

Accounting, Vol. 2, 9e Cdn. Ed. (Horngren)

Chapter 13 Corporations: Share Capital and the Balance Sheet

Objective 13-1

1) A corporation is a separate legal entity apart from its owners.

Answer: TRUE

Diff: 1 Type: TF

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

2) Shareholders in a corporation are personally liable for the debts of the corporation.

Answer: FALSE

Diff: 1 Type: TF

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

3) All shares issued by a corporation have voting rights.

Answer: FALSE

Diff: 1 Type: TF

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

4) Double taxation refers to the fact that a corporation pays tax on its taxable earnings and the shareholder also pays personal tax on all of the corporation's taxable income.

Answer: FALSE

Diff: 2 Type: TF

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

5) It is easier to achieve continuous life using the corporate structure for an organization.

Answer: TRUE

Diff: 2 Type: TF

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Comprehension

Objective: 13-1 Identify the characteristics of a corporation

6) Unlimited liability is one of the advantages of the corporate structure for an organization.

Answer: FALSE

Diff: 2 Type: TF

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

7) Mutual agency is one of the disadvantages of the corporate structure for an organization.

Answer: FALSE

Diff: 2 Type: TF

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

8) The most that a shareholder can lose on an investment in a corporation's shares is the cost of the investment.

Answer: TRUE

Diff: 2 Type: TF

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

9) Corporations pay the same taxes as partnerships and proprietorships.

Answer: FALSE

Diff: 1 Type: TF

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

10) Retained earnings is debited to transfer net income to the retained earnings account during the closing process.

Answer: FALSE

Diff: 2 Type: TF

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

11) Retained earnings represents investments by the shareholders of the corporation.

Answer: FALSE

Diff: 2 Type: TF

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

12) A debit balance in retained earnings is referred to as a deficit.

Answer: TRUE

Diff: 1 Type: TF

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

13) The policy-making body of a corporation is called the board of directors.

Answer: TRUE

Diff: 2 Type: TF

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

14) Corporate bylaws are established by provincial governments to regulate company operations in the interest of the public.

Answer: FALSE

Diff: 2 Type: TF

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

15) The document(s) used by a government to grant permission to form a corporation is called (a):

A) proxy

B) articles of incorporation

C) share certificate

D) bylaw agreement

Answer: B

Diff: 1 Type: MC

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

16) All of the following represent advantages of corporations over other business entities *except*:

A) unlimited shareholders' liability

B) continuity of existence

C) separate legal entity

D) ease of transferring ownership

Answer: A

Diff: 2 Type: MC

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

17) Which of the following statements describing a corporation is true?

A) Shareholders are the creditors of a corporation.

B) Shareholders own the business and manage its day-to-day operations.

C) A corporation is subject to greater governmental regulation than a proprietorship or a partnership.

D) When ownership of a corporation changes, the corporation terminates.

Answer: C

Diff: 2 Type: MC

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

18) Which of the following forms of business organizations is a distinct legal entity?

A) partnership

B) corporation

C) proprietorship

D) only proprietorship and partnership

Answer: B

Diff: 1 Type: MC

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

19) Shareholders' liability for corporation debts is generally limited to:

- A) the cost of their investment
- B) the market value of the shares
- C) the par value of the shares
- D) total shareholders' equity

Answer: A

Diff: 1 Type: MC

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

20) Which of the following is a disadvantage of the corporate form of business organization?

- A) mutual agency
- B) government regulation
- C) limited liability
- D) difficulty in transferring ownership

Answer: B

Diff: 2 Type: MC

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

21) Which of the following forms of business organizations terminates when the ownership structure changes?

- A) corporation
- B) partnership
- C) share capital
- D) shareholders' equity

Answer: B

Diff: 1 Type: MC

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

22) Share capital represents:

- A) investments by the creditors of a corporation
- B) capital that the corporation has earned through profitable operations
- C) investments by the shareholders of a corporation
- D) retained earnings

Answer: C

Diff: 1 Type: MC

Learning Outcome: A-02 Describe the components of and prepare the four basic financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

23) Retained earnings:

- A) is classified as an asset on the corporate balance sheet
- B) is part of contributed capital
- C) represents investments by the shareholders of the corporation
- D) represents capital earned by profitable operations

Answer: D

Diff: 2 Type: MC

Learning Outcome: A-02 Describe the components of and prepare the four basic financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

24) The owners of a corporation are referred to as:

- A) creditors
- B) shareholders
- C) partners
- D) debtors

Answer: B

Diff: 1 Type: MC

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

25) All of the following transactions increase shareholders' equity *except*:

- A) issuance of common shares
- B) profitable operations
- C) declaration of a cash dividend
- D) issuance of convertible preferred shares

Answer: C

Diff: 2 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

26) A profitable corporation would close out Income Summary by:

- A) debiting Income Summary and crediting Share Capital
- B) debiting Income Summary and crediting Retained Earnings
- C) crediting Income Summary and debiting Retained Earnings
- D) crediting Income Summary and debiting Share Capital

Answer: B

Diff: 2 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

27) A corporation operating at a loss would close out Income Summary by:

- A) debiting Income Summary and crediting Retained Earnings
- B) debiting Income Summary and crediting Share Capital
- C) crediting Income Summary and debiting Retained Earnings
- D) crediting Income Summary and debiting Share Capital

Answer: C

Diff: 2 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

28) A debit balance in retained earnings is referred to as a(n):

- A) normal balance
- B) asset
- C) deficit
- D) liability

Answer: C

Diff: 1 Type: MC

Learning Outcome: A-02 Describe the components of and prepare the four basic financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

29) Cash dividends:

- A) do not affect the retained earnings of a corporation
- B) decrease both the assets and the total shareholders' equity of the corporation
- C) increase retained earnings
- D) increase the assets and decrease the total shareholders' equity of the corporation

Answer: B

Diff: 2 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

30) All of the following are basic rights of a common shareholder *except*:

- A) the right to receive a proportionate share of the corporate assets remaining after the corporation pays its liabilities in liquidation
- B) the right to receive a proportionate share of the corporate assets prior to the payment of liabilities in liquidation
- C) the right to receive a proportionate share of any dividend
- D) the right to vote

Answer: B

Diff: 2 Type: MC

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

31) The heading, contributed capital, appears on which section of the balance sheet?

- A) current assets
- B) long-term liabilities
- C) property, plant and equipment
- D) shareholders' equity

Answer: D

Diff: 1 Type: MC

Learning Outcome: A-02 Describe the components of and prepare the four basic financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

32) Which of the following statements describes the corporate characteristic termed *limited liability*?

- A) The liabilities of the corporation cannot be extended to the personal assets of the shareholder.
- B) Shares of stock can be readily bought and sold by investors on the open market.
- C) Shareholders are not authorized to sign contracts or make business commitments on behalf of the corporation.
- D) Corporations pay income tax on corporate earnings, and shareholders pay personal income tax on corporate dividends and gains from sale of stock.

Answer: A

Diff: 1 Type: MC

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

33) Which of the following statements describes the corporate characteristic termed *double taxation*?

- A) The liabilities of the corporation cannot be extended to the personal assets of the shareholder.
- B) Shares of stock can be readily bought and sold by investors on the open market.
- C) Shareholders are not authorized to sign contracts or make business commitments on behalf of the corporation.
- D) Corporations pay income tax on corporate earnings, and shareholders pay personal income tax on corporate dividends and gains from sale of stock.

Answer: D

Diff: 1 Type: MC

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

34) Which of the following statements describes the corporate characteristic termed *no mutual agency*?

- A) The liabilities of the corporation cannot be extended to the personal assets of the shareholder.
- B) Shares of stock can be readily bought and sold by investors on the open market.
- C) Shareholders are not authorized to sign contracts or make business commitments on behalf of the corporation.
- D) Corporations pay income tax on corporate earnings, and shareholders pay personal income tax on corporate dividends and gains from sale of stock.

Answer: C

Diff: 1 Type: MC

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

Table 13-9

Following is the JenWu Corporation December 31, 2015 shareholders' equity section of the balance sheet, prior to the closing entries:

Contributed capital:	
Preferred shares, cumulative, \$5.00, 6,000 shares outstanding, liquidation value \$42 per share	\$220,000
Common shares, 30,000 shares outstanding	500,000
Retained earnings/(deficit)	(240,000)

Note: No dividends were declared in 2013 or 2014. The net income for 2015 was \$260,000.

35) Referring to Table 13-9, what is the journal entry to close the Income Summary account?

A)

Dr. Retained Earnings	260,000	
Cr. Income Summary		260,000

B)

Dr. Retained Earnings	350,000	
Cr. Preferred Dividend Payable		90,000
Cr. Income Summary		260,000

C)

Dr. Income Earnings	260,000	
Cr. Retained Earnings		260,000

D)

Dr. Income Summary	260,000	
Cr. Preferred Dividend Expense		90,000
Cr. Retained Earnings		170,000

Answer: C

Diff: 3 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Application

Objective: 13-1 Identify the characteristics of a corporation

Match the following.

- A) common shares
- B) outstanding shares
- C) shareholders' equity
- D) board of directors
- E) President
- F) limited liability
- G) deficit
- H) organization costs
- I) retained earnings
- J) underwriter
- K) authorization of shares
- L) articles of incorporation
- M) corporate law firm

36) Documents used by a government to grant its permission to form a corporation

Diff: 1 Type: MA

Learning Outcome:

Skill: Knowledge

A-03 Analyze and record transactions and their effect on the financial statements

Objective: 13-1 Identify the characteristics of a corporation

37) Chief operating officer in charge of managing the day-to-day operations of a corporation.

Diff: 1 Type: MA

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

38) Owners' equity of a corporation

Diff: 1 Type: MA

Learning Outcome: A-02 Describe the components of and prepare the four basic financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

39) Shares in the hands of shareholders

Diff: 1 Type: MA

Learning Outcome: A-02 Describe the components of and prepare the four basic financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

40) Group elected by the shareholders to set policy for a corporation and to appoint its officers.

Diff: 1 Type: MA

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

41) Provision in the articles of incorporation that permits a corporation to sell a certain number of shares of stock.

Diff: 1 Type: MA

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

42) Debit balance in the retained earnings account

Diff: 1 Type: MA

Learning Outcome: A-02 Describe the components of and prepare the four basic financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

43) The costs of organizing a corporation, including legal fees, taxes, and charges by promoters for selling the shares.

Diff: 1 Type: MA

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

44) No personal obligation of a shareholder for corporation debts. The most that a shareholder can lose on an investment in a corporation's shares is the cost of the investment.

Diff: 1 Type: MA

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

45) A corporation's capital that is earned through profitable operation of the business

Diff: 1 Type: MA

Learning Outcome: A-02 Describe the components of and prepare the four basic financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

46) The most basic form of share capital

Diff: 1 Type: MA

Learning Outcome: A-02 Describe the components of and prepare the four basic financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

47) The firm engaged to sell shares on behalf of the issuing corporation

Diff: 1 Type: MA

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

Answers: 36) L 37) E 38) C 39) B 40) D 41) K 42) G 43) H 44) F 45) I 46) A 47) J

48) Discuss the characteristics of a corporation. Indicate, wherever appropriate, if the characteristic is an advantage or a disadvantage of the corporate form of business.

Answer:

Students should mention the following characteristics:

Separate legal entity

Ability to raise more capital-advantage

Continuous life-advantage

Ease of ownership transfer-advantage

No mutual agency - advantage

Limited liability of shareholders - advantage

Separation of management and owners - disadvantage

Possible double taxation - disadvantage

Government regulation - disadvantage

Additional costs unique to corporations - disadvantage

Diff: 2 Type: ES

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Comprehension

Objective: 13-1 Identify the characteristics of a corporation

49) List some of the shareholder rights normally attached to common shares.

Answer: -The right to sell the shares

-The right to vote at shareholders' meetings

-The right to receive a proportionate share of any dividends declared by the directors

-The right to receive a proportionate share of any assets on the winding-up of the company, after the creditors and any higher ranking classes of shares have been paid.

-The right to maintain one's proportionate ownership in the corporation.

Diff: 2 Type: ES

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-1 Identify the characteristics of a corporation

Objective 13-2

1) No-par-value shares are shares of stock that do not have a value assigned to them by the articles of incorporation.

Answer: TRUE

Diff: 2 Type: TF

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

2) Preferred shares normally have no voting rights.

Answer: TRUE

Diff: 1 Type: TF

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

3) When a corporation issues shares in exchange for noncash assets, the noncash assets are debited for their book value.

Answer: FALSE

Diff: 2 Type: TF

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Knowledge

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

4) The shareholders' equity section of a balance sheet lists common shares first, followed by preferred shares second, and retained earnings last.

Answer: FALSE

Diff: 2 Type: TF

Learning Outcome: A-02 Describe the components of and prepare the four basic financial statements

Skill: Knowledge

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

5) Organization costs are intangible assets classified with property, plant and equipment.

Answer: FALSE

Diff: 1 Type: TF

Learning Outcome: A-02 Describe the components of and prepare the four basic financial statements

Skill: Knowledge

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

6) Increases in contributed capital and in retained earnings come from producing revenue.

Answer: FALSE

Diff: 2 Type: TF

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Comprehension

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

7) Convertible preferred shares must be converted into common shares when the corporation declares the conversion.

Answer: FALSE

Diff: 2 Type: TF

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Knowledge

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

8) If a company has both preferred and common shares outstanding, the preferred shareholders have the first claim to shareholders' equity.

Answer: TRUE

Diff: 2 Type: TF

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Knowledge

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

9) Convertible preferred shares may be exchanged for another specified class of shares in the corporation if the preferred shareholder chooses.

Answer: TRUE

Diff: 2 Type: TF

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

10) Corporations may use an underwriter to sell their shares rather than selling them directly to investors.

Answer: TRUE

Diff: 2 Type: TF

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

11) Which of the following is a priority granted to preferred shareholders?

- A) voting for the corporate board of directors
- B) receiving assets before creditors if the corporation liquidates
- C) receiving dividends before common shareholders
- D) receiving a guaranteed fixed dollar amount of dividends each year

Answer: C

Diff: 2 Type: MC

Learning Outcome: A-02 Describe the components of and prepare the four basic financial statements

Skill: Knowledge

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

12) A corporation may issue:

- A) common shares and preferred shares
- B) preferred shares but not common shares
- C) common shares but not preferred shares
- D) either common shares or preferred shares but not both

Answer: A

Diff: 1 Type: MC

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

13) Why might corporations prefer issuing preferred shares to debt?

- A) dividends are payable at the discretion of the corporation
- B) debt payments are payable at the discretion of the corporation
- C) dividends are tax deductible to the corporation
- D) interest expense is tax deductible to the corporation

Answer: A

Diff: 2 Type: MC

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

14) An owner investment of cash in a corporation increases:

- A) assets and increases liabilities
- B) one asset and decreases another asset
- C) assets and decreases shareholders' equity
- D) assets and increases shareholders' equity

Answer: D

Diff: 1 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Knowledge

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

15) The entry to record the issuance of 5,000 common shares for \$12.50 per share includes a:

- A) debit to Retained Earnings for \$62,500
- B) debit to Cash for \$62,500
- C) credit to Retained Earnings for \$62,500
- D) debit to Common Shares for \$62,500

Answer: B

Diff: 1 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Application

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

16) The entry to record the issuance of 6,000 common shares for \$12.50 per share includes a:

- A) credit to Cash for \$75,000
- B) debit to Common Shares for \$75,000
- C) credit to Common Shares for \$75,000
- D) credit to Retained Earnings for \$75,000

Answer: C

Diff: 1 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Application

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

17) The entry to record the issuance of 55,000 common shares at \$13.50 per share includes a:

- A) credit to Retained Earnings \$742,500
- B) credit to Cash for \$742,500
- C) debit to Retained Earnings for \$742,500
- D) credit to Common Shares for \$742,500

Answer: D

Diff: 1 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Application

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

18) When 35,000 common shares are issued at \$16.50 per share, total contributed capital:

- A) increases by \$577,500
- B) increases by \$350,000
- C) increases by \$227,500
- D) decreases by \$577,500

Answer: A

Diff: 1 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Application

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

19) Land is acquired by issuing 500 common shares. The land has a current market value of \$12,000.

There is no market value for the common shares available. The journal entry requires a:

- A) debit to Cash for \$12,000
- B) debit to Common Shares for \$12,000
- C) credit to Retained Earnings for \$12,000
- D) credit to Common Shares for \$12,000

Answer: D

Diff: 2 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Application

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

20) A corporation issues common shares in exchange for equipment with a market value of \$15,000. This transaction would:

- A) increase retained earnings by \$15,000
- B) increase liabilities by \$15,000
- C) increase common shares by \$15,000
- D) decrease total shareholders' equity by \$15,000

Answer: C

Diff: 2 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Application

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

21) Accounting for the incorporation of an unincorporated going business involves:

- A) closing the owner equity accounts of the prior entity and setting up the shareholder equity accounts of the corporation
- B) leaving the owner equity accounts as is and setting up the shareholders' equity accounts for the corporation
- C) closing the owner equity accounts of the prior entity to the retained earnings account of the corporation
- D) closing the withdrawals accounts to the dividends payable accounts

Answer: A

Diff: 3 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Knowledge

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

22) Organization costs appear on which section of the balance sheet?

- A) current assets
- B) intangible assets
- C) shareholders' equity
- D) long-term liabilities

Answer: B

Diff: 2 Type: MC

Learning Outcome: A-02 Describe the components of and prepare the four basic financial statements

Skill: Knowledge

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

Table 13-1

The following selected list of accounts with their normal balances was taken from the general ledger of Grant Corporation as of December 31, 2014:

Cash	\$173,500
Common shares, 100,000 shares authorized, 50,000 shares issued	190,000
Retained earning	131,500
Cash dividends payable	25,000
Preferred shares, 200,000 shares authorized 100,000 shares issued	500,000

23) Refer to Table 13-1. The average issue price of a common share was:

- A) \$3.80
- B) \$1.90
- C) \$5.00
- D) \$0.95

Answer: A

Diff: 2 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Analysis

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

24) Refer to Table 13-1. The average issue price of a preferred share was:

- A) \$2.50
- B) \$6.90
- C) \$5.00
- D) \$3.80

Answer: C

Diff: 2 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Analysis

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

25) Refer to Table 13-1. Which account should be listed first in the shareholders' equity section?

- A) Retained earnings
- B) Common shares
- C) Contributed surplus
- D) Preferred shares

Answer: D

Diff: 2 Type: MC

Learning Outcome: A-02 Describe the components of and prepare the four basic financial statements

Skill: Knowledge

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

26) Refer to Table 13-1. The total shareholders' equity as of December 31, 2014 was:

- A) \$190,000
- B) \$846,500
- C) \$881,500
- D) \$821,500

Answer: D

Diff: 3 Type: MC

Learning Outcome: A-02 Describe the components of and prepare the four basic financial statements

Skill: Analysis

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

Table 13-6

The following selected list of accounts with their normal balances was taken from the general ledger of Gore Ltd. as of December 31, 2014:

Cash	\$199,000
Common shares, 10,000 shares authorized, 5,000 shares issued	265,000
Retained earnings	131,5000
Cash dividends payable	20,000
Preferred shares, 500,000 shares authorized 100,000 shares issued	800,000

27) Refer to Table 13-6. Which account should be listed first in the shareholders' equity section?

- A) Retained earnings
- B) Common shares
- C) Contributed surplus
- D) Preferred shares

Answer: D

Diff: 2 Type: MC

Learning Outcome: A-02 Describe the components of and prepare the four basic financial statements

Skill: Knowledge

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

28) Notebook Company had the following transactions in 2013, its first year of operations.

- Issued 2,000 common shares. Shares were issued at \$50.00 per share.
- Issued 100 preferred shares. Shares were issued at \$100 per share.
- Earned net income of \$95,000.
- Paid dividends of \$5,000.

At the end of 2013, how much was the total Shareholders' equity?

- A) \$200,000
- B) \$110,000
- C) \$90,000
- D) \$100,000

Answer: A

Explanation: A) Calculations: $(2,000 \times \$50) + (100 \times \$100) + (\$95,000 - \$5,000) = \$200,000$

Diff: 2 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Application

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

29) Overton Company had the following transactions in 2013, its first year of operations.

- Issued 5,000 common shares at \$30.00 per share.
- Earned net income of \$200,000.
- Paid dividends of \$5.00 per share.

At the end of 2013, how much is the total contributed capital?

- A) \$150,000
- B) \$325,000
- C) \$175,000
- D) \$200,000

Answer: A

Explanation: A) Calculations: $(5,000 \times \$30) = \$150,000$

Diff: 2 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Application

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

30) Beta Company was founded in 2014. Its yearly earnings and dividend payments are shown here:

2012: Net income \$4,000, paid zero dividends

2013: Net income \$20,000, paid \$10,000 dividends

2014: Net income of \$8,000, paid \$5,000 dividends

2015: Net loss of \$22,000, paid zero dividends

At the end of 2015, which of the following statements would be accurate?

A) Beta has a cumulative operating loss.

B) Beta has a retained earnings deficit.

C) Beta has retained earnings surplus.

D) Beta has negative contributed capital.

Answer: B

Explanation: B) Calculation: $\$4,000 + \$20,000 - \$10,000 + \$8,000 - \$5,000 - \$22,000 = \$(5,000)$

Diff: 2 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Application

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

Match the following.

- A) preferred shares
- B) convertible
- C) par value
- D) no-par-value shares
- E) amortization
- F) cumulative
- G) liquidation value

31) Shares that do not have a value assigned to them by the articles of incorporation

Diff: 1 Type: MA

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

32) Shares of stock that gives its owners certain advantages over the common shareholders.

Diff: 1 Type: MA

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

33) The amount a preferred shareholder would receive for their shares in the event the corporation is liquidated

Diff: 1 Type: MA

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

34) Preferred shares that can be exchanged by the preferred shareholders

Diff: 1 Type: MA

Learning Outcome: A-02 Describe the components of and prepare the four basic financial statements

Skill: Knowledge

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

35) The method of recognizing organization costs under ASPE

Diff: 1 Type: MA

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Knowledge

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

36) An arbitrary value assigned to each share in the articles of incorporation

Diff: 1 Type: MA

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

Answers: 31) D 32) A 33) G 34) B 35) E 36) C

37) Prepare a journal entry for each of the following transactions.

- Masters Corporation sells 10,000 common shares for \$13.25 per share.
- Masters Corporation sells 5,000 shares of \$5, cumulative preferred shares for \$55 per share.
- Received a building with a market value of \$160,000, and issued 6,400 common shares in exchange.
- Masters Corporation reports a net income for the current year of \$56,000. Prepare the entry to close the income summary account.

Date	Accounts	Debit	Credit

Answer:

Date	Accounts	Debit	Credit
a)	Cash	132,500	
	Common Shares		132,500
b)	Cash	275,000	
	Preferred Shares		275,000
d)	Building	160,000	
	Common Shares		160,000
e)	Income Summary	56,000	
	Retained Earnings		56,000

Diff: 2 Type: SA

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Application

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

38) Prepare a journal entry for each of the following transactions.

- Struthers Corporation sells 100,000 common shares for \$4.50 per share.
- Struthers Corporation sells 6,000 shares of \$3, cumulative preferred shares for \$70 per share.
- Received equipment with a market value of \$60,000, and issued 12,400 common shares in exchange.
- Struthers Corporation reports a net income for the current year of \$241,000. Prepare the entry to close the income summary account.

Date	Accounts	Debit	Credit

Answer:

Date	Accounts	Debit	Credit
a)	Cash	450,000	
	Common Shares		450,000
b)	Cash	420,000	
	Preferred Shares		420,000
d)	Equipment	60,000	
	Common Shares		60,000
e)	Income Summary	241,000	
	Retained Earnings		241,000

Diff: 2 Type: SA

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Application

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

39) Prepare journal entries for the following transactions reported by Evans Corporation for the month of May:

- May 1 Issued 35,000 common shares at \$15 per share.
 21 Issued 1,400 shares of \$5, cumulative preferred shares for a total of \$144,200.
 28 Exchanged 5,000 common shares for a patent valued at \$82,000.
 31 Jet Corporation reported a net loss for May amounting to \$10,500.

Prepare the entry to close the income summary account.

Date	Accounts	Debit	Credit

Answer:

Date	Accounts	Debit	Credit
May 1	Cash	525,000	
	Common Shares		525,000
21	Cash	144,200	
	Preferred Shares		144,200
28	Patent	82,000	
	Common Shares		82,000
31	Retained Earnings	10,500	
	Income Summary		10,500

Diff: 2 Type: SA

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Application

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

40) From the following alphabetical list of selected accounts taken from the general ledger of Dorlin Corporation as of December 31, 2014, select the accounts that are part of shareholders' equity. Then prepare the shareholders' equity section of the balance sheet on December 31, 2014.

Accounts receivable	50,000
Cash dividends payable	20,000
Common shares, 20,000 shares outstanding	550,000
Inventory	75,000
Note payable	25,000
Notes receivable	20,000
Preferred shares, \$10 cumulative, 1,000 shares outstanding	250,000
Retained earnings	250,000
Unearned revenue	15,000

Answer: Dorlin Corporation
Partial Balance Sheet
December 31, 2014

Shareholders' equity

Contributed capital:

Preferred shares, \$10, cumulative, 1,000 shares outstanding	\$ 250,000
Common shares, 20,000 shares outstanding	<u>550,000</u>
Total contributed capital	800,000

Retained earnings	250,000
Total shareholders' equity	<u>\$1,050,000</u>

Diff: 3 Type: SA

Learning Outcome: A-02 Describe the components of and prepare the four basic financial statements

Skill: Application

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

Answer:

Journal

Date	Description	Debit	Credit
2010			
Jan. 2	Organization Costs	5,000	
	Common Shares		5,000
Jan. 3	Cash	200,000	
	Common Shares		200,000
Jan. 4	Cash	100,000	
	Preferred Shares		100,000
Jan. 4	Building	260,000	
	Cash		50,000
	Common Shares		210,000
Dec. 31	Income Summary	63,000	
	Retained Earnings		63,000

Nevada Corporation
 Partial Balance Sheet
 December 31, 2014
 Shareholders' Equity

Contributed capital

Preferred shares,\$0.50, 500,000 shares authorized, 10,000 shares issued	\$ 100,000
Common shares, unlimited number of shares authorized, 405,000 shares issued	<u>415,000</u>
Total contributed capital	515,000
Retained earnings	<u>63,000</u>
Total shareholders' equity	<u>\$578,000</u>

Diff: 3 Type: SA

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Application

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

Table 13-11

The following accounts and related balances of ETH Engineering Ltd. are as at December 31, 2014 prior to the closing journal entries.

Trademark, net	\$ 17,000
Preferred Shares, \$2.50, 20,000 authorized and issued	200,000
Cash	320,000
Accounts Receivable, net	265,000
Accrued Liabilities	42,000
Long-term Note Payable	500,000
Inventory	350,000
Retained Earnings/(Deficit)	(1,197,000)
Accounts Payable	75,000
Interest Expense	35,000
Property, Plant, and Equipment, net	2,800,000
Common Shares, 300,000 shares authorized; 175,000 shares issued	3,500,000
Prepaid Expenses	3,000
Organization Costs	15,000

Additional information:

Total Assets, January 1, 2014	\$ 3,200,000
Net income for 2014	\$ 650,000
No new shares were issued in 2014.	

Answer: ETH Engineering Ltd.
Balance Sheet
December 31, 2014

Assets		
Current Assets:		
Cash	\$ 320,000	
Accounts Receivable, net	265,000	
Inventory	350,000	
Prepaid Expenses	3,000	
Total Current Assets		\$ 938,000
Property, Plant, and Equipment, net		2,800,000
Intangible Assets:		
Trademark, net	\$ 17,000	
Organization Costs	15,000	
Total Intangible Assets		32,000
Total Assets		\$ 3,770,000
Liabilities		
Current Liabilities:		
Accounts Payable	\$ 75,000	
Accrued Liabilities	42,000	
Total Current Liabilities		\$ 117,000
Long-term Note Payable		500,000
Total Liabilities		\$ 617,000
Shareholders' Equity		
Preferred Shares, \$2.50, cumulative, 20,000 authorized and issued	\$ 200,000	
Common Shares, 300,000 shares authorized; 175,000 shares issued	3,500,000	
Retained Earnings/(Deficit)	(547,000)	
Total Shareholders' Equity		3,153,000
Total Liabilities and Shareholders' Equity		\$ 3,770,000

Diff: 3 Type: SA

Learning Outcome: A-02 Describe the components of and prepare the four basic financial statements

Skill: Application

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

Table 13-12

The following accounts and related balances of FYI Advertising Ltd. are as at December 31, 2014 prior to the closing journal entries.

Accrued Liabilities	\$ 50,400
Preferred Shares, \$2.50, cumulative, 24,000 authorized and issued	240,000
Prepaid Expenses	3,600
Accounts Payable	90,000
Trademark, net	20,400
Long-term Note Payable	600,000
Property, Plant, and Equipment, net	3,360,000
Retained Earnings	623,600
Accounts Receivable, net	318,000
Interest Expense	29,000
Inventory	420,000
Common Shares, 300,000 shares authorized; 200,000 shares issued	2,500,000
Cash	384,000
Organization Costs	18,000

Additional information:

Total Assets, January 1, 2014	\$ 4,100,000
Net income for 2014	\$ 420,000
No new shares were issued in 2014.	

Answer: FYI Advertising Ltd.
Balance Sheet
December 31, 2014

Assets		
Current Assets:		
Cash	\$ 384,000	
Accounts Receivable, net	318,000	
Inventory	420,000	
Prepaid Expenses	3,600	
Total Current Assets		\$ 1,125,600
Property, Plant, and Equipment, net		3,360,000
Intangible Assets:		
Trademark, net	\$ 20,400	
Organization Costs	18,000	
Total Intangible Assets		38,400
Total Assets		\$ 4,524,000
Liabilities		
Current Liabilities:		
Accounts Payable	\$ 90,000	
Accrued Liabilities	50,400	
Total Current Liabilities		\$ 140,400
Long-term Note Payable		600,000
Total Liabilities		\$ 740,400
Shareholders' Equity		
Preferred Shares, \$2.50, cumulative, 24,000 authorized and issued	\$ 240,000	
Common Shares, 300,000 shares authorized; 200,000 shares issued	2,500,000	
Retained Earnings	1,043,600	
Total Shareholders' Equity		3,783,600
Total Liabilities and Shareholders' Equity		\$ 4,524,000

Diff: 3 Type: SA

Learning Outcome: A-02 Describe the components of and prepare the four basic financial statements

Skill: Application

Objective: 13-2 Record the issuance of shares and prepare the shareholders' equity section of a corporation's balance sheet

Objective 13-3

1) Dividends distributed increase the assets and decrease the retained earnings of the business.

Answer: FALSE

Diff: 1 Type: TF

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Knowledge

Objective: 13-3 Account for cash dividends

2) Cash dividends decrease both the assets and the retained earnings of a corporation.

Answer: TRUE

Diff: 2 Type: TF

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Knowledge

Objective: 13-3 Account for cash dividends

3) The entry on the payment date for a cash dividend involves a debit to retained earnings and a credit to cash.

Answer: FALSE

Diff: 2 Type: TF

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Knowledge

Objective: 13-3 Account for cash dividends

4) Dividends become a liability of the corporation on the declaration date.

Answer: TRUE

Diff: 2 Type: TF

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Knowledge

Objective: 13-3 Account for cash dividends

5) Dividends in arrears on cumulative preferred shares are not a liability to the corporation.

Answer: TRUE

Diff: 2 Type: TF

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Knowledge

Objective: 13-3 Account for cash dividends

6) Dividends payable are normally a long-term liability.

Answer: FALSE

Diff: 1 Type: TF

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Knowledge

Objective: 13-3 Account for cash dividends

7) In order to receive a cash dividend, an investor must own the share by the payment date.

Answer: FALSE

Diff: 2 Type: TF

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Knowledge

Objective: 13-3 Account for cash dividends

8) The declaration date and the payment date of a cash dividend are the same thing.

Answer: FALSE

Diff: 1 Type: TF

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Knowledge

Objective: 13-3 Account for cash dividends

9) Dividends cannot accumulate for common shares.

Answer: TRUE

Diff: 2 Type: TF

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Knowledge

Objective: 13-3 Account for cash dividends

10) If the preferred shares are not designated as cumulative, the corporation is obligated to pay any dividends in arrears.

Answer: FALSE

Diff: 2 Type: TF

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Knowledge

Objective: 13-3 Account for cash dividends

11) Dividends become a liability of the corporation:

A) on the payment date

B) on the date of record

C) on the declaration date

D) on the day immediately following the date of declaration

Answer: C

Diff: 2 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Knowledge

Objective: 13-3 Account for cash dividends

12) The dividends payable liability of the corporation is eliminated:

- A) on the payment date
- B) on the date of record
- C) on the declaration date
- D) on the day immediately following the date of declaration

Answer: A

Diff: 2 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Knowledge

Objective: 13-3 Account for cash dividends

13) The entry to record the declaration of a \$0.50 per share dividend on 12,500 outstanding common shares requires a:

- A) credit to Cash for \$6,250
- B) debit to Dividends Payable for \$6,250
- C) debit to Retained Earnings for \$6,250
- D) credit to Retained Earnings for \$6,250

Answer: C

Diff: 2 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Application

Objective: 13-3 Account for cash dividends

14) The entry to pay a previously declared dividend of \$0.50 per share on 12,500 outstanding common shares requires a:

- A) debit to Cash for \$6,250
- B) credit to Dividends Payable for \$6,250
- C) debit to Retained Earnings for \$6,250
- D) debit to Dividends Payable for \$6,250

Answer: D

Diff: 2 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Application

Objective: 13-3 Account for cash dividends

15) The declaration of a dividend:

- A) increases total shareholders' equity
- B) reduces total assets
- C) increases total assets
- D) increases total liabilities

Answer: D

Diff: 2 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Comprehension

Objective: 13-3 Account for cash dividends

16) The payment of a dividend:

- A) reduces total shareholders' equity
- B) increases total shareholders' equity
- C) reduces total liabilities
- D) has no effect on total assets

Answer: C

Diff: 2 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Comprehension

Objective: 13-3 Account for cash dividends

17) A dividend is declared by the:

- A) president of the corporation
- B) board of directors
- C) chief financial officer
- D) corporate controller

Answer: B

Diff: 1 Type: MC

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-3 Account for cash dividends

18) Dividends on cumulative preferred shares of \$2,500 are in arrears for 2013. During 2014, the total dividends declared amount to \$10,000. There are 6,000 shares of \$1 cumulative preferred shares outstanding and 10,000 common shares outstanding. The total amount of dividends payable to each class of shares in 2014 amounts to:

- A) \$8,500 to preferred, \$1,500 to common
- B) \$6,000 to preferred, \$4,000 to common
- C) \$5,000 to preferred, \$5,000 to common
- D) \$10,000 to preferred, \$0 to common

Answer: A

Diff: 3 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Analysis

Objective: 13-3 Account for cash dividends

19) Dividends on cumulative preferred shares of \$2,500 are in arrears for 2013 and 2014. During 2015, the total dividends declared amount to \$10,000. There are 3,000 shares of \$1 cumulative preferred shares outstanding and 10,000 common shares outstanding. The total amount of dividends payable to each class of shares in 2015 amounts to:

- A) \$5,500 to preferred, \$4,500 to common
- B) \$3,000 to preferred, \$7,000 to common
- C) \$8,000 to preferred, \$2,000 to common
- D) \$10,000 to preferred, \$0 to common

Answer: C

Diff: 3 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Analysis

Objective: 13-3 Account for cash dividends

20) Dividends on cumulative preferred shares of \$2,500 are in arrears for 2012, 2013, and 2014. During 2015, the total dividends declared amount to \$10,000. There are 3,000 shares of \$1 cumulative preferred shares outstanding and 10,000 common shares outstanding. The total amount of dividends payable to each class of shares in 2015 amounts to:

- A) \$5,500 to preferred, \$4,500 to common
- B) \$3,000 to preferred, \$7,000 to common
- C) \$8,000 to preferred, \$2,000 to common
- D) \$10,000 to preferred, \$0 to common

Answer: D

Diff: 3 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Analysis

Objective: 13-3 Account for cash dividends

21) Dividends were not declared by Royal Inc. in 2013 or 2014. During 2015, total dividends declared amount to \$20,000. There are 6,000 shares of \$1 cumulative preferred shares outstanding and 10,000 common shares outstanding. The total amount of dividends payable to each class of shares in 2015 amounts to:

- A) \$18,000 to preferred, \$2,000 to common
- B) \$6,000 to preferred, \$14,000 to common
- C) \$12,000 to preferred, \$8,000 to common
- D) \$10,000 to preferred, \$10,000 to common

Answer: A

Diff: 3 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Analysis

Objective: 13-3 Account for cash dividends

22) Dividends were not declared by Royal Inc. in 2012. During 2013, total dividends declared amount to \$20,000. There are 6,000 shares of \$1 cumulative preferred shares outstanding and 10,000 common shares outstanding. The total amount of dividends payable to each class of shares in 2013 amounts to:

- A) \$18,000 to preferred, \$2,000 to common
- B) \$6,000 to preferred, \$14,000 to common
- C) \$12,000 to preferred, \$8,000 to common
- D) \$10,000 to preferred, \$10,000 to common

Answer: C

Diff: 3 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Analysis

Objective: 13-3 Account for cash dividends

23) During 2014, total dividends declared by Par Corporation amounted to \$29,000. There were 5,000 shares of \$2 noncumulative preferred shares outstanding and 10,000 common shares outstanding. No dividends were declared in 2012 or 2013. The total amount of dividends payable to each class of shares in 2014 amounted to:

- A) \$19,000 to preferred, \$10,000 to common
- B) \$0 to preferred, \$29,000 to common
- C) \$10,000 to preferred, \$19,000 to common
- D) \$29,000 to preferred, \$0 to common

Answer: C

Diff: 2 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Analysis

Objective: 13-3 Account for cash dividends

24) During 2014, total dividends declared by Par Corporation amounted to \$29,000. There were 5,000 shares of \$2 cumulative preferred shares outstanding and 10,000 common shares outstanding. No dividends were declared in 2012 or 2013. The total amount of dividends payable to each class of shares in 2014 amounted to:

- A) \$19,000 to preferred, \$10,000 to common
- B) \$0 to preferred, \$29,000 to common
- C) \$10,000 to preferred, \$19,000 to common
- D) \$29,000 to preferred, \$0 to common

Answer: D

Diff: 3 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Analysis

Objective: 13-3 Account for cash dividends

25) During 2014, total dividends declared by Jackson Corp. amounted to \$29,000. There were 5,000 shares of \$2 cumulative preferred shares outstanding and 10,000 common shares outstanding. No dividends were declared in 2013. The total amount of dividends payable to each class of shares in 2014 amounted to:

- A) \$10,000 to preferred, \$19,000 to common
- B) \$20,000 to preferred, \$9,000 to common
- C) \$29,000 to preferred, \$0 to common
- D) \$9,000 to preferred, \$20,000 to common

Answer: B

Diff: 3 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Analysis

Objective: 13-3 Account for cash dividends

26) During 2013, total dividends declared by Jackson Corp. amounted to \$29,000. There were 5,000 shares of \$2 noncumulative preferred shares outstanding and 10,000 common shares outstanding. No dividends were declared in 2012. The total amount of dividends payable to each class of shares in 2013 amounted to:

- A) \$10,000 to preferred, \$19,000 to common
- B) \$20,000 to preferred, \$9,000 to common
- C) \$29,000 to preferred, \$0 to common
- D) \$9,000 to preferred, \$20,000 to common

Answer: A

Diff: 2 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Analysis

Objective: 13-3 Account for cash dividends

27) Passed dividends on cumulative preferred shares:

- A) remain a liability of the corporation until they are paid
- B) are forever lost by the preferred shareholders
- C) are referred to as dividends in arrears
- D) are paid after common shareholders receive their dividends

Answer: C

Diff: 2 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Knowledge

Objective: 13-3 Account for cash dividends

28) Dividends in arrears:

- A) are a liability on the balance sheet
- B) are passed dividends on cumulative preferred shares
- C) are never reported in the notes to the financial statements
- D) are forever lost by the preferred shareholders

Answer: B

Diff: 2 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Knowledge

Objective: 13-3 Account for cash dividends

29) Magic Corp. has 20,000 shares of noncumulative, \$5 preferred shares outstanding as well as 100,000 common shares. The board of directors have declared and distributed the required dividends for the past three years, not counting the current year. The board wants to give the common shareholders a \$1.25 dividend per share for the current year. The total dividends to be declared must be:

- A) \$225,000
- B) \$125,000
- C) \$525,000
- D) \$250,000

Answer: A

Diff: 2 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Analysis

Objective: 13-3 Account for cash dividends

30) Newco Corporation has 20,000 shares of cumulative, \$5 preferred shares outstanding as well as 100,000 common shares. As of the beginning of this fiscal year, there were three years of dividends in arrears on the preferred shares. The board of directors wants to give the common shareholders a \$1.25 dividend per share. The total dividends to be declared must be:

- A) \$225,000
- B) \$400,000
- C) \$525,000
- D) \$425,000

Answer: C

Diff: 3 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Analysis

Objective: 13-3 Account for cash dividends

31) Resco Corporation has had 10,000 shares of \$3, cumulative preferred shares outstanding as well as 35,000 common shares since it was incorporated. During the first, second, and third years of operations, \$15,000, \$18,000 and \$50,000 in dividends, respectively, were paid. The dividends paid to the common shareholders in year three amounted to:

- A) \$30,000
- B) \$0
- C) \$27,000
- D) \$18,000

Answer: B

Diff: 3 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Analysis

Objective: 13-3 Account for cash dividends

32) Resco Corporation has had 10,000 shares of \$3, cumulative preferred shares outstanding as well as 35,000 common shares since it was incorporated. During the first, second, and third years of operations, \$10,000, \$20,000 and \$80,000 in dividends, respectively, were paid. The dividends paid to the common shareholders in year three amounted to:

- A) \$30,000
- B) \$0
- C) \$20,000
- D) \$18,000

Answer: C

Diff: 3 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Analysis

Objective: 13-3 Account for cash dividends

Table 13-2

Falcon Corporation has 12,000 shares of \$5, noncumulative preferred shares outstanding and 16,000 common shares outstanding. At the end of the current year, Falcon Corporation declares a dividend of \$120,000.

33) Refer to Table 13-2. How is the dividend allocated between preferred and common shareholders?

- A) \$12,000 to preferred, \$108,000 to common
- B) \$80,000 to preferred, \$40,000 to common
- C) \$60,000 to preferred, \$60,000 to common
- D) \$40,000 to preferred, \$80,000 to common

Answer: C

Diff: 2 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Analysis

Objective: 13-3 Account for cash dividends

34) Refer to Table 13-2. What is the dividend per share to preferred and common shareholders?

- A) \$5.00 to preferred, \$3.75 to common
- B) \$3.75 to preferred, \$5.00 to common
- C) \$6.67 to preferred, \$1.50 to common
- D) \$1.00 to preferred, \$6.75 to common

Answer: A

Diff: 2 Type: MC

Learning Outcome: A-16 Define and use the different types of financial statement analysis tools

Skill: Analysis

Objective: 13-3 Account for cash dividends

Table 13-3

Spencer Corporation has 15,000 shares of \$5, cumulative preferred shares outstanding and 25,000 common shares. At the end of the current year, Spencer Corporation declares a dividend of \$120,000. Dividends of \$37,500 are in arrears as of January 1 of the current year.

35) Refer to Table 13-3. How is the dividend allocated between preferred and common shareholders?

- A) \$112,500 to preferred, \$7,500 to common
- B) \$75,000 to preferred, \$45,000 to common
- C) \$120,000 to preferred, \$0 to common
- D) \$0 to preferred, \$120,000 to common

Answer: A

Diff: 3 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Analysis

Objective: 13-3 Account for cash dividends

36) Refer to Table 13-3. What is the dividend per share to preferred and common shareholders?

- A) \$5.00 to preferred, \$1.80 to common
- B) \$7.50 to preferred, \$0.30 to common
- C) \$5.00 to preferred, \$0.30 to common
- D) \$1.80 to preferred, \$5.00 to common

Answer: B

Diff: 3 Type: MC

Learning Outcome: A-16 Define and use the different types of financial statement analysis tools

Skill: Analysis

Objective: 13-3 Account for cash dividends

37) From its inception through the year of 2014, Quicksales Company was profitable and made strong dividend payments each year. In the year 2015, Quicksales had major losses and paid no dividends. In 2016, the company started making large profits again, and was able to pay dividends to all shareholders—both common and preferred. There are 1,500 cumulative, \$7 dividend, preferred shares outstanding. What is the total amount of dividends which should be paid to the preferred shareholders in December 2016?

- A) \$210
- B) \$22,000
- C) \$10,500
- D) \$21,000

Answer: D

Explanation: D)

Calculations: $1,500 \times \$7 = \$10,500$

$\$10,500 \times 2 = \$21,000$

Diff: 2 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Application

Objective: 13-3 Account for cash dividends

38) Orleans Company was incorporated on January 1, 2012. Orleans issued 4,000 common shares and 500 preferred shares on that date. The preferred shares are cumulative, with a \$8 dividend. Orleans has not paid any dividends yet. In 2015, Orleans had its first profitable year, and on November 1, 2015, Orleans declared a total dividend of \$28,000. What is the total amount that will be paid out to common shareholders?

- A) \$4,000
- B) \$16,000
- C) \$12,000
- D) \$28,000

Answer: C

Explanation: C)

Calculations: $[(500 \times \$8)] \times 4 = \$16,000$
 $\$28,000 - \$16,000 = \$12,000$

Diff: 3 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Application

Objective: 13-3 Account for cash dividends

Table 13-9

Following is the JenWu Corporation December 31, 2015 shareholders' equity section of the balance sheet, prior to the closing entries:

Contributed capital:	
Preferred shares, cumulative, \$5.00, 6,000 shares outstanding, liquidation value \$42 per share	\$220,000
Common shares, 30,000 shares outstanding	500,000
Retained earnings/(deficit)	(240,000)

Note: No dividends were declared in 2013 or 2014. The net income for 2015 was \$260,000.

39) Referring to Table 13-9, which of the following is correct if the JenWu board of directors declares the maximum dividend possible on the preferred shares?

A)

Dr. Retained Earnings	20,000	
Cr. Preferred Dividend Payable		20,000

B)

Dr. Retained Earnings	90,000	
Cr. Preferred Dividend Payable		90,000

C) No entry because there is a deficit balance in Retained Earnings.

D)

Dr. Retained Earnings	20,000	
Cr. Preferred Dividend Payable		10,000
Cr. Common Dividend Payable		10,000

Answer: A

Diff: 3 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Application

Objective: 13-3 Account for cash dividends

Match the following.

- A) record date
- B) dividend
- C) declaration date of dividend
- D) cumulative preferred shares
- E) payment date of dividend

40) Distribution of equity to the corporation's shareholders

Diff: 1 Type: MA

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-3 Account for cash dividends

41) The date with respect to a cash dividend that determines which shareholder will be receiving the dividend

Diff: 1 Type: MA

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-3 Account for cash dividends

42) The date with respect to a cash dividend where the liability is created and the retained earnings are reduced

Diff: 1 Type: MA

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-3 Account for cash dividends

43) The date with respect to a cash dividend where the liability is reduced and the payment is made to the shareholder

Diff: 1 Type: MA

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-3 Account for cash dividends

44) Preferred shares whose owners must receive all dividends in arrears before the corporation pays dividends to the common shareholders.

Diff: 1 Type: MA

Learning Outcome: A-02 Describe the components of and prepare the four basic financial statements

Skill: Knowledge

Objective: 13-3 Account for cash dividends

Answers: 40) B 41) A 42) C 43) E 44) D

Table 13-7

Masters Inc.
Partial Balance Sheet
December 31, 2015

Shareholders' Equity

Contributed Capital:

Preferred shares, \$1.00, 100,000 shares authorized, 20,000 shares issued	\$ 100,000
Common shares, unlimited number of shares authorized, 100,000 shares issued	<u>350,000</u>
Total contributed capital	450,000
Retained earnings	<u>170,000</u>
Total shareholders' equity	<u>\$620,000</u>

45) Refer to Table 13-7. Assume that the preferred shares are not cumulative and that there have been no dividends declared in 2012, 2013, and 2014. Prepare the journal entry to record the declaration and payment of a dividend in the total amount of \$25,000, on December 3, 2015. Use separate dividends payable accounts for preferred and common shares.

Answer:

General Journal

Date 2015	Accounts	Debit	Credit
Dec. 3	Retained Earnings	25,000	
	Dividends Payable-Preferred		20,000
	Dividends Payable-Common		5,000
	Dividends Payable-Preferred	20,000	
	Dividends Payable-Common	5,000	
	Cash		25,000

Diff: 2 Type: SA

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Application

Objective: 13-3 Account for cash dividends

46) Refer to Table 13-7. Assume that the preferred shares are cumulative and that there have been no dividends declared in 2012, 2013 and 2014. Prepare the journal entry to record the declaration and payment of a dividend in the total amount of \$85,000, on December 3, 2015. Use separate dividends payable accounts for preferred and common shares.

Answer:

General Journal

Date 2015	Accounts	Debit	Credit
Dec. 3	Retained Earnings	85,000	
	Dividends Payable-Preferred		80,000
	Dividends Payable-Common		5,000
	Dividends Payable-Preferred	80,000	
	Dividends Payable-Common	5,000	
	Cash		85,000

Diff: 3 Type: SA

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Application

Objective: 13-3 Account for cash dividends

47) Refer to Table 13-7. Assume that the preferred shares are cumulative and that there have been no dividends declared in 2013 and 2014. Prepare the journal entry to record the declaration and payment of a dividend in the total amount of \$85,000, on December 3, 2015. Use separate dividends payable accounts for preferred and common shares.

Answer:

General Journal

Date 2015	Accounts	Debit	Credit
Dec. 3	Retained Earnings	85,000	
	Dividends Payable-Preferred		60,000
	Dividends Payable-Common		25,000
	Dividends Payable-Preferred	60,000	
	Dividends Payable-Common	25,000	
	Cash		85,000

Diff: 3 Type: SA

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Application

Objective: 13-3 Account for cash dividends

48) Refer to Table 13-7. Assume that the preferred shares are cumulative and that there have been no dividends declared in 2013 and 2014. A dividend in the total amount of \$85,000, was declared and paid on December 3, 2015. What was the dividend amount per share received by the common shareholders?

Answer:

Total Dividend	\$85,000
Dividend allocated to preferred shareholders (20,000 shares × \$ 1 × 3 years)	<u>60,000</u>
Dividend allocated to common shareholders (remainder)	<u>25,000</u>
Divided by the number of common shares outstanding	100,000

= \$0.25 cents per share dividend

Diff: 3 Type: SA

Learning Outcome: A-16 Define and use the different types of financial statement analysis tools

Skill: Application

Objective: 13-3 Account for cash dividends

49) Refer to Table 13-7. Assume that the preferred shares are not cumulative and that there have been no dividends declared in 2013 and 2014. A dividend in the total amount of \$85,000, was declared and paid on December 3, 2015. What was the dividend amount per share received by the common shareholders?

Answer:

Total Dividend	\$85,000
Dividend allocated to preferred shareholders (20,000 shares × \$ 1 year)	<u>20,000</u>
Dividend allocated to common shareholders (remainder)	<u>65,000</u>
Divided by the number of common shares outstanding	100,000

= \$0.65 cents per share dividend

Diff: 3 Type: SA

Learning Outcome: A-16 Define and use the different types of financial statement analysis tools

Skill: Application

Objective: 13-3 Account for cash dividends

50) Refer to Table 13-7. Assume that the preferred shares are cumulative and that there have been no dividends declared in 2012, 2013, and 2014. Prepare the journal entries to record the declaration and payment of a dividend in the total amount of \$25,000, on December 3, 2015. Use separate dividends payable accounts for preferred and common shares, if required.

Answer:

General Journal

Date	Accounts	Debit	Credit
Dec. 3	Retained Earnings	25,000	
	Dividends Payable-Preferred		25,000
	Dividends Payable-Preferred	25,000	
	Cash		25,000

Diff: 2 Type: SA

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Application

Objective: 13-3 Account for cash dividends

51) A section of IRC Incorporated's balance sheet appears as follows:

IRC Incorporated
Partial Balance Sheet
December 31, 2014

Shareholders' Equity

Contributed Capital:

Preferred shares, \$4.00, 10,000 shares authorized, 2,000 shares issued	\$ 200,000
Common shares, unlimited number of shares authorized, 10,000 shares issued	<u>450,000</u>
Total contributed capital	650,000
Retained earnings	<u>378,000</u>
Total shareholders' equity	<u>\$1,028,000</u>

- a) How much in dividends must IRC Incorporated declare each year before the common shareholders receive cash dividends for the year?
- b) Assume \$40,000 was paid in dividends in the year 2014. What would be the breakdown between common and preferred dividends assuming there are no dividends in arrears?
- c) How would the declaration of a \$50,000 dividend affect the shareholders' equity section of IRC Incorporated's balance sheet?

Answer:

a) $(2,000 \times 4) = \$8,000$

b) $40,000 - (2,000 \times 4) = \$32,000$ Common = \$32,000. Preferred = \$8,000.

c) Retained earnings and total shareholders' equity would decrease by \$50,000.

Diff: 2 Type: SA

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Application

Objective: 13-3 Account for cash dividends

52) Mowat Corporation reported a net loss in 2012, its first year of operations, of \$15,460; a net loss in 2013 of \$12,350; and a net income of \$152,700 in 2014. Mowat Corporation had outstanding throughout the three-year period the following issuances of shares:

\$5, cumulative preferred shares, 175 shares issued	\$ 17,500
Common shares, 5,000 shares issued	100,000

No dividends were declared in 2012 or 2013.

- What is the amount of dividends in arrears at the beginning of 2014?
- Assume that at the end of 2014, dividends of \$70,025 were declared and paid. What total amount of dividends is paid to preferred shareholders and what total amount of dividends is paid to common shareholders?
- What is the dividend per share paid to the preferred and common shareholders in 2014?
- Prepare journal entries to declare and pay the dividends in 2014.

Answer:

a) $\$5 \times 2 \times 175 = \$1,750$

b) $\$5 \times 3 \times 175 = \$2,625$ preferred

$\$70,025 - \$2,625 = \$67,400$ common

c) $\$2,625/175 = \15 preferred

$\$67,400/5,000 = \13.48 common

d) **General Journal**

Date	Accounts	Debit	Credit
Dec. 31	Retained Earnings	70,025	
	Dividends Payable-Preferred		2,625
	Dividends Payable-Common		67,400
	Dividends Payable-Preferred	2,625	
	Dividends Payable-Common	67,400	
	Cash		70,025

Diff: 3 Type: SA

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Application

Objective: 13-3 Account for cash dividends

53) During 2011-2015, Warren Corporation had the following issuances of shares outstanding for the entire period:

25,000 \$5, cumulative preferred shares
50,000 common shares

Cash dividends declared by the board of directors during 2011-2015 were as follows:

2011 none
2012 \$125,000
2013 \$150,000
2014 \$150,000
2015 \$250,000

Compute the amount of total dividends and dividends per share payable to each class of shares during 2011-2015.

Year	Total Preferred	Per Share Preferred	Total Common	Per Share Common

Answer:

Year	Total Preferred	Per Share Preferred	Total Common	Per Share Common
2011	\$0	\$0	\$0	\$0
2012	\$125,000	\$5	\$0	\$0
2013	\$150,000	\$6	\$0	\$0
2014	\$150,000	\$6	\$0	\$0
2015	\$200,000	\$8	\$50,000	\$1

Diff: 3 Type: SA

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Application

Objective: 13-3 Account for cash dividends

54) Bueno Corporation has 15,500 shares of \$4, cumulative preferred shares outstanding as well as 80,000 common shares. There are no dividends in arrears on the preferred shares. The following transactions were reported during December 2014:

- Dec. 1 Declared the required dividend on the preferred shares and a \$0.75 per share dividend on the common shares.
 14 The date of record for the dividend declared on December 1.
 28 Paid the dividend declared on December 1.
 31 Closed out the income summary account. Net income for the year was \$345,000.
- a) Prepare journal entries to record the above transactions.
 b) Assuming the balance of retained earnings on January 1, 2014, was \$49,800, determine the balance of retained earnings on December 31, 2014.

Date	Accounts	Debit	Credit

Answer:

Date	Accounts	Debit	Credit
Dec. 1	Retained Earnings	122,000	
	Dividends Payable-Preferred		62,000
	Dividends Payable-Common		60,000
28	Dividends Payable-Preferred	62,000	
	Dividends Payable-Common	60,000	
	Cash		122,000
31	Income Summary	345,000	
	Retained Earnings		345,000

b) $\$49,800 + \$345,000 - \$122,000 = \underline{\$272,800}$

Diff: 2 Type: SA

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Application

Objective: 13-3 Account for cash dividends

Table 13-8

The shareholders' equity section of the balance sheet of Crestor Ltd. follows:

Contributed capital:	
Preferred shares, cumulative, \$3, 4,000 shares outstanding,	\$200,000
Common shares, 20,000 shares outstanding	300,000
Retained earnings	138,250

55) Refer to Table 13-8. Assume that there were no dividends declared for the last two years. What is the total amount of the dividends that must be declared this year for the common shareholders to get a \$1 per share dividend?

Answer:

Common shares outstanding $20,000 \times \$1$	\$20,000
Preferred shares dividend $\$3 \times 4,000 \times 3 \text{ years}$	<u>36,000</u>
Total dividend required:	<u>\$56,000</u>

Diff: 3 Type: SA

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Application

Objective: 13-3 Account for cash dividends

56) Refer to Table 13-8. Assume that there were no dividends declared last year. What is the total amount of the dividends that must be declared this year for the common shareholders to get a \$2 per share dividend?

Answer:

Common shares outstanding $20,000 \times \$2$	\$40,000
Preferred shares dividend $\$3 \times 4,000 \times 2$	<u>24,000</u>
Total dividend required:	<u>\$64,000</u>

Diff: 3 Type: SA

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Application

Objective: 13-3 Account for cash dividends

57) Refer to Table 13-8. Assume that there are no dividends in arrears. What is the total amount of the dividends that must be declared this year for the common shareholders to get a \$3 per share dividend?

Answer:

Common shares outstanding $20,000 \times \$3$	\$60,000
Preferred shares dividend $\$3 \times 4,000$	<u>12,000</u>
Total dividend required:	<u>\$72,000</u>

Diff: 2 Type: SA

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Application

Objective: 13-3 Account for cash dividends

58) Vitacom Technologies Corp. reports the following shareholders' equity as of December 31, 2014:

Preferred shares, \$5 cumulative, 200,000 shares authorized, 90,000 shares issued	\$ 5,400,000
Common shares, 500,000 shares authorized, 200,000 shares issued	<u>2,750,000</u>
Total contributed capital	8,150,000
Retained earnings	<u>3,400,000</u>
Total shareholders' equity	<u>\$11,550,000</u>

Determine the following:

- What was the average issue price per common share?
- What was the average issue price per preferred share?
- Assume net income for 2014 was \$825,000. Journalize the entry to close net income to retained earnings.
- Assume the board of directors declares dividends of \$1,850,000 in 2014. No dividends were declared in 2013. Calculate the amount per share each class of shares will receive.

Answer:

- $(\$2,750,000)/200,000 = \13.75
- $(\$5,400,000)/90,000 = \60

c) **General Journal**

Date	Accounts	Debit	Credit
Dec. 31	Income Summary	825,000	
	Retained Earnings		825,000

- $(\$5 \times 2) = \10 preferred $(\$10 \times 90,000) = \$900,000$
 $\$1,850,000 - \$900,000 = \$950,000$
 $\$950,000/200,000 = \4.75 common

Diff: 3 Type: SA

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Application

Objective: 13-3 Account for cash dividends

59) Following is the shareholders' equity section of the balance sheet for Phototron Incorporated as of December 1, 2014:

Preferred shares, \$6 cumulative, 6,500 shares issued	\$ 650,000
Common shares, 120,000 shares issued	1,620,000
Retained earnings	<u>467,200</u>
Total shareholders' equity	<u>\$2,737,200</u>

Phototron Incorporated reports the following transactions for December 2014:

- Dec. 1 Declared the required cash dividend on the preferred shares and a \$0.50 dividend on the common shares.
 11 Paid the dividends declared on December 1.
 15 Sold 5,000 common shares for \$15 per share.

For each transaction, show the dollar amount of the effect of each transaction on the following accounts: common shares and retained earnings. Write "no effect" if an account is unaffected by a transaction.

Date	Common Shares	Retained Earnings

Answer:

Date	Common Shares	Retained Earnings
Dec. 1	no effect	(\$99,000) *
11	no effect	no effect
15	\$75,000	no effect

* $(6,500 \times \$6) =$ \$39,000
 $(\$0.50 \times 120,000) =$ 60,000
 Total dividends \$99,000

Diff: 2 Type: SA

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Application

Objective: 13-3 Account for cash dividends

Table 13-11

The following accounts and related balances of ETH Engineering Ltd. are as at December 31, 2014 prior to the closing journal entries.

Trademark, net	\$ 17,000
Preferred Shares, \$2.50, 20,000 authorized and issued	200,000
Cash	320,000
Accounts Receivable, net	265,000
Accrued Liabilities	42,000
Long-term Note Payable	500,000
Inventory	350,000
Retained Earnings/(Deficit)	(1,197,000)
Accounts Payable	75,000
Interest Expense	35,000
Property, Plant, and Equipment, net	2,800,000
Common Shares, 300,000 shares authorized; 175,000 shares issued	3,500,000
Prepaid Expenses	3,000
Organization Costs	15,000

Additional information:

Total Assets, January 1, 2014	\$ 3,200,000
Net income for 2014	\$ 650,000
No new shares were issued in 2014.	

60) Referring to Table 13-11, prepare journal entries for the following transactions:

Dec 31 Close the income summary account

Dec 31 The entry to record amortizing \$3,000 of the organization costs

Dec 31 The entry to record the declaration of a \$60,000 cash dividend. Assume that there is a positive balance in retained earnings sufficient for the dividend.

Table 13-12

The following accounts and related balances of FYI Advertising Ltd. are as at December 31, 2014 prior to the closing journal entries.

Accrued Liabilities	\$ 50,400
Preferred Shares, \$2.50, cumulative, 24,000 authorized and issued	240,000
Prepaid Expenses	3,600
Accounts Payable	90,000
Trademark, net	20,400
Long-term Note Payable	600,000
Property, Plant, and Equipment, net	3,360,000
Retained Earnings	623,600
Accounts Receivable, net	318,000
Interest Expense	29,000
Inventory	420,000
Common Shares, 300,000 shares authorized; 200,000 shares issued	2,500,000
Cash	384,000
Organization Costs	18,000

Additional information:

Total Assets, January 1, 2014	\$ 4,100,000
Net income for 2014	\$ 420,000

No new shares were issued in 2014.

61) Referring to Table 13-12, prepare journal entries for the following transactions:

Dec 31 Close the income summary account

Dec 31 The entry to record amortizing \$4,000 of the organization costs

Dec 31 The entry to record the declaration of a \$80,000 cash dividend.

Objective 13-4

1) Market value is a term referring to common shares and indicates the amount for which a person could buy or sell a share.

Answer: TRUE

Diff: 2 Type: TF

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Knowledge

Objective: 13-4 Use different share values in decision making

2) Book value of a share is the total assets divided by the number of outstanding shares.

Answer: FALSE

Diff: 2 Type: TF

Learning Outcome: A-16 Define and use the different types of financial statement analysis tools

Skill: Knowledge

Objective: 13-4 Use different share values in decision making

3) Dividends in arrears on preferred shares are part of shareholders' equity allocated to preferred shareholders.

Answer: TRUE

Diff: 2 Type: TF

Learning Outcome: A-16 Define and use the different types of financial statement analysis tools

Skill: Knowledge

Objective: 13-4 Use different share values in decision making

4) The following information is available for the Barber Corporation as of December 31, 2014:

Preferred shares, cumulative, \$10, 1,000 shares authorized and issued	\$100,00
Common shares, 4,000 shares authorized and issued	400,000
Retained earnings	100,000

Barber Corporation did not declare a dividend in 2013 or 2014. The liquidation value of the preferred shares is \$100 per share. Prior to 2013, there were no dividends in arrears. Compute book value per share for preferred shares and common shares.

A) \$110 for preferred, \$185 for common

B) \$120 for preferred, \$182.50 for common

C) \$100 for preferred, \$187.50 for common

D) \$120 for preferred, \$120 for common

Answer: D

Diff: 3 Type: MC

Learning Outcome: A-16 Define and use the different types of financial statement analysis tools

Skill: Analysis

Objective: 13-4 Use different share values in decision making

5) The following information is available for the Frasier Corporation as of December 31, 2015:

Preferred shares, \$10, cumulative, 1,000 shares authorized and issued	\$100,00
Common shares, 6,000 shares authorized and issued	500,000
Retained earnings	750,000

Frasier Corporation declared a dividend in 2015 amounting to \$5,000. No dividends were declared in 2014. The liquidation value of the preferred stock is \$100 per share. Prior to 2014, there were no dividends in arrears. Compute book value for preferred shares and common shares in total.

- A) \$125,000 for preferred, \$1,225,000 for common
- B) \$105,000 for preferred, \$1,245,000 for common
- C) \$120,000 for preferred, \$1,230,000 for common
- D) \$115,000 for preferred, \$1,235,000 for common

Answer: D

Diff: 3 Type: MC

Learning Outcome: A-16 Define and use the different types of financial statement analysis tools

Skill: Analysis

Objective: 13-4 Use different share values in decision making

6) For a company that has only common shares outstanding, dividing total shareholders' equity by the number of shares outstanding determines the:

- A) book value per share
- B) liquidation value per share
- C) redemption value per share
- D) market value per share

Answer: A

Diff: 2 Type: MC

Learning Outcome: A-16 Define and use the different types of financial statement analysis tools

Skill: Knowledge

Objective: 13-4 Use different share values in decision making

7) The book value of preferred shares is equal to:

- A) liquidation value minus any dividends in arrears
- B) liquidation value plus any dividends in arrears
- C) market value minus any dividends in arrears
- D) market value plus any dividends in arrears

Answer: B

Diff: 2 Type: MC

Learning Outcome: A-16 Define and use the different types of financial statement analysis tools

Skill: Knowledge

Objective: 13-4 Use different share values in decision making

Table 13-4

The shareholders' equity section of the balance sheet of Cresco Corporation follows:

Contributed capital:	
Preferred shares, cumulative, \$3.50, 4,000 shares outstanding,	
liquidation value \$56 per share	\$210,000
Common shares, 20,000 shares outstanding	397,500
Retained earnings	138,250

Note: There are two years dividends in arrears on the preferred shares, including the current year.

8) Refer to Table 13-4. The book value per share for preferred shares is:

- A) \$52.50
- B) \$56.00
- C) \$63.00
- D) \$59.50

Answer: C

Explanation: C) $[(2 \times \$3.50 \times 4,000) + (4,000 \times \$56)] / 4,000 = \$63$

Diff: 3 Type: MC

Learning Outcome: A-16 Define and use the different types of financial statement analysis tools

Skill: Analysis

Objective: 13-4 Use different share values in decision making

9) Refer to Table 13-4. The book value per share for common shares is:

- A) \$19.88
- B) \$24.69
- C) \$26.79
- D) \$25.39

Answer: B

Diff: 3 Type: MC

Learning Outcome: A-16 Define and use the different types of financial statement analysis tools

Skill: Analysis

Objective: 13-4 Use different share values in decision making

10) Pratt Corporation's balance sheet for 2014 reveals total shareholders' equity of \$2,500,000. There are 10,000 shares of cumulative, \$10 preferred shares outstanding and 50,000 common shares outstanding. To date, dividends in arrears for the preferred shares amount to \$25,000. The liquidation value of the preferred shares is \$105 per share. Book value per share of common shares is:

- A) \$28.75
- B) \$29.50
- C) \$28.50
- D) \$29.00

Answer: C

Diff: 3 Type: MC

Learning Outcome: A-16 Define and use the different types of financial statement analysis tools

Skill: Analysis

Objective: 13-4 Use different share values in decision making

11) Cooper Corporation's balance sheet for 2013 reveals total shareholders' equity of \$2,500,000. There are 10,000 shares of noncumulative, \$10 preferred shares outstanding and 50,000 common shares outstanding. The liquidation value of the preferred shares is \$105 per share. Book value per share of common shares is:

- A) \$29.00
- B) \$29.50
- C) \$28.50
- D) \$28.75

Answer: A

Diff: 3 Type: MC

Learning Outcome: A-16 Define and use the different types of financial statement analysis tools

Skill: Analysis

Objective: 13-4 Use different share values in decision making

Table 13-6

The following selected list of accounts with their normal balances was taken from the general ledger of Gore Ltd. as of December 31, 2014:

Cash	\$199,000
Common shares, 10,000 shares authorized, 5,000 shares issued	265,000
Retained earnings	131,5000
Cash dividends payable	20,000
Preferred shares, 500,000 shares authorized 100,000 shares issued	800,000

12) Refer to Table 13-6. The average issue price of a common share was:

- A) \$20.00
- B) \$26.50
- C) \$53.00
- D) \$30.00

Answer: C

Diff: 2 Type: MC

Learning Outcome: A-16 Define and use the different types of financial statement analysis tools

Skill: Analysis

Objective: 13-4 Use different share values in decision making

13) Refer to Table 13-6. The average issue price of a preferred share was:

- A) \$1.60
- B) \$20.00
- C) \$40.00
- D) \$8.00

Answer: D

Diff: 2 Type: MC

Learning Outcome: A-16 Define and use the different types of financial statement analysis tools

Skill: Analysis

Objective: 13-4 Use different share values in decision making

Table 13-9

Following is the JenWu Corporation December 31, 2015 shareholders' equity section of the balance sheet, prior to the closing entries:

Contributed capital:	
Preferred shares, cumulative, \$5.00, 6,000 shares outstanding, liquidation value \$42 per share	\$220,000
Common shares, 30,000 shares outstanding	500,000
Retained earnings/(deficit)	(240,000)

Note: No dividends were declared in 2013 or 2014. The net income for 2015 was \$260,000.

14) Referring to Table 13-9, what is the book value per share of the preferred shares on December 31, 2015 assuming no dividends were declared?

- A) \$5.00
- B) \$36.67
- C) \$42.00
- D) \$57.00

Answer: D

Explanation: D) $\$42 + (3 \times \$5) = \$57$

Diff: 3 Type: MC

Learning Outcome: A-16 Define and use the different types of financial statement analysis tools

Skill: Application

Objective: 13-4 Use different share values in decision making

15) Referring to Table 13-9, what is the book value per share of the common shares on December 31, 2015 assuming no dividends were declared?

- A) \$500,000
- B) \$398,000
- C) \$260,000
- D) \$520,000

Answer: B

Explanation: B) $\$220,000 + \$500,000 + \$20,000 - (6,000 \times \$57) = \$398,000$

Diff: 3 Type: MC

Learning Outcome: A-16 Define and use the different types of financial statement analysis tools

Skill: Application

Objective: 13-4 Use different share values in decision making

16) The shareholders' equity section of the Jiminy Corporation on December 31, 2013 balance sheet follows:

Contributed capital:	
Preferred shares, cumulative, \$3.00, 4,000 shares outstanding	
liquidation value \$48 per share	\$180,000
Common shares, 50,000 shares outstanding	500,000
Retained earnings/(deficit)	(100,000)

As of December 31st 2013 there was a total of two years of dividends in arrears on the preferred shares.

What is the book value per share of the common shares on December 31, 2013?

- A) \$7.28
- B) \$10.00
- C) \$8.00
- D) \$7.52

Answer: A

Explanation: A) $[(\$180,000 + \$500,000 - \$100,000) - 216,000^*] / 50,000 \text{ shares} = \7.28 per share

* Book value of preferred shares = $(\$3 \times 4,000 \times 2) + (4,000 \times \$48) = \$216,000$

Diff: 3 Type: MC

Learning Outcome: A-14 Apply basic accounting methods to record and evaluate share transactions, cash and stock dividends, and stock splits

Skill: Application

Objective: 13-4 Use different share values in decision making

Match the following.

- A) market value
B) book value

17) Amount of shareholders' equity on the company's books for each share of its stock.

Diff: 1 Type: MA

Learning Outcome: A-02 Describe the components of and prepare the four basic financial statements

Skill: Knowledge

Objective: 13-4 Use different share values in decision making

18) The price for which a person could buy or sell a share

Diff: 1 Type: MA

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-4 Use different share values in decision making

Answers: 17) B 18) A

19) Sibley Corporation's balance sheet reported the following shareholders' equity at December 31, 2014:

Preferred shares, \$3, cumulative, 11,000 shares issued, liquidation value \$55 per share	\$ 605,000
Common shares, 75,000 shares issued	<u>2,000,000</u>
Total contributed capital	2,605,000
Retained earnings	<u>550,000</u>
Total shareholders' equity	<u>\$3,155,000</u>

Assuming there are two years dividends in arrears (including 2014), determine the book value per share of both preferred and common shares.

Answer: $(\$3 \times 2 \text{ years}) = \$6 + \$55 = \underline{\$61 \text{ preferred}}$

$$(\$61 \times 11,000) = \$671,000$$

$$\$3,155,000 - \$671,000 = \$2,484,000$$

$$\$2,484,000 / 75,000 = \underline{\$33.12 \text{ common}}$$

Diff: 2 Type: SA

Learning Outcome: A-16 Define and use the different types of financial statement analysis tools

Skill: Application

Objective: 13-4 Use different share values in decision making

20) Define and contrast each of the following share values:

- market value
- book value

Answer: Market value is the price for which a share could be bought or sold. Usually, it is the most important value to the shareholder.

Book value is the amount of shareholders' equity on the company's books for each share. Preferred shares book value is calculated first and then common shares book value is determined by dividing shareholders' equity available to common shareholders by the average number of common shares.

Diff: 2 Type: ES

Learning Outcome: A-16 Define and use the different types of financial statement analysis tools

Skill: Comprehension

Objective: 13-4 Use different share values in decision making

21) With regard to common shares differentiate market value from book value. How is book value per common share calculated?

Answer: Market value is the price for which a share may be bought or sold. Book value is the amount of shareholders' equity attributable to the common shareholders.

The book value per common share is the shareholders' equity attributable to the common shareholders divided by the number of outstanding shares. When there are outstanding preferred shares the amount of shareholders' equity book value available to the common shares is reduced by the preferred shareholders' liquidation value and dividends in arrears.

Diff: 2 Type: ES

Learning Outcome: A-16 Define and use the different types of financial statement analysis tools

Skill: Comprehension

Objective: 13-4 Use different share values in decision making

Objective 13-5

1) Two common profitability measures are rate of return on total assets and rate of return on common shareholders' equity.

Answer: TRUE

Diff: 1 Type: TF

Learning Outcome: A-16 Define and use the different types of financial statement analysis tools

Skill: Knowledge

Objective: 13-5 Evaluate a company's ROA and ROE

2) The groups that invest money to finance a corporation are the shareholders and creditors.

Answer: TRUE

Diff: 2 Type: TF

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-5 Evaluate a company's ROA and ROE

3) Borrowing at a lower rate than the return on investments is called using leverage.

Answer: TRUE

Diff: 2 Type: TF

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-5 Evaluate a company's ROA and ROE

4) The _____ measures a company's success in using its assets to earn income for the stakeholders who are financing the business.

A) return on assets

B) return on equity

C) current ratio

D) debt-to-equity ratio

Answer: A

Diff: 1 Type: MC

Learning Outcome: A-16 Define and use the different types of financial statement analysis tools

Skill: Knowledge

Objective: 13-5 Evaluate a company's ROA and ROE

5) The formula for computing return on assets is:

A) (net income plus interest expense)/average total assets

B) (net income plus preferred dividends)/average total assets

C) (net income less total assets)/average shareholders' equity

D) (net income plus total assets)/average shareholders' equity

Answer: A

Diff: 2 Type: MC

Learning Outcome: A-16 Define and use the different types of financial statement analysis tools

Skill: Knowledge

Objective: 13-5 Evaluate a company's ROA and ROE

6) The formula for computing return on equity is:

A) (net income less interest expense)/average shareholders' equity

B) (net income less preferred dividends)/average common shareholders' equity

C) (net income plus preferred dividends)/shareholders' equity at the end of the period

D) (net income plus interest expense)/average common shareholders' equity

Answer: B

Diff: 2 Type: MC

Learning Outcome: A-16 Define and use the different types of financial statement analysis tools

Skill: Knowledge

Objective: 13-5 Evaluate a company's ROA and ROE

Table 13-5

The following information is available for Jansen Corporation for the current year:

Net income	\$156,000
Preferred dividends	24,000
Interest expense	17,500
Beginning of year:	
Total assets	850,000
Total liabilities	375,000
Total common shareholders' equity	395,000
End of year:	
Total assets	930,000
Total liabilities	405,000
Total common shareholders' equity	435,000

7) Refer to Table 13-5. The return on assets for Jansen Corporation was:

- A) 19.5%
- B) 18.7%
- C) 17.5%
- D) 16.8%

Answer: A

Diff: 3 Type: MC

Learning Outcome: A-16 Define and use the different types of financial statement analysis tools

Skill: Application

Objective: 13-5 Evaluate a company's ROA and ROE

8) Refer to Table 13-5. The return on equity for Jansen Corporation was:

- A) 30.3%
- B) 31.8%
- C) 35.9%
- D) 37.6%

Answer: B

Diff: 3 Type: MC

Learning Outcome: A-16 Define and use the different types of financial statement analysis tools

Skill: Application

Objective: 13-5 Evaluate a company's ROA and ROE

9) Sheffield Company had \$42,000 of net income in 2013. Equity at the beginning of the year was \$1,200,000 and at the end of the year was \$1,600,000. Sheffield has no preferred shares. Calculate the rate of return on common shareholders' equity. (Round to 3 decimal places.)

- A) 0.035
- B) 0.026
- C) 0.030
- D) 0.032

Answer: C

Explanation: C) Calculations: $\$42,000 / [(\$1,200,000 + \$1,600,000) / 2] = 0.030$

Diff: 2 Type: MC

Learning Outcome: A-16 Define and use the different types of financial statement analysis tools

Skill: Application

Objective: 13-5 Evaluate a company's ROA and ROE

10) The rate of return on total assets and the rate of return on common shareholders' equity are used to evaluate the:

- A) profitability of the business.
- B) liquidity of the business.
- C) ability to pay current liabilities with current assets.
- D) cash flow of the business.

Answer: A

Diff: 1 Type: MC

Learning Outcome: A-16 Define and use the different types of financial statement analysis tools

Skill: Comprehension

Objective: 13-5 Evaluate a company's ROA and ROE

Table 13-10

Samson Ltd. reported the figures shown below for 2013 and 2014:

	2013	2014
Income statement:		
Interest expense	\$ 13,000	\$ 14,000
Net income	176,000	182,000
Balance sheet:		
Total assets	897,000	952,000
Preferred shares, \$2.00, cumulative, \$80 liquidation value, 1,500 shares outstanding	112,500	112,500
Common shares, 25,000 outstanding	488,000	524,000
Retained earnings	65,000	85,000

Dividends on the preferred share have not been declared for 2013 and 2014.

11) Referring to Table 13-10, what is the rate of return on common shareholders' equity for 2014?

- A) 15.4%
- B) 30.8%
- C) 26.2%
- D) 17.7%

Answer: B

Explanation: B) $(\$182,000 - \$3,000) / [(\$488,000 + \$524,000 + \$65,000 + \$85,000) / 2] = 0.3081$

Diff: 3 Type: MC

Learning Outcome: A-16 Define and use the different types of financial statement analysis tools

Skill: Application

Objective: 13-5 Evaluate a company's ROA and ROE

12) Referring to Table 13-10, what is the rate of return on total assets for 2014?

- A) 20.6%
- B) 21.2%
- C) 19.7%
- D) 19.1%

Answer: B

Explanation: B) $(\$182,000 + \$14,000) / [(\$897,000 + \$952,000) / 2] = 0.0212$

Diff: 3 Type: MC

Learning Outcome: A-16 Define and use the different types of financial statement analysis tools

Skill: Application

Objective: 13-5 Evaluate a company's ROA and ROE

Match the following.

- A) return on assets
- B) return on equity
- C) leverage

13) Net income less preferred dividends divided by average common shareholders' equity

Diff: 1 Type: MA

Learning Outcome:

A-16 Define and use the different types of financial statement analysis tools

Skill: Knowledge

Objective: 13-5 Evaluate a company's ROA and ROE

14) The sum of net income plus interest expense divided by average total assets

Diff: 1 Type: MA

Learning Outcome: A-16 Define and use the different types of financial statement analysis tools

Skill: Knowledge

Objective: 13-5 Evaluate a company's ROA and ROE

15) Using borrowed money to make an investment

Diff: 1 Type: MA

Learning Outcome: A-03 Analyze and record transactions and their effect on the financial statements

Skill: Knowledge

Objective: 13-5 Evaluate a company's ROA and ROE

Answers: 13) B 14) A 15) C

16) Gleason Corporation has gathered the following data for the current year:

Net Income	\$40,000
Interest Expense	5,000
Income Tax Expense	12,500
Preferred Dividends	3,600

	Beginning of Year	End of Year
Current assets	\$ 68,000	\$ 81,000
Current liabilities	41,000	39,000
Property, plant, and equipment	340,000	365,000
Long-term liabilities	100,000	90,000
Common shareholders' equity	217,000	267,000
Preferred shareholders' equity	50,000	50,000

- Calculate the current ratio at year end.
- Calculate return on assets.
- Calculate return on equity.
- Comment on how these measures are used.

Answer:

a) $\$81,000/\$39,000 = 2.08$

b) $\$40,000 + \$5,000 = \$45,000$; $\$45,000/\$427,000^* = \underline{10.5\%}$

* $\$68,000 + \$340,000 = \$408,000$

$\$81,000 + \$365,000 = \$446,000$

$\$408,000 + \$446,000 = \$854,000$; $\$854,000/2 = \$427,000$

c) $\$40,000 - \$3,600 = \$36,400$; $\$36,400/\$242,000^* = \underline{15\%}$

* $\$217,000 + \$267,000 = \$484,000$; $\$484,000/2 = \$242,000$

- d) The current ratio is used as a measure of liquidity, with 2.0 being somewhat of a standard.

The return on assets is used as a standard profitability measure that shows the company's success in using its assets to generate income. It helps investors compare one company to another especially within the same industry.

The return on equity is used as a standard profitability measure, which shows the relationship between net income and average common shareholders' equity. The higher the rate of return, the more successful the company.

Diff: 3 Type: SA

Learning Outcome: A-16 Define and use the different types of financial statement analysis tools

Skill: Application

Objective: 13-5 Evaluate a company's ROA and ROE

Table 13-11

The following accounts and related balances of ETH Engineering Ltd. are as at December 31, 2014 prior to the closing journal entries.

Trademark, net	\$ 17,000
Preferred Shares, \$2.50, 20,000 authorized and issued	200,000
Cash	320,000
Accounts Receivable, net	265,000
Accrued Liabilities	42,000
Long-term Note Payable	500,000
Inventory	350,000
Retained Earnings/(Deficit)	(1,197,000)
Accounts Payable	75,000
Interest Expense	35,000
Property, Plant, and Equipment, net	2,800,000
Common Shares, 300,000 shares authorized; 175,000 shares issued	3,500,000
Prepaid Expenses	3,000
Organization Costs	15,000

Additional information:

Total Assets, January 1, 2014	\$ 3,200,000
Net income for 2014	\$ 650,000
No new shares were issued in 2014.	

17) Referring to Table 13-11, calculate the following for 2014:

1. Rate of return on total assets
2. Rate of return on common shareholders' equity
3. Current ratio

Answer:

1. Rate of return on total assets

$$(\$650,000 + \$35,000)/[(\$3,770,000 + \$3,200,000)/2] = 19.7\%$$

2. Rate of return on common shareholders' equity

$$((\$650,000 - (\$2.50 \times 20,000))/[(\$3,500,000 - 547,000) + (\$3,500,000 - \$1,197,000)/2]) = 22.8\%$$

3. Current ratio

$$\$938,000 / \$117,000 = 8.02:1$$

Diff: 3 Type: SA

Learning Outcome: A-16 Define and use the different types of financial statement analysis tools

Skill: Application

Objective: 13-5 Evaluate a company's ROA and ROE

Table 13-12

The following accounts and related balances of FYI Advertising Ltd. are as at December 31, 2014 prior to the closing journal entries.

Accrued Liabilities	\$ 50,400
Preferred Shares, \$2.50, cumulative, 24,000 authorized and issued	240,000
Prepaid Expenses	3,600
Accounts Payable	90,000
Trademark, net	20,400
Long-term Note Payable	600,000
Property, Plant, and Equipment, net	3,360,000
Retained Earnings	623,600
Accounts Receivable, net	318,000
Interest Expense	29,000
Inventory	420,000
Common Shares, 300,000 shares authorized; 200,000 shares issued	2,500,000
Cash	384,000
Organization Costs	18,000

Additional information:

Total Assets, January 1, 2014 \$ 4,100,000

Net income for 2014 \$ 420,000

No new shares were issued in 2014.

18) Referring to Table 13-12, calculate the following for 2014:

1. Rate of return on total assets
2. Rate of return on common shareholders' equity
3. Current ratio

Answer:

1. Rate of return on total assets

$$(\$420,000 + \$29,000)/[(\$4,524,000 + \$4,100,000)/2] = 10.4\%$$

2. Rate of return on common shareholders' equity

$$((\$420,000 - (\$2.50 \times 24,000))/[(\$2,500,000 + 1,043,600) + (\$2,500,000 + 623,600)/2]) = 10.8\%$$

3. Current ratio

$$\$1,125,600 / \$140,400 = 8.02:1$$

Diff: 3 Type: SA

Learning Outcome: A-16 Define and use the different types of financial statement analysis tools

Skill: Application

Objective: 13-5 Evaluate a company's ROA and ROE

Objective 13-6

1) With respect to share capital, the primary difference between accounting standards for private enterprises (ASPE) and international financial reporting standards (IFRS) is the required disclosure.

Answer: TRUE

Diff: 1 Type: TF

Learning Outcome: A-18 Compare and contrast IFRS and ASPE

Skill: Knowledge

Objective: 13-6 Identify the impact of IFRS on share capital

2) Under the Accounting Standards for Private Enterprises (ASPE), organization costs are expensed but under the International Financial Reporting Standards (IFRS), they are capitalized.

Answer: FALSE

Diff: 2 Type: TF

Learning Outcome: A-18 Compare and contrast IFRS and ASPE

Skill: Knowledge

Objective: 13-6 Identify the impact of IFRS on share capital

3) Under IFRS, companies must make certain disclosures about *all* classes of shares authorized by the corporation, whether those classes of shares have been issued or not. The requirements under ASPE only require that disclosure be made for classes of shares that have actually been issued.

Answer: TRUE

Diff: 2 Type: TF

Learning Outcome: A-18 Compare and contrast IFRS and ASPE

Skill: Knowledge

Objective: 13-6 Identify the impact of IFRS on share capital

4) Allegheny Corporation is a publicly traded Canadian company that was incorporated in 2014. Legal fees relating to incorporation amounted to \$21,500 and various corporate registration costs amounted to \$3,500. Which of the following journal entries correctly records these costs.

A)

Dr. Organization Costs (asset)	25,000	
Cr. Cash		25,000

B)

Dr. Organization Costs Expense	25,000	
Cr. Cash		25,000

C)

Dr. Organization Costs (asset)	3,500	
Dr. Legal Fees Expense	21,500	
Cr. Cash		25,000

D)

Dr. Organization Costs (asset)	21,500	
Dr. Corporate Registration Costs Expense	3,500	
Cr. Cash		25,000

Answer: B

Explanation: B) Public company uses IFRS so organization costs are expensed.

Diff: 3 Type: MC

Learning Outcome: A-18 Compare and contrast IFRS and ASPE

Skill: Application

Objective: 13-6 Identify the impact of IFRS on share capital

5) Under International Financial Reporting Standards (IFRS), organization costs are classified as

A) an expense.

B) a current asset.

C) an intangible asset.

D) property, plant and equipment.

Answer: A

Diff: 2 Type: MC

Learning Outcome: A-18 Compare and contrast IFRS and ASPE

Skill: Knowledge

Objective: 13-6 Identify the impact of IFRS on share capital

Match the following.

- A) intangible asset
- B) expense

6) The account classification of organization costs under IFRS

Diff: 1 Type: MA

Learning Outcome: A-18 Compare and contrast IFRS and ASPE

Skill: Knowledge

Objective: 13-6 Identify the impact of IFRS on share capital

Answers: 6) B

7) How does accounting for share capital under international financial reporting standards (IFRS) differ from that required under accounting standards for private enterprises (ASPE)?

Answer: The primary difference in the two sets of accounting standards has to do with the required disclosure for share capital. Under IFRS, companies must make disclosures about all classes of shares authorized by the corporation. The requirements under ASPE are less rigorous - they only require disclosure for classes of shares that have actually been issued.

Another difference exists in how organization costs are treated. As shown in the chapter, organization costs are capitalized under ASPE—recorded as an intangible asset—and then amortized. Under IFRS, these costs are expensed.

Diff: 2 Type: ES

Learning Outcome: A-18 Compare and contrast IFRS and ASPE

Skill: Knowledge

Objective: 13-6 Identify the impact of IFRS on share capital