Module 8 – Financial Accounting for MBAs, 6th Edition by Easton, Wild, Halsey & McAnally

Solutions to Practice Quiz

LO: 1
1. Answer: b

Common stock	$ 6*
Additional paid-in capital	22,388
Total	$22,394

* Cisco's common stock has a par value of $0.001. The common stock account therefore includes, 6,331 million shares issued × $0.001 par value, rounded down to $6 million.

LO: 1
2. Answer: a

Outstanding shares are equal to issued shares less repurchased shares. For 2006, Abercrombie & Fitch has 103,300,000 – 15,573,789 = 87,726,211 shares outstanding.

LO: 2
3. Answer: d

RE 130,000
Cash 130,000

RE	
130,000	

Cash	
	130,000

	Balance Sheet									Income Statement				
Transaction	**Cash Asset**	**+**	**Noncash Assets**	**=**	**Liabil-ities**	**+**	**Contrib. Capital**	**+**	**Earned Capital**	**Revenues**	**–**	**Expenses**	**=**	**Net Income**
Declare and pay preferred and common dividends	–130,000 Cash			=					–130,000 Retained Earnings		–		=	

Preferred dividends = $40,000 ($5 × 8,000 shares); Common dividends = $90,000 ($1.80 × 50,000 shares).

LO: 1
4. Answer: a

Altria issued its common shares at the average price of $2.49 per share. This value is computed as: ($935 million common stock + $6,061 million additional paid-in capital) / 2,805,961,317 shares.

LO: 1
5. Answer: c

Caterpillar purchased treasury shares, on average, for $32.20 per share; this is computed as paid-in amount $4,637 million / 144,027,405 shares.

LO: 1

6. Answer: d

Shares issued – Treasury shares = Shares outstanding
2,976,223,337 – 794,299,347 = 2,181,923,990 shares outstanding

LO: 2

7. Answer: b

During fiscal 2006, P&G issued 3.788 million shares of common stock when Class A preferred stock was converted. The statement of shareholders' equity also reveals that these common shares came from treasury stock.

LO: 3

8. Answer: d

When the bonds are converted, Lucent will remove the face amount of the bonds from the balance sheet together with any remaining unamortized discount or premium. Lucent will account for the issuance of the common stock as if it had received proceeds equal to the bonds' face value, Then, Lucent would separate and assign these proceeds to common stock (at par value) and additional paid-in capital. Thus, no gain or loss from conversion is reported.

LO: 2

9. Answer: d

RE 52,800
CS 12,000
APIC 40,800

RE
52,800 |

CS
| 12,000

APIC
| 40,800

	Balance Sheet									Income Statement				
Transaction	**Cash Asset**	**+**	**Noncash Assets**	**=**	**Liabil-ities**	**+**	**Contrib. Capital**	**+**	**Earned Capital**	**Rev-enues**	**–**	**Expen-ses**	**=**	**Net Income**
Declare and pay stock dividends				=			+12,000 Common Stock +40,800 Add'l Paid-in Capital		–52,800 Retained Earnings		–		=	

Stock dividend = $52,800: market price of the shares distributed (40,000 x 6% x $22).

LO: 2

10. Answer: c

Immediately after the 3-for-2 stock split, the company has 750,000 shares of $20 par value common stock [500,000 shares x (3/2) = 750,000 shares] issued and outstanding.