $10 par common stock. 500,000 shares of stock were originally sold for $25 per share. The stock is currently selling for $20 per share and Mogollon has decided to repurchase 10,000 shares of stock.

When Mogollon repurchases their own stock, how much gain or loss will the company recognize on its income statement?

*a.* $ 50,000 loss
*b.* $150,000 gain
*c.* $0
*d.* $100,000 gain

**3.** Which of the basic shareholder rights do preferred stockholders normally give up?

*a.* The right to receive cash dividends
*b.* The right to receive cash in the event of a liquidation of the business
*c.* The right to sell their stock on the open market (e.g. NYSE, NASDAQ, etc)
*d.* The right to vote on corporate governance issues

**4.** Gila Bend Corporation has 700,000 authorized shares of $1 par value common stock. The company issued 400,000 shares and has additional paid-in capital-in-excess of par value of $800,000. The company does not have any treasury stock. Gila Bend declared a 15 percent stock dividend when the stock was selling for $5 per share.

As part of the entry to record the stock dividend, Gila Bend would credit Additional Paid-in Capital in Excess of Par Value for:

*a.* $ 60,000
*b.* $300,000
*c.* $180,000
*d.* $240,000

**5.** Ahwatukee Airlines has the following shareholders' equity at December 31:

| | |
|---|---|
| Common Stock, 5,000,000 shares authorized, $5 par value | $2,000,000 |
| Paid-in Capital in Excess of Par Value | $4,000,000 |
| Retained Earnings | $16,530,000 |
| Treasury Stock (150,000 shares) | $1,800,000 |

How many shares of stock are outstanding at December 31?

*a.* 250,000
*b.* 400,000
*c.* 450,000
*d.* 600,000

**6.** Which of the following accounts has a normal debit balance?

*a.* Common stock
*b.* Additional paid-in capital in excess of par value
*c.* Preferred stock
*d.* Treasury stock

**7.** When a company wants to increase the market price of its stock, what action should it take?

*a.* Issue a cash dividend.
*b.* Issue a stock dividend.
*c.* Execute a reverse stock split.
*d.* Execute a forward stock split.

**8.** Smith & Sons reported net income of $10,000, and has a beginning of year common stockholders' equity balance of $5,000 and an end of year common stockholders' equity balance of $9,000.

What is the company's return on common stockholders' equity?

*a.* 2.0
*b.* 1.4
*c.* 1.1
*d.* 1.0

**9.** Smith & Sons has a dividend per share of $2.00, earnings per share of $4.50, and a market price per share of $16.00. What is the company's dividend payout ratio?

*a.* 8.0
*b.* 3.6
*c.* 1.3
*d.* 0.4

**10.** Using the information from Question 9, calculate the company's dividend yield.

*a.* 0.44
*b.* 0.28
*c.* 0.13
*d.* 0.10

**SOLUTIONS**

**Chapter 11: Stockholders' Equity**

**1.** b
Rationale: ($4 par value x 5,000 shares)

**2.** c

**3.** d

**4.** d
Rationale: (400,000 shares x 15%) x ($5 - $1 per share)

**5.** a
Rationale: [($2,000,000/$5 par value) – 150,000 shares]

**6.** d

**7.** c

**8.** b
Rationale: $10,000 / [($5,000 + $9,000) / 2]

**9.** d
Rationale: ($2.00/$4.50)

**10.** c
Rationale: ($2.00/$16.00)