CH 15 STOCKHOLDERS’ EQUITY SELF-STUDY

(note from Dr. N: I have deleted questions for you to omit, but did not renumber the remaining questions)

1. A corporation must be incorporated in each state that it does business in.
   A. True
   B. False

2. The residual interest in a corporation belongs to the
   A. management.
   B. creditors.
   C. common stockholders.
   D. preferred stockholders.

3. In every corporation the one class of stock that represents the basic ownership interest is called
   A. preferred stock.
   B. cumulative stock.
   C. common stock.
   D. owners’ stock.

5. Which one of the following is not a right of common stockholders?
   A. To share proportionately in profits and losses.
   B. To share proportionately in all management decisions.
   C. To share proportionately in corporate assets upon liquidation.
   D. To share proportionately in any new issues of stock of the same class.

6. Characteristics of the corporate form of organization include all of the following except:
   A. capital stock or share system.
   B. formality of profit distribution.
   C. variety of ownership interests.
   D. unlimited liability of stockholders.

8. Stockholders' equity is generally classified into two major categories:
   A. contributed capital and appropriated capital.
   B. appropriated capital and retained earnings.
   C. retained earnings and unappropriated capital.
   D. retained earnings and contributed capital.

9. Total stockholders' equity represents
   A. a claim to specific assets contributed by the owners.
   B. the maximum amount that can be borrowed by the enterprise.
   C. a claim against a portion of the total assets of an enterprise.
   D. only the amount of earnings that have been retained in the business.
10. Presented below is information related to Chambers Corporation:

<table>
<thead>
<tr>
<th>Stock Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common Stock, $1 par</td>
<td>$2,100,000</td>
</tr>
<tr>
<td>Paid-in Capital in Excess of Par—Common Stock</td>
<td>350,000</td>
</tr>
<tr>
<td>Preferred 8 1/2% Stock, $50 par</td>
<td>1,700,000</td>
</tr>
<tr>
<td>Paid-in Capital in Excess of Par—Preferred Stock</td>
<td>950,000</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>2,350,000</td>
</tr>
<tr>
<td>Treasury Common Stock (at cost)</td>
<td>250,000</td>
</tr>
</tbody>
</table>

The total stockholders’ equity of Chambers Corporation is
A. $2,100,000.
B. $5,100,000.
C. $7,200,000.
D. $7,700,000.

11. Costs of issuing stock such as underwriting costs, accounting and legal fees, and printing costs should be recorded as a deferred charge and charged to expense over a period not greater than 25 years.
A. True
B. False

12. Additional paid-in capital is not affected by the issuance of:
A. stated value stock.
B. par value stock.
C. no-par stock.
D. preferred stock.

14. Stock issued in noncash transactions should be recorded at the:
A. Fair market value of the stock issued.
B. Fair market value of the property received.
C. Par value of the stock issued.
D. Fair market value of the stock issued or fair market value of the property received, whichever is more readily determinable.

15. Lockhart Company issues 10,000 shares of its $1 par value common stock having a market value of $50 per share and 3,000 shares of its $15 par value preferred stock having a market value of $100 per share for a lump sum of $750,000. The proceeds allocated to the common stock is
A. $450,000
B. $468,750
C. $500,000
D. $705,000
16. Bertram Corporation was organized in January 2012 with authorized capital of $1 par value common stock. On February 1, 2012, shares were issued at par for cash. On March 1, 2012, the corporation's attorney accepted 5,000 shares of common stock in settlement for legal services with a fair value of $45,000. Additional paid-in capital would increase on

<table>
<thead>
<tr>
<th>February 1, 2012</th>
<th>March 1, 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Yes</td>
<td>No</td>
</tr>
<tr>
<td>B. Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>C. No</td>
<td>No</td>
</tr>
<tr>
<td>D. No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

17. Treasury stock is classified on the balance sheet as an asset.
   A. True
   B. False

18. Treasury stock sold for less than its cost decreases net income.
   A. True
   B. False

19. Under the cost method, when treasury stock is sold for more than its cost, the excess is credited to:
   A. Gain on Sale of Treasury Stock.
   B. Paid-in Capital in Excess of Par.
   C. Paid-in Capital from Treasury Stock.
   D. Retained Earnings.

21. Which of the following is true regarding treasury stock transactions by a corporation?
   A. May increase but not decrease retained earnings.
   B. May increase net income if the cost method is used.
   C. May decrease but not increase retained earnings.
   D. May decrease but not increase net income.

22. On September 14, 2012, Battle Company reacquired 24,000 shares of its $1 par value common stock for $20 per share. Battle uses the cost method to account for treasury stock. The journal entry to record the reacquisition of the stock should debit
   A. Treasury Stock for $480,000.
   B. Common Stock for $480,000.
   C. Common Stock for $24,000 and Paid-in Capital in Excess of Par for $456,000.
   D. Treasury Stock for $24,000.

24. Preferred stock has no voting rights.
   A. True
   B. False

26. Cumulative preferred dividends in arrears should be shown in a corporation's balance sheet as
   A. an increase in current liabilities.
   B. an increase in stockholders' equity.
   C. a footnote.
   D. an increase in current liabilities for the current portion and long-term liabilities for the long-term portion.
27. All of the following are features of preferred stock except:
   A. callable at the corporation’s option.
   B. convertible into common stock.
   C. preference as to dividends.
   D. voting.

**ADDITIONAL SELF-STUDY QUESTIONS**

1. The most common type of preferred stock is:
   A. callable preferred stock.
   B. convertible preferred stock.
   C. cumulative preferred stock.
   D. participating preferred stock.

2. Vaaler Inc., has 4,000 shares of 9%, $100 par value, cumulative preferred stock and 200,000 shares of $1 par value common stock outstanding at December 31, 2012, and December 31, 2011. The board of directors declared and paid a $25,000 dividend in 2011. In 2012, $74,000 of dividends are declared and paid. What are the dividends received by the preferred stockholders in 2012?
   A. $11,000
   B. $36,000
   C. $47,000
   D. $74,000

3. All of the following statements are true regarding preferred stock except:
   A. companies usually issue preferred stock with a par value.
   B. the dividend preference for preferred stock is expressed as a percentage of the par value.
   C. a company often issues preferred stock instead of debt, because of a high debt-to-equity ratio.
   D. a preference as to dividends assures the payment of dividends.

4. Which of the following features of preferred stock makes the security more like debt than an equity instrument?
   A. Participating
   B. Voting
   C. Redeemable
   D. Noncumulative

5. Cash dividends are not declared or paid on treasury stock.
   A. True
   B. False

6. Which of the following statements related to dividends is incorrect?
   A. Distributions to owners must be in compliance with the state laws.
   B. Dividends must be declared by the Board of Directors.
   C. Dividends must comply with stock contracts as to preferences and participation.
   D. Dividends must be paid in the period declared.
7. Before declaring a cash dividend, management must consider the
   A. current market price of the stock.
   B. availability of funds.
   C. legal capital of the stock.
   D. effect on paid-in capital.

8. Which of the following are requirements of the declaration of a cash dividend?
   A. Sufficient cash.
   B. Sufficient retained earnings.
   C. Declaration by the Board.
   D. All of the above.

9. Which of the following dividends do not reduce total stockholders’ equity?
   A. Liquidating dividends.
   B. Cash dividends.
   C. Stock dividends.
   D. All of the options reduce total stockholders’ equity.

11. The declaration of a property dividend will likely generate a gain or loss on the income statement.
    A. True
    B. False

12. George Corporation owned 15,000 shares of Harper Corporation's $5 par value common stock. These shares were purchased in 2008 for $225,000. On October 4, 2012, George declared a property dividend of one share of Harper for every twenty shares of George held by a stockholder. On that date, when the market price of Harper was $34 per share, there were 280,000 shares of George outstanding. What NET reduction in retained earnings would result from this property dividend?
    A. $210,000
    B. $225,000
    C. $476,000
    D. $952,000

13. On March 19, 2012, Yukon Corp. declared and issued a 12% common stock dividend. Prior to this dividend, Yukon had 392,000 shares of $.50 par value common stock issued and outstanding. The fair value of Yukon's common stock was $36.75 per share on March 19, 2012. As a result of this stock dividend, the company's total stockholders' equity
    A. increased by $1,728,720.
    B. decreased by $864,360.
    C. decreased by $23,520.
    D. did not change.

14. When a property dividend is declared, Retained Earnings is reduced by the:
    A. book value of the property.
    B. cost of the property.
    C. fair value of the property.
    D. carrying value of the property.
15. Cash dividends are paid on the basis of the number of shares
   A. authorized.
   B. issued.
   C. outstanding.
   D. outstanding less the number of treasury shares.

16. Stock splits increase total stockholders' equity.
   A. True
   B. False

17. On January 1, 2012, McComb Corporation had 110,000 shares of its $5 par value common stock outstanding. On December 3, when the market price of the stock was $8, the corporation declared a 10% stock dividend to be issued to stockholders of record on December 29, 2012. What was the impact of the 10% stock dividend on the balance of the retained earnings account?
   A. $50,000 decrease
   B. $80,000 decrease
   C. $88,000 decrease
   D. No effect

18. All of the following decrease Retained Earnings, except:
   A. Stock splits.
   B. Property dividends.
   C. Cash dividends.
   D. Stock dividends.

19. Gardner Corporation issued a 100% stock dividend of its common stock which had a par value of $1, and a market value of $44 before the dividend and $22 after the dividend. At what amount should retained earnings be capitalized for the additional shares issued?
   A. There should be no capitalization of retained earnings.
   B. Par value
   C. Market value on the declaration date
   D. Market value on the payment date

20. Which of the following increases the number of shares outstanding and decreases the par value per share?
   A. Large stock dividend.
   B. Small stock dividend.
   C. Stock split.
   D. Treasury stock.

21. At the date of declaration of a large common stock dividend, the entry should include
   A. a credit to Common Stock Dividend Payable.
   B. a credit to Paid-in Capital in Excess of Par.
   C. a debit to Retained Earnings.
   D. a credit to Cash.
22. Redeemable preferred stock should be classified as a liability on the balance sheet.
   A. True
   B. False

25. Common stock dividends distributable are reported on the balance sheet as:
   A. an addition to additional paid-in capital.
   B. An addition to common stock.
   C. a current liability.
   D. a reduction of total stockholders’ equity.

27. Watauga Inc. has 5,000 shares of 5%, $100 par value, cumulative preferred stock and 30,000 shares of $1 par value common stock outstanding at December 31, 2012. There were no dividends declared in 2010. The board of directors declares and pays a $45,000 dividend in 2011 and in 2012. What is the amount of dividends received by the common stockholders in 2012?
   A. $15,000
   B. $25,000
   C. $45,000
   D. $0

SOLUTIONS

<table>
<thead>
<tr>
<th>Self-study</th>
<th>Additional self-study</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. B</td>
<td>16. D</td>
</tr>
<tr>
<td>2. C</td>
<td>17. B</td>
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<td>3. C</td>
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