CHAPTER 13

QUESTIONS

**1.** The basic rights of common stockholders, unless otherwise restricted in the articles of incorporation or bylaws, are as follows:

(a) The right to vote in the election of directors and in the determination of certain corporate policies.

(b) The right to maintain one’s proportional interest in the corporation through purchase of additional stock issued by the company. (In recent years, some states have eliminated this preemptive right.)

**2.** Historically, par value was equal to the market value of the shares at issuance. Par value was also sometimes viewed by the courts as the minimum contribution by investors. These days, par values for common stocks are usually set at very low values (less than $1), so the importance of par value has decreased substantially.

**3.** *Preferred stock* is stock that carries certain preferences over common stock, such as prior claims to dividends and liquidation preferences. Often, preferred stock has no voting rights or only limited voting rights, and dividends are usually limited to a stated percentage or amount. The special rights of a particular issue of preferred stock are set forth in the articles of incorporation and in the preferred stock certificates issued by the corporation.

**4.** User comments to the FASB’s November 2007 *Preliminary Views* document were overwhelmingly negative. Users appear to prefer that preferred stock be classified as equity in the balance sheet.

**5.** When stock is issued for noncash assets or for services, the fair market value of the stock or the fair market value of the prop-erty or services, whichever is more objectively determinable, is used to record the transaction.

**6.** A company may repurchase its own stock for any of the following reasons:

• To provide shares for incentive compensation plans

• To obtain shares for convertible securities holders

• To reduce the amount of equity outstanding

• To invest excess cash temporarily

• To protect against a hostile takeover

• To improve per-share earnings

• To display confidence that the stock is currently undervalued

**7.** **a.** The *cost method* of accounting for treasury stock records the treasury stock at cost, pending final disposition of the stock; the *par value method* treats the acquisition of treasury stock as effective or “constructive” retirement of outstanding stock.

**b.** Total stockholders’ equity will be the same regardless of whether the cost method or the par value method is used to account for treasury stock. The respective amounts of retained earnings and paid-in capital may differ, however.

**8.** The difference between the *purchase price* and the *selling price* of treasury stock is properly excluded from the income statement because treasury stock transactions cannot be considered to give rise to a gain or a loss. Gain or loss arises from the utilization of assets or resources by the corporation in operating and investing activities. Because the recognition of treasury stock as an asset is discouraged, transactions in treasury stock are considered capital transactions between the company and its stockholders and thus do not give rise to a gain or a loss.

**9.** If warrants are detachable, the issuance proceeds are allocated between the secu-rity and the warrant, based on the relative fair market values of each. If warrants are nondetachable, no allocation is made to recognize the value of the warrant. The entire proceeds are assigned to the security to which the warrant is attached.

**10.** The option value used in the computation of compensation expense associated with a basic stock-based compensation plan is the estimated fair value of the option on the grant date.

**11.** The catch-up adjustment causes the cumulative expense recognized to equal the amount it would have been had the revised number of options probable to vest been used all along in the yearly computations of expense.

**12.** When a stock-based award calls for settlement in cash, the obligation is accounted for as a liability.

**13.** Mandatorily redeemable preferred shares should be reported in the balance sheet as a liability.

**14.** When a corporation writes a put option on its own shares, the corporation typically receives cash. In return, the corporation agrees to repurchase shares of its own stock at a set price at some future date if those shares are offered for sale by the option holder.

**15.** An obligation that requires a company to deliver a fixed number of its shares should be classified as equity because the party to whom the shares must be delivered is at risk to the same extent as are the existing shareholders. An obligation to deliver shares with a fixed monetary amount is reported as a liability rather than as equity.

**16.** Noncontrolling interest is the amount of equity investment made by outside shareholders to consolidated subsidiaries that are not 100% owned by the parent. Historically, noncontrolling interest has been called minority interest. Noncontrolling interest is classified as equity in the consolidated balance sheet.

**17.** If an error is discovered in the current year, it is corrected with a correcting entry. If a material error is discovered in a year subsequent to the error, the error is corrected by a prior-period adjustment whereby the beginning balance in Retained Earnings is adjusted. Some errors are counterbalancing (e.g., inventory errors) and may need no correction.

**18.** State incorporation laws are written to prevent corporations from wrongfully borrowing money and then funneling that money to shareholders. One device to prevent this   
is to restrict the payment of cash dividends to the amount of retained earnings. Retained earnings can also be restricted by private debt agreements in which lenders constrain the ability of a borrowing company to pay cash dividends.

**19. a.** June 15, 2015, is the date on which dividend action was formally taken. July 10, 2015, is the date dividend checks will be mailed to stockholders. June 30, 2015, is the date for determining the names of stockholders for purposes of the dividend; dividend checks will be mailed   
only to those stockholders whose names appear in the stockholders’   
ledger at the close of business on this date. The period between the date of declaration and the date of record gives stockholders a chance to adjust their holdings in light of the dividend action taken by the company. The period between the date of record and the date of payment gives the corporation time to prepare dividend checks for mailing.

**b.** The stock would normally be traded “ex-dividend” three or four days prior to June 30, 2015. A stockholder selling shares on or after that date would still receive the dividend on stock, and conversely, any person acquiring the stock between that date and July 10 would receive no dividend payment from the current declaration.

**20.** With a stock split, the par value of each share is reduced, and the number of shares outstanding is increased. The total par   
value of shares is unchanged. With a stock dividend, the par value of each share is unchanged, and because the number of shares outstanding is increased, total par value is increased. This par value increase is effected through a transfer to par value from Retained Earnings and/or Additional Paid-In Capital. With a small stock dividend, the market value of the newly issued shares is transferred. With a large stock dividend, the par value of the new shares is transferred.

**21. a.** A *liquidating dividend* is a distribution of contributed capital to stockholders.

**b.** A liquidating dividend is paid when a corporation is undertaking a partial or complete liquidation.

**22.** The three types of unrealized gains and losses shown as direct equity adjustments are

• *Foreign currency translation adjustment.* This adjustment arises from the change in the equity of foreign subsidiaries (as measured in terms of U.S. dollars) that occurs as a result of changes in foreign currency exchange rates.

• *Unrealized gains/losses on available-for-sale securities.* Available-for-sale securities are those that were not purchased with the immediate intention to resell but will be held for an indefinite time. Unrealized gains and losses arise because these securities must be reported on the balance sheet at their fair market value.

• *Unrealized gains and losses on derivatives.* Unrealized gains and losses from market value fluctuations of derivative instruments that are intended to manage risks associated with future sales or purchases are deferred to allow for proper matching.

**23.** Each equity reserve account is associated with legal restrictions dictating whether it can be distributed to shareholders. Therefore, the accounting for equity reserves directly influences a firm’s ability to pay dividends. The most important distinction is whether the equity reserve is part of distributable or nondistributable equity.

PRACTICE EXERCISES

PRACTICE 13–1 COMPUTATION OF DIVIDENDS, COMMON AND NONCUMULATIVE PREFERRED

**2014: Amount Comments**

**Preferred shareholders $45,000 No dividends in arrears; noncumulative**

(10,000 shares × 0.06 ×   
$100 = $60,000)

**Common shareholders 0 No remainder**

**$45,000**

2015: Amount Comments

Preferred shareholders $ 60,000 No dividends in arrears; noncumulative

Common shareholders 40,000

$100,000

PRACTICE 13–2 COMPUTATION OF DIVIDENDS, COMMON AND CUMULATIVE PREFERRED

2014: Amount Comments

Preferred shareholders $45,000 $15,000 dividends in arrears

(10,000 shares × 0.06 ×   
$100 = $60,000)

Common shareholders 0 No remainder

$45,000

2015: Amount Comments

Preferred shareholders $ 75,000 $15,000 in arrears + $60,000

Common shareholders 25,000

$100,000

PRACTICE 13–3 ISSUANCE OF COMMON STOCK

Cash (10,000 shares × $40) 400,000

Common Stock, $1 par (10,000 shares × $1) 10,000

Paid-In Capital in Excess of Par 390,000

PRACTICE 13–4 ACCOUNTING FOR STOCK SUBSCRIPTIONS

**Subscription:**

Common Stock Subscriptions Receivable 500,000

Common Stock Subscribed 20,000

Paid-In Capital in Excess of Par 480,000

Subscription amount = 20,000 shares × $25 = $500,000

PRACTICE 13–4 (Concluded)

**Collection of initial 40% of the cash:**

Cash ($500,000 × 0.40) 200,000

Common Stock Subscriptions Receivable 200,000

**Collection of remaining cash and issuance of shares:**

Cash ($500,000 – $200,000) 300,000

Common Stock Subscriptions Receivable 300,000

Common Stock Subscribed 20,000

Common Stock, $1 par (20,000 shares × $1) 20,000

PRACTICE 13–5 ISSUING STOCK IN EXCHANGE FOR SERVICES

Salaries Expense 575,000

Common Stock, $0.50 par (35,000 shares × $0.50) 17,500

Paid-In Capital in Excess of Par 557,500

Paid-In Capital in Excess of Par = $575,000 − $17,500 = $557,500

PRACTICE 13–6 ACCOUNTING FOR TREASURY STOCK: COST METHOD

Treasury Stock 300,000

Cash 300,000

$300,000/10,000 shares = $30 per share

Cash 144,000

Treasury Stock (4,000 shares × $30) 120,000

Paid-In Capital from Treasury Stock 24,000

PRACTICE 13–7 ACCOUNTING FOR TREASURY STOCK: PAR VALUE METHOD

Treasury Stock (10,000 shares × $1 par) 10,000

Paid-In Capital in Excess of Par 190,000

Retained Earnings ($300,000 − $200,000) 100,000

Cash 300,000

Paid-In Capital in Excess of Par = 10,000 shares × ($20 – $1 par) = $190,000

Cash 144,000

Treasury Stock 4,000

Paid-In Capital in Excess of Par 140,000

PRACTICE 13–8 ACCOUNTING FOR STOCK WARRANTS

Cash (20,000 units × $55) 1,100,000

Preferred Stock, $50 par (20,000 shares × $50) 1,000,000

Paid-In Capital in Excess of Par⎯Preferred 40,000

Common Stock Warrants (20,000 warrants × $3) 60,000

Paid-In Capital in Excess of Par—Preferred = 20,000 shares × [($55 – $3) – $50 par] = $40,000

In this case, because the fair values of the separate components of the preferred stock/stock warrant package sum to the fair value of the package ($52 + $3 = $55), there is no need to use the relative fair value method.

Cash (20,000 warrants × $20) 400,000

Common Stock Warrants (20,000 warrants × $3) 60,000

Common Stock, $1 par 20,000

Paid-In Capital in Excess of Par⎯Common 440,000

PRACTICE 13–9 ACCOUNTING FOR A BASIC STOCK-BASED COMPENSATION PLAN

**Grant Date:**

No entry.

**End of First Year:**

Compensation Expense ($600,000/3 years) 200,000

Paid-In Capital from Stock Options 200,000

Total compensation over the three-year life of the options: 150,000 options × $4 = $600,000

The same adjusting entry would be made at the end of the second and third years.

**Option Exercise Date:**

Cash (150,000 options × $25) 3,750,000

Paid-In Capital from Stock Options 600,000

Common Stock, $1 par (150,000 shares × $1) 150,000

Paid-In Capital in Excess of Par 4,200,000

PRACTICE 13–10 ACCOUNTING FOR A PERFORMANCE-BASED STOCK OPTION PLAN

**End of First Year:**

Compensation Expense ($600,000/3 years) 200,000

Paid-In Capital from Stock Options 200,000

Total probable compensation over the three-year life of the options: 150,000 options × $4 = $600,000

PRACTICE 13–10 (Concluded)

**End of Second Year:**

Compensation Expense ($320,000 – $200,000) 120,000

Paid-In Capital from Stock Options 120,000

Total probable compensation over the three-year life of the options: 120,000 options × $4 = $480,000

Cumulative expense as of the end of the second year: $480,000 × 2/3 = $320,000

PRACTICE 13–11 ACCOUNTING FOR CASH STOCK APPRECIATION RIGHTS

**End of First Year:**

Compensation Expense ($1,200,000/3 years) 400,000

Share-Based Compensation Liability 400,000

Total estimated compensation over the three-year life of the options: 150,000 options × $8 = $1,200,000

**End of Second Year:**

Compensation Expense ($500,000 – $400,000) 100,000

Share-Based Compensation Liability 100,000

Total estimated compensation over the three-year life of the options: 150,000 options × $5 = $750,000

Cumulative expense as of the end of the second year: $750,000 × 2/3 = $500,000

PRACTICE 13–12 ACCOUNTING FOR MANDATORILY REDEEMABLE PREFERRED SHARES

January 1, Year 1

Cash 1,000

Mandatorily Redeemable Preferred Shares (liability) 1,000

December 31, Year 1

Interest Expense ($1,000 × 0.08) 80

Mandatorily Redeemable Preferred Shares (liability) 80

December 31, Year 2

Interest Expense ($1,080 × 0.08) 86.40

Mandatorily Redeemable Preferred Shares (liability) 86.40

January 1, Year 3

Mandatorily Redeemable Preferred Shares (liability) 1,166.40

Cash 1,166.40

PRACTICE 13–13 ACCOUNTING FOR A WRITTEN PUT OPTION

January 1, Year 1

Cash 1,200

Put Option (liability) 1,200

December 31, Year 1

Put Option (liability) ($1,200 – $350) 850

Gain on Put Option 850

December 31, Year 2

Treasury Stock ($46 × 100 shares) 4,600

Put Option (liability) 350

Loss on Put Option 50

Cash ($50 × 100 shares) 5,000

PRACTICE 13–14 ACCOUNTING FOR STOCK CONVERSION

Preferred Stock, $40 par (12,000 shares × $40) 480,000

Paid-In Capital in Excess of Par⎯Preferred 48,000

Common Stock, $1 par (60,000 shares × $1) 60,000

Paid-In Capital in Excess of Par⎯Common 468,000

PRACTICE 13–15 PRIOR-PERIOD ADJUSTMENTS

Retained earnings, unadjusted beginning balance $50,000

Add prior-period adjustment 4,000

Retained earnings, adjusted beginning balance $54,000

Add: Net income 12,000

$66,000

Deduct: Dividends 4,500

Retained earnings, ending balance $61,500

PRACTICE 13–16 ACCOUNTING FOR DECLARATION AND PAYMENT OF DIVIDENDS

Retained Earnings 35,000

Dividends Payable 35,000

Dividends Payable 35,000

Cash 35,000

PRACTICE 13–17 ACCOUNTING FOR PROPERTY DIVIDENDS

Retained Earnings 270,000

Property Dividends Payable (10,000 shares × $20) 200,000

Gain on Distribution of Property Dividend 70,000

Gain on distribution of property dividend: 10,000 shares × ($27 – $20) = $70,000

Property Dividends Payable 200,000

Investment Securities—Wilsonville Company 200,000

PRACTICE 13–18 ACCOUNTING FOR SMALL STOCK DIVIDENDS

Retained Earnings 80,000

Stock Dividends Distributable (2,000 shares × $1) 2,000

Paid-In Capital in Excess of Par 78,000

Reduction in retained earnings: 20,000 shares × 0.10 × $40 = $80,000

Stock Dividends Distributable 2,000

Common Stock, $1 par 2,000

PRACTICE 13–19 LARGE STOCK DIVIDENDS AND STOCK SPLITS

(1) 100% Large Stock Dividend:

Retained Earnings\* 10,000

Stock Dividends Distributable (10,000 shares × $1) 10,000

Reduction in retained earnings: 10,000 new shares × $1 = $10,000

\*Alternatively, the debit can be made to Paid-In Capital in Excess of Par.

Stock Dividends Distributable 10,000

Common Stock, $1 par 10,000

(2) 2-for-1 Stock Split:

There are no journal entries necessary with a stock split. In this case, only a memorandum entry would be made to note the fact that the par value per share had been reduced to $0.50 and the number of shares outstanding had been increased to 20,000.

PRACTICE 13–20 ACCOUNTING FOR LIQUIDATING DIVIDENDS

Dividends (or Retained Earnings) 30,000

Paid-In Capital in Excess of Par 470,000

Dividends Payable 500,000

Dividends Payable 500,000

Cash 500,000

PRACTICE 13–21 COMPREHENSIVE INCOME

**2013 2014 2015**

**Net income (loss) $(1,500) $ 600 $2,100**

Increase (decrease) from foreign currency 275 (725) (195)

**Increase (decrease) in portfolio value (900) (400) 560**

**Comprehensive income $(2,125) $(525) $2,465**

PRACTICE 13–22 ACCUMULATED OTHER COMPREHENSIVE INCOME

(1) Retained earnings

Retained earnings, January 1, 2013 $ 0

Net loss (1,500)

Dividends 0

Retained earnings (deficit), December 31, 2013 $ (1,500)

Net income 600

Dividends (150)

Retained earnings (deficit), December 31, 2014 $ (1,050)

Net income 2,100

Dividends (550)

Retained earnings (deficit), December 31, 2015 $ 500

(2) Accumulated other comprehensive income

Accumulated other comprehensive income, January 1, 2013 $ 0

Increase (decrease) from foreign currency 275

Increase (decrease) in portfolio value (900)

Accumulated other comprehensive income (deficit),

December 31, 2013 $ (625)

Increase (decrease) from foreign currency (725)

Increase (decrease) in portfolio value (400)

Accumulated other comprehensive income (deficit),

December 31, 2014 $ (1,750)

Increase (decrease) from foreign currency (195)

Increase (decrease) in portfolio value 560

Accumulated other comprehensive income (deficit),

December 31, 2015 $ (1,385)

PRACTICE 13–23 INTERNATIONAL EQUITY RESERVES

(1) Nondistributable

Par value of shares $ 100

Share premium 1,700

Asset revaluation reserve 3,200

Total nondistributable equity $ 5,000

(2) Distributable

Retained earnings $ 1,000

Special reserve 400

Total distributable equity $ 1,400

PRACTICE 13–24 STATEMENT OF CHANGES IN STOCKHOLDERS’ EQUITY

**Paid-In Accumulated**

Common Capital Other Total

Stock in Excess Comprehensive Treasury Retained Stockholders’

**at Par of Par Income Stock Earnings Equity**

**Begin $ 2,000 $ 14,000 $(3,500) $(6,000) $18,000 $ 24,500**

**(a) 6,300 $ 6,300**

**(b) 200 200**

**Comprehensive income $ 6,500**

**(c) (2,000) $ (2,000)**

**(d) (1,600) (1,600)**

**(e) 50 750 800**

**End $ 2,050 $ 14,750 $(3,300) $(7,600) $22,300 $ 28,200**

EXERCISES

13–25. (a) Cash 600,000

Common Stock 40,000

Paid-In Capital in Excess of Par 560,000

*Issued 20,000 shares of $2 par common*

*stock at $30.*

(b) Organization Expense 9,000

Common Stock 500

Paid-ln Capital in Excess of Par 8,500

*Issued 250 shares of $2 par common stock in*

*return for legal services in organizing*

*corporation.*

(c) Compensation Expense 10,000

Common Stock 600

Paid-ln Capital in Excess of Par 9,400

*Issued 300 shares of $2 par common stock*

*to employees; objective market value*

*of stock = $10,000.*

(d) Buildings 295,000

Land 80,000

Common Stock 25,000

Paid-In Capital in Excess of Par 350,000

*Issued 12,500 shares of $2 par common stock*

*in exchange for a building and land valued*

*at $295,000 and $80,000, respectively.*

(e) Cash 247,000

Common Stock 13,000

Paid-ln Capital in Excess of Par 234,000

*Issued 6,500 shares of $2 par common stock*

*at $38.*

(f) Cash 180,000

Common Stock 8,000

Paid-ln Capital in Excess of Par 172,000

*Issued 4,000 shares of $2 par common stock*

*at $45.*

13–26. December 31, 2013, Dividend:

Because no preferred stock had been issued at this time, the entire $24,200 dividend was paid to the common stockholders.

December 31, 2015, Dividend:

Because cumulative preferred stock had been issued, the preferred stockholders have the right to receive $17,500 in dividends before common stockholders receive payment (25,000 shares × $10 par = $250,000; $250,000 × 0.07 = $17,500). Thus, the entire $16,500 was paid to preferred stockholders.

13–26. (Concluded)

December 31, 2016, Dividend:

Because preferred stockholders had not received all dividends they were entitled to on December 31, 2015, the remaining portion of the 2015 dividend plus the preference for 2016 must be paid to preferred stockholders before any payment to common stockholders. Thus, preferred stockholders will receive $18,500 in 2016, and common stockholders will receive $16,300 ($17,500 – $16,500 = $1,000; $1,000 + $17,500 = $18,500; $34,800 – $18,500 = $16,300).

13–27. 2013 2014 2015

(a)

   

   

(b)

   

 None  

(c)

   

 None  

(d)

   

 None None 

13–28. (a) Cash 518,000

Common Stock 84,000

Paid-ln Capital in Excess of Stated

Value—Common 434,000

*Issued 14,000 shares of common stock, stated*

*value $6, at $37.*

13–28. (Concluded)

Cash 125,000

Preferred Stock 100,000

Paid-ln Capital in Excess of Par—Preferred 25,000

*Issued 5,000 shares of preferred stock, par*

*value $20, at $25.*

(b) Cash 30,750

Common Stock Subscriptions Receivable 92,250

Common Stock Subscribed 18,000

Paid-ln Capital in Excess of Stated

Value—Common 105,000

*Received subscriptions for 3,000 shares of*

*common stock, stated value $6, at $41.*

(c) Cash 92,250

Common Stock Subscriptions Receivable 92,250

*Collected remaining amount owed on stock*

*subscriptions.*

Common Stock Subscribed 18,000

Common Stock 18,000

*Issued 3,000 shares of subscribed stock.*

(d) Cash 424,000

Common Stock 48,000

Paid-ln Capital in Excess of Stated

Value—Common 376,000

*Issued 8,000 shares of common stock at $53.*

13–29. 2015

Aug. 1 Common Stock 18,000

Paid-ln Capital in Excess of Par 216,000\*

Retained Earnings 108,000\*\*

Cash 342,000\*\*\*

\*18,000 shares × $12 ($2,400,000/200,000)

\*\*Amount needed to balance or cover original stock issued at $13/share

\*\*\*Alternatively, the entire $324,000 could be debited to Retained Earnings.

Dec. 31 Common Stock 32,000

Paid-ln Capital in Excess of Par 384,000\*

Cash 288,000

Paid-ln Capital from Stock Reacquisition 128,000\*\*

\*32,000 shares × $12 ($2,400,000/200,000)

\*\*Amount to balance. Represents additional capital on stock retirement based on original issue of $13/share. In essence moves capital from Paid-In Capital in Excess of Par and moves to Paid-In Capital from Stock Reacquisition (both equity accounts).

13–30. 1. (a) 2015

June 1 Treasury Stock 240,000

Cash 240,000

*Reacquired 15,000 shares of*

*common at $16.*

July 1 Cash 100,000

Treasury Stock 80,000

Paid-ln Capital from Treasury Stock 20,000

*Sold 5,000 shares of treasury*

*stock at $20; cost $16.*

Aug. 1 Cash 98,000

Paid-ln Capital from Treasury Stock 14,000\*

Treasury Stock 112,000

*Sold 7,000 shares of treasury*

*stock at $14; cost $16.*

\*Alternatively, Retained Earnings could be

debited for $14,000.

Sept. 1 Common Stock 1,000

Paid-ln Capital in Excess of Par 16,000\*

Treasury Stock 16,000

Paid-ln Capital from Treasury Stock 1,000

*Retired 1,000 shares of treasury*

*stock, cost $16; pro rata issuance*

*cost, $17. [($240,000 + $3,840,000) ÷*

*240,000 shares].*

\*Alternatively, Retained Earnings could be debited for

$15,000, with no entries to paid-in capital accounts.

(b) Stockholders’ Equity

Contributed capital:

Common stock, $1 par, 275,000 shares authorized;

239,000 shares issued; 2,000 shares held as

treasury stock $ 239,000

Paid-in capital in excess of par 3,824,000

Paid-in capital from treasury stock 7,000

Retained earnings 1,005,000

Total contributed capital and retained earnings $ 5,075,000

Less: Treasury stock at cost 32,000

Total stockholders’ equity $ 5,043,000

2. (a) 2015

June 1 Treasury Stock 15,000

Paid-ln Capital in Excess of Par 240,000

Paid-ln Capital from Treasury Stock 15,000

Cash 240,000

*Reacquired 15,000 shares at $16;*

*par value, $1; pro rata cost, $17.*

13–30. (Concluded)

July 1 Cash 100,000

Treasury Stock 5,000

Paid-ln Capital in Excess of Par 95,000

*Sold 5,000 shares at $20; par*

*value, $1.*

Aug. 1 Cash 98,000

Treasury Stock 7,000

Paid-In Capital in Excess of Par 91,000

*Sold 7,000 shares at $14; par*

*value, $1.*

Sept. 1 Common Stock 1,000

Treasury Stock 1,000

*Retired 1,000 shares; par value, $1.*

(b) Stockholders’ Equity

Contributed capital:

Common stock, $1 par, 275,000 shares authorized;

239,000 shares issued; 2,000 shares held as

treasury stock $ 239,000

Less: Treasury stock at par 2,000

Common stock outstanding $ 237,000

Paid-in capital in excess of par 3,786,000

Paid-in capital from treasury stock 15,000

Total contributed capital $ 4,038,000

Retained earnings 1,005,000

Total stockholders’ equity $ 5,043,000

13–31. When the rights are issued, only a memorandum entry is required to state the number of shares that may be claimed. This is to ensure that enough shares are held to cover the rights.

When the rights are exercised, another memorandum entry is needed to record the reduction in the outstanding rights.

When the rights lapse, a memorandum entry should be made to note the decrease in outstanding claims to common stock.

13–32. 1. Cash 90,000

Common Stock Warrants 8,617\*

Preferred Stock 20,000†

Paid-ln Capital in Excess of Par—Preferred 61,383†

\*Value assigned to warrants:

($9/$94) × $90 × 1,000 = $8,617 (rounded)

†Value assigned to preferred stock:

($85/$94) × $90 × 1,000 = $81,383 ($20,000 par, $61,383 paid-in   
capital)

13–32. (Concluded)

2. Common Stock Warrants 8,617

Cash 30,000

Common Stock 2,000

Paid-ln Capital in Excess of Par—Common 36,617

3. Common Stock Warrants 6,032\*

Cash 21,000

Common Stock 1,400

Paid-ln Capital in Excess of Par—Common 25,632

\*0.70 × $8,617 = $6,032 (rounded)

Common Stock Warrants 2,585\*

Paid-ln Capital from Expired Common Stock

Warrants 2,585

\*0.30 × $8,617 = $2,585 (rounded)

13–33. Total compensation expense over the three-year service period (2014–2016) is $315,000 ($7 fair value × 45,000 options). The journal entry required in each year of the service period is as follows:

Compensation Expense ($315,000/3 years) 105,000

Paid-In Capital from Stock Options 105,000

The journal entry to record the exercise of all 45,000 of the options on December 31, 2017, is as follows:

Cash (45,000 × $29) 1,305,000

Paid-In Capital from Stock Options 315,000

Common Stock 90,000

Paid-In Capital in Excess of Par 1,530,000

13–34. Probable 2016 sales at December 31, 2014 $ 450,000

Options for probable sales 20,000

Fair value of options at grant date × $9

Estimated compensation expense from options $ 180,000

Number of years in service period ÷ 3 years

2014 compensation expense $ 60,000

Probable 2016 sales at December 31, 2015 $ 550,000

Options for probable sales 30,000

Fair value of options at grant date × $9

Estimated compensation expense from options $ 270,000

Number of years in service period ÷ 3 years

Revised compensation expense for 2014 and 2015

($270,000 × 2/3) $ 180,000

Less 2014 compensation expense 60,000

2015 compensation expense $ 120,000

13–34. (Concluded)

Actual 2016 sales $ 700,000

Options earned 30,000

Fair value of options at grant date × $9

Compensation expense from options $ 270,000

Compensation expense recognized

in 2014 and 2015 180,000

2016 compensation expense $ 90,000

13–35. 2015

Dec. 31 Compensation Expense 20,000

Share-Based Compensation Liability 20,000

*[10,000* × *$6] ÷ 3 years.*

2016

Dec. 31 Compensation Expense 46,667

Share-Based Compensation Liability 46,667

*[10,000* × *$10] = $100,000*

*$100,000* × *2/3 = $66,667*

*$66,667 – $20,000 = $46,667.*

2017

Dec. 31 Compensation Expense 13,333

Share-Based Compensation Liability 13,333

*[10,000* × *$8] = $80,000*

*$80,000 – $66,667 = $13,333.*

2018

Jan. 1 Share-Based Compensation Liability 80,000

Cash 80,000

13–36. 1. Preferred Stock (6,000 shares × $14) 84,000

Paid-ln Capital in Excess of Par—Preferred 24,000

Common Stock (6,000 shares, $9 par) 54,000

Paid-ln Capital in Excess of Par—Common 54,000

2. Preferred Stock 84,000

Paid-ln Capital in Excess of Par—Preferred 24,000

Retained Earnings 108,000

Common Stock (24,000 shares, $9 par) 216,000

3. Preferred Stock 84,000

Paid-ln Capital in Excess of Par—Preferred 24,000

Common Stock (9,000 shares, $9 par) 81,000

Paid-ln Capital in Excess of Par—Common 27,000

13–37. 1. The error would be reported as an adjustment to the beginning Retained Earnings balance in the 2015 statement of retained earnings or statement of changes in stockholders’ equity.

2. Retained earnings, January 1, 2015 $ 86,500

Adjustment for depreciation error in 2014 (36,000)

Retained earnings, adjusted, January 1, 2015 $ 50,500

Net income 106,000

Dividends (30,000)

Retained earnings, December 31, 2015 $ 126,500

13–38. (1) Calculation of number of shares outstanding:

Jan. 1 800,000 shares

Feb. 15 50,000 shares

May 12 100,000 shares (1,000 × 100)

950,000 shares

June 15 104,500 shares (950,000 × 0.11)

1,054,500 shares outstanding

Amount to be paid in dividends for the third quarter,

1,054,500 × $1.50 = $1,581,750

(2) Total dividends for 2015:

Mar. = $1.50 × 850,000 = $1,275,000

June, Sept., and Dec. = 3 × $1,581,750 = 4,745,250

$6,020,250

13–39. (a) Dividends (Retained Earnings) 1,350,000

Property Dividends Payable 975,000

Gain on Distribution of Property Dividends 375,000

Property Dividends Payable 975,000

Investment in Bedrock Corporation Stock 975,000

(b) Dividends (Retained Earnings) ($6.25 × 220,000

shares) 1,375,000

Property Dividends Payable 1,375,000

Property Dividends Payable 1,375,000

Investment in Great Basin Company Stock 1,375,000

13–40. 1. Retained Earnings 20,000

Stock Dividends Distributable 20,000

*Declaration of 25% stock dividend; transfer*

*at stated value.*

Stock Dividends Distributable 20,000

Common Stock, $1 stated value 20,000

*Issuance of stock dividend.*

13–40. (Concluded)

2. The issuance of the stock dividend had no effect on the ownership equity of each stockholder in the corporation. For each share previously held representing an equity of $19.375 ($1,550,000 ÷ 80,000 shares), the stockholder now holds 1¼ shares, representing an equity of 1¼ × $15.50 ($1,550,000 ÷ 100,000 shares), or $19.375.

3. Retained Earnings 120,000

Stock Dividends Distributable 12,000

Paid-In Capital in Excess of Stated Value 108,000

*Declaration of 15% stock dividend; transfer at*

*market value.*

Stock Dividends Distributable 12,000

Common Stock, $1 stated value 12,000

*Issuance of stock dividend.*

13–41. (a) Entries assuming that the 10% stock dividend is recorded at market value:

Retained Earnings 200,000\*

Stock Dividends Distributable 30,000

Paid-In Capital in Excess of Par 170,000

*Declared a 10% stock dividend recorded at*

*new market value of $40 ($44 ÷ 1.1).*

\*50,000 shares outstanding × 0.10 = 5,000 additional shares;

5,000 shares × $40 = $200,000

Stock Dividends Distributable 30,000

Common Stock, $6 par 30,000

(b) Entries assuming that the 50% stock dividend is recorded at par value:

Retained Earnings (or Paid-In Capital in

Excess of Par) 150,000\*

Stock Dividends Distributable 150,000

*Declared 50% stock dividend recorded at*

*par value.*

\*50,000 shares outstanding × 0.50 = 25,000 additional shares;

25,000 shares × $6 = $150,000

Stock Dividends Distributable 150,000

Common Stock, $6 par 150,000

(c) No journal entry is needed. A memorandum entry would disclose the decrease in par value (from $6 to $3) and the increase in shares outstanding (from 50,000 to 100,000).

13–42. Retained Earnings 945,000

Stock Dividends Distributable 45,000

Paid-In Capital in Excess of Par 900,000

*Declared 10% stock dividend, recorded at $21*

*new market value.*

Stock Dividends Distributable 40,000

Common Stock, $1 par 40,000

*Partial distribution of stock dividend.*

13–43. Retained Earnings 50,000

Paid-ln Capital in Excess of Par 275,000

Dividends Payable 325,000

Dividends Payable 325,000

Cash 325,000

13–44. (a) Fire Loss 3,175

Retained Earnings 3,175

*To report loss from fire on the income*

*statement.*

(b) Goodwill Impairment Loss 32,200

Retained Earnings 32,200

*To report goodwill impairment loss on the*

*income statement.*

(d) Loss on Sale of Equipment 17,550

Retained Earnings 17,550

*To report loss from sale of equipment on*

*the income statement.*

(g) Retained Earnings 79,500

Paid-ln Capital in Excess of Par 79,500

*To report paid-in capital from sale of stock*

*as a separate stockholders’ equity item.*

(h) Retained Earnings 3,725

Paid-ln Capital from Forfeited Stock

Subscriptions 3,725

*To report capital from stock subscription*

*defaults as part of paid-in capital.*

(i) Retained Earnings 14,700

Paid-ln Capital from Retirement of Preferred

Stock 14,700

*To report retirement of preferred stock at*

*less than issuance price as part of paid-in*

*capital.*

13–44. (Concluded)

(j) Retained Earnings 8,100

Gain on Bond Retirement 8,100

*To report gain on retirement of bonds at less*

*than book value on the income statement.*

(k) Retained Earnings 7,800

Gain on Settlement of Life Insurance 7,800

*To report gain on life insurance policy*

*settlement on the income statement.*

The following items are correctly recorded in the retained earnings account:

c. Stock dividend, $50,000. This amount is transferred to paid-in capital accounts.

e. Officers’ compensation related to income of prior periods, $210,400. This is an accounting error, and the amount is properly recorded as a prior-period adjustment.

f. Retirement of preferred shares at more than the issue price, $28,000. This amount is properly debited to Retained Earnings.

I. Correction of prior-period error, $31,050. This is properly recorded as a prior-period adjustment.

The corrected amount of Retained Earnings is as follows: $95,250 + $3,175 + $32,200 + $17,550 – $79,500 – $3,725 – $14,700 – $8,100 – $7,800 = $34,350. Of course, the items included in the computation of net income will eventually be closed to Retained Earnings.

13–45. Unrealized gain on available-for-sale securities: An unrealized gain increases equity.

Accumulated foreign currency translation adjustment: Because the currencies in the countries where Radial has foreign subsidiaries have strengthened relative to the U.S. dollar, this equity adjustment will increase equity.

Contributed capital and retained earnings $ 875,000

Plus: Foreign currency translation adjustment 72,000

Plus: Unrealized gain on available-for-sale securities 95,000

Total stockholders’ equity $1,042,000

13–46. Common Stock 62,500\*

Paid-ln Capital in Excess of Par 15,000\*\*

Retained Earnings 12,500†

Cash 90,000

*Retirement of 2,500 shares of common stock.*

\* Common Stock: $150,000 ÷ 6,000 shares = $25 par value

2,500 shares × $25 = $62,500

\*\* Paid-ln Capital in Excess of Par: $36,000 ÷ 6,000 shares = $6

2,500 shares × $6 = $15,000

† Debit to Retained Earnings: $49,000 + $40,000 (net income) – $76,500 =

$12,500 amount paid over original issuance

price to retire stock.

Cash 120,750

Paid-ln Capital in Excess of Par ($54,250 + $15,000 –

$36,000) 33,250

Common Stock (3,500 shares × $25) 87,500

*Additional issuance of common stock.*

Treasury Stock 25,000

Cash 25,000\*

*Purchase of common stock held as treasury stock.*

\*300 shares on hand × $50 = $15,000

200 shares later sold × $50 = $10,000

Original purchase: $25,000 ($15,000 + $10,000)

Cash (200 shares × $55) 11,000

Treasury Stock 10,000

Paid-ln Capital from Treasury Stock 1,000

*Sale of 200 shares of treasury stock.*

Income Summary 40,000

Retained Earnings 40,000

*Income for period closed to Retained Earnings.*

13–47. 1. Kenny Co.

Stockholders’ Equity

December 31, 2014

Common stock ($1 par, 950,000 shares

authorized, 475,000 shares issued and

outstanding) $ 475,000\*

Paid-in capital in excess of par 6,650,000\*\*

Total paid-in capital $7,125,000

Retained earnings 787,500†

Total stockholders’ equity $7,912,500

COMPUTATIONS:

\*950,000 ÷ 2 = 475,000 × $1 = $475,000

\*\*475,000 × $15 = $7,125,000 – $475,000 = $6,650,000

†$1,025,000 – $237,500 = $787,500

2.

**Kenny Co.**

**Statement of Changes in Stockholders’ Equity**

**For the Year Ended December 31, 2015**

**Paid-In Paid-In**

**Capital Capital**

**Preferred in Excess Common in Excess Retained**

**Stock of Par Stock of Par Earnings Total**

**Balances,**

**Dec. 31, 2014 $ 0 $ 0 $475,000 $6,650,000 $ 787,500 $ 7,912,500**

**Jan. 10:**

**Issued 100,000**

**shares of com-**

**mon stock**

**at $17 100,000 1,600,000 1,700,000**

**Apr. 1:**

**Issued 150,000**

**shares of**

**preferred stock**

**at $8 750,000 450,000 1,200,000**

**Oct. 23:**

**Issued 50,000**

**shares of**

**preferred stock**

**at $9 250,000 200,000 450,000**

**Net income**

**for 2015 1,215,000 1,215,000**

**Cash dividends:**

**Preferred stock,**

**$0.30 on 200,000**

**shares (60,000) (60,000)**

**Common stock,**

**$1.00 on 575,000**

**shares (575,000) (575,000)**

**Balances,**

**Dec. 31, 2015 $1,000,000 $650,000 $575,000 $8,250,000 $1,367,500 $11,842,500**

13–47. (Concluded)

3. Kenny Co.

Stockholders’ Equity

December 31, 2015

Preferred stock, 6% ($5 par, 500,000 shares

authorized, 200,000 issued and outstanding) $ 1,000,000

Paid-in capital in excess of par—preferred

stock 650,000

Common stock ($1 par, 950,000 shares

authorized, 575,000 issued and outstanding) 575,000

Paid-in capital in excess of par—common

stock 8,250,000

Total paid-in capital $ 10,475,000

Retained earnings 1,367,500

Total stockholders’ equity $ 11,842,500

(*Note:* Disclosure of the $295,000 retained earnings restriction would be made. Alternatively, retained earnings of $295,000 could be shown as appropriated in the Stockholders’ Equity section.)

PROBLEMS

13–48.

1. Jan. 1 Property 23,000

Organization Expense 5,000

Common Stock 1,000

Paid-ln Capital in Excess of Par—Common 27,000

*Issued 1,000 shares of $1 par common stock in*

*exchange for property and services rendered.*

Feb. 23 Cash 174,000

Preferred Stock 150,000

Paid-ln Capital in Excess of Par—Preferred 24,000

*Sold 1,500 shares of $100 par preferred stock*

*at $120 per share less $6,000 commission.*

Mar. 10 Cash 63,000

Common Stock 2,500

Paid-ln Capital in Excess of Par—Common 60,500

*Sold 2,500 shares of $1 par common stock*

*at $26 per share less issue costs of $2,000.*

Apr. 10 Common Stock Subscriptions Receivable 185,000

Common Stock Subscribed 5,000

Paid-ln Capital in Excess of Par—Common 180,000

*Received subscriptions for 5,000 shares of*

*$1 par common stock at $37 per share.*

July 14 Cash 27,000

Building 72,000

Common Stock 2,100

Paid-ln Capital in Excess of Par—Common

[(900 × $29) + (1,200 × $29)] 60,900

Preferred Stock 19,000

Paid-ln Capital in Excess of Par—Preferred 17,000

*Sold 900 shares of $1 par common stock at*

*$30 per share and exchanged 1,200 shares of*

*$1 par common stock and 190 shares of*

*$100 par preferred stock for a building.*

Aug. 3 Cash 138,000

Common Stock Subscriptions Receivable 138,000

Common Stock Subscribed 2,500

Common Stock 2,500

*Collected cash on subscriptions and issued*

*2,500 shares of $1 par common stock.*

13–48. (Concluded)

Dec. 1 Retained Earnings 29,050

Dividends Payable ($16,900 + $12,150) 29,050

*Declared $10 per share cash dividends on*

*preferred stock (1,690 preferred shares × $10*

*= $16,900); $1.50 per share dividend on common*

*stock (8,100 shares* × *$1.50 = $12,150).*

31 Dividends Payable 16,900

Cash 16,900

*Paid $10 per share dividend on preferred stock.*

31 Common Stock Subscribed 1,000

Paid-ln Capital in Excess of Par—Common 36,000

Common Stock Subscriptions Receivable 35,000

Paid-ln Capital from Forfeited Stock

Subscriptions 2,000

*Subscribers defaulted on 1,000 shares*

*previously subscribed for at $37 per share.*

31 Income Summary. 80,000

Retained Earnings 80,000

*To close Income Summary.*

2. Stockholders’ Equity

Contributed capital:

Preferred stock, 10%, $100 par, convertible, 5,000 shares

authorized, 1,690 shares issued and outstanding $ 169,000

Paid-in capital in excess of par—preferred 41,000

Common stock, $1 par, 25,000 shares authorized, 8,100 shares

issued and outstanding 8,100

Common stock subscribed (1,500 shares) 1,500

Paid-in capital in excess of par—common 292,400

Paid-in capital from forfeited stock subscriptions 2,000

Total contributed capital $ 514,000

Retained earnings 50,950

Total contributed capital and retained earnings $ 564,950

Less: Common stock subscriptions receivable 12,000

Total stockholders’ equity $ 552,950

13–49.

1. 2015

Oct. 1 Common Stock Subscriptions Receivable 7,800,000\*

Common Stock Subscribed 400,000

Paid-ln Capital in Excess of Stated

Value—Common 7,400,000

\*Subscriptions: 200,000 shares × $39 = $7,800,000

1 Cash (200,000 shares × $20) 4,000,000

Common Stock Subscriptions Receivable 4,000,000

1 Land 195,000

Buildings 216,000

Equipment 62,000

Merchandise Inventory 105,000

Mortgage Payable 46,000

Accounts Payable 14,000

Interest Payable 900

Common Stock 35,600

Paid-ln Capital in Excess of Stated

Value—Common 481,500

*Stock issued: 17,800 shares of common,*

*for net assets valued at $517,100.*

3 Preferred Stock Subscriptions Receivable 5,610,000\*

Preferred Stock Subscribed 4,400,000

Paid-ln Capital in Excess of Par—Preferred 1,210,000

\*Subscriptions: 110,000 shares preferred × $51 = $5,610,000

3 Cash (110,000 shares × $21) 2,310,000

Preferred Stock Subscriptions Receivable 2,310,000

Nov. 1 Cash 3,550,000

Common Stock Subscriptions Receivable 1,900,000\*

Preferred Stock Subscriptions Receivable 1,650,000†

\*Collections: 200,000 shares common × $9.50 = $1,900,000

†Collections: 110,000 shares preferred × $15 = $1,650,000

12 Common Stock Subscriptions Receivable 16,380,000\*

Common Stock Subscribed 780,000

Paid-ln Capital in Excess of Stated

Value—Common 15,600,000

\*Subscriptions: 390,000 shares common × $42 = $16,380,000

12 Cash (390,000 shares × $20) 7,800,000

Common Stock Subscriptions Receivable 7,800,000

13–49. (Concluded)

Dec. 1 Cash 6,190,000\*

Common Stock Subscriptions Receivable 6,190,000

\*Collections: 200,000 shares × $9.50 = $1,900,000

390,000 shares × $11 = 4,290,000

$6,190,000

1 Common Stock Subscribed

(200,000 shares × $2) 400,000

Common Stock 400,000

1 Cash 1,650,000\*

Preferred Stock Subscriptions Receivable 1,650,000

\*Collections: 110,000 shares preferred × $15 = $1,650,000

1 Preferred Stock Subscribed (110,000 shares

× $40) 4,400,000

Preferred Stock 4,400,000

2. Contributed capital:

7% preferred stock, $40 par, cumulative, 150,000 shares

authorized, 110,000 shares issued and outstanding $ 4,400,000

Paid-in capital in excess of par—preferred 1,210,000

Common stock, $2 stated value, 1,000,000 shares

authorized, 217,800 shares issued and outstanding 435,600

Common stock subscribed, 390,000 shares 780,000

Paid-in capital in excess of stated value—common 23,481,500

Total $ 30,307,100

Less: Common stock subscriptions receivable 4,290,000

Total contributed capital $ 26,017,100

13–50.

Common Stock Subscriptions Receivable. 360,000\*

Common Stock Subscribed 12,000

Paid-ln Capital in Excess of Par—Common 348,000

\*Subscriptions receivable: $3,000 + $9,000 + $348,000 = $360,000

Cash 210,000

Common Stock Subscriptions Receivable 210,000

*Collection from common stock subscribers.*

Common Stock Subscribed 3,000

Common Stock 3,000

*Issuance of 3,000 shares of common stock.*

13–50. (Concluded)

8% Preferred Stock Subscriptions Receivable 180,000\*

8% Preferred Stock Subscribed 120,000

Paid-ln Capital in Excess of Par—8% Preferred 60,000

\*Subscriptions: Shares issued, $120,000 ÷ $100 par = 1,200 shares;

($120,000 + $60,000)/1,200 shares = $150 per share

1,200 shares × $150 = $180,000

Cash 180,000

8% Preferred Stock Subscriptions Receivable 180,000

*Collection from preferred stock subscribers.*

8% Preferred Stock Subscribed 120,000

8% Preferred Stock 120,000

*Issuance of 1,200 shares of 8% preferred stock.*

10% Preferred Stock Subscriptions Receivable 25,000\*

10% Preferred Stock Subscribed. 25,000

\*Subscriptions receivable: 500 shares × $50 = $25,000

Cash 25,000

10% Preferred Stock Subscriptions Receivable 25,000

*Collection from preferred stock subscribers.*

10% Preferred Stock Subscribed 25,000

10% Preferred Stock 25,000

*Issuance of 500 shares of 10% preferred stock.*

Income Summary 55,000

Retained Earnings 55,000

*To close net income to Retained Earnings.*

Retained Earnings 45,000\*

Cash 45,000

\*Payment of dividends: 8% preferred (0.08 × $120,000) $ 9,600

10% preferred (0.10 × $25,000) 2,500

Common 32,900

$ 45,000

13–51.

**The following work sheet is not required but may be helpful in solving the problem.**

**Keystone Company**

**Work Sheet Summarizing Changes in Stockholders’ Equity**

**For the Year Ended November 30, 2015**

**Balance, Balance,**

**November Transactions November**

**Account Title 30, 2014 Debit Credit 30, 2015**

Preferred Stock, $40 par 1,600,000 (c) 120,000 (a) 240,000 1,720,000

Common Stock, $1 par 250,000 (e) 290,000 (b) 40,000

Common Stock, $0.50 par (e) 290,000 290,000

Paid-ln Capital in Excess

of Par—Preferred 200,000 (c) 21,000 (a) 42,000 221,000

Paid-ln Capital in Excess of

Par—Common 18,250,000 (b) 3,000,000 21,250,000

Retained Earnings 960,000 (c) 9,000

(g) 850,000 (h) 800,000 901,000

Treasury Stock (d) 1,200,000 (f) 600,000 (600,000)

Paid-ln Capital from

Treasury Stock (f) 405,000 405,000

Cash (a) 282,000 (c) 150,000

(b) 3,040,000 (d) 1,200,000

(f) 1,005,000 (g) 850,000

Income Summary (h) 800,000

21,260,000 7,617,000 7,617,000 24,187,000

**(a) Issue of preferred stock, 6,000 shares @ $47 per share.**

**(b) Issue of common stock, 40,000 shares @ $76 per share.**

**(c) Retirement of 3,000 shares of preferred stock @ $50 per share.**

**(d) Purchase of treasury stock, common, 15,000 shares @ $80 per share.**

**(e) Stock split—2 for 1 on common stock (par value reduced to $0.50).**

**(f) Reissuance of 15,000 shares of treasury stock, common, at $67 after stock split.**

**(g) Payment of dividends: preferred (43,000 × $4.00) = $172,000; common**

**(565,000 × $1.20) = $678,000.**

**(h) Transfer of net income to Retained Earnings.**

13–51. (Concluded)

**Stockholders’ Equity**

Contributed capital:

10% preferred stock, $40 par, 43,000 shares issued and outstanding $ 1,720,000

Paid-in capital in excess of par—preferred 221,000

Common stock, $0.50 par, 580,000 shares issued, which includes

15,000 shares held as treasury stock 290,000

Paid-in capital in excess of par—common 21,250,000

Paid-in capital from treasury stock 405,000

Total contributed capital $ 23,886,000

Retained earnings 901,000

Total contributed capital and retained earnings $ 24,787,000

Less: Treasury common stock, 15,000 shares (after split), at cost 600,000

Total stockholders’ equity $ 24,187,000

13–52.

1. 2015

Mar. 31 Cash (4,500 shares × $35) 157,500

Paid-In Capital from Stock Options

($5 × 4,500 options) 22,500

Common Stock, $3 par (4,500 shares × $3) 13,500

Paid-ln Capital in Excess of Par 166,500

Apr. 1 Cash 2,000,000

Discount on Bonds Payable. 7,984

Bonds Payable 2,000,000

Common Stock Warrants 7,984\*

\*Value assigned to warrants:

**$2,000,000 ×  = $7,984 (rounded)**

June 30 Memorandum: Issued rights to shareholders permitting holder to acquire for a 30-day period one share at $40 with every 10 rights submitted—a maximum of 25,450 shares (254,500 shares ÷ 10).

July 31 Cash (24,850 shares × $40) 994,000

Common Stock, $3 par (24,850 shares × $3) 74,550

Paid-ln Capital in Excess of Par 919,450

Sept. 30 Cash (4,000 shares × $40) 160,000

Common Stock Warrants 7,984

Common Stock, $3 par (4,000 shares × $3) 12,000

Paid-ln Capital in Excess of Par 155,984

Nov. 30 Paid-In Capital from Stock Options 127,500

Paid-In Capital from Expired Options 127,500

13–52. (Concluded)

**2. Stockholders’ Equity**

Contributed capital:

Common stock, $3 par, 300,000 shares authorized, 283,350 shares

issued and outstanding $ 850,050

Paid-in capital in excess of par 8,291,934

Paid-in capital from expired options 127,500

Total contributed capital $ 9,269,484

Retained earnings 690,000

Total stockholders’ equity $ 9,959,484

13–53.

1. (a) Preferred Stock Subscriptions Receivable 3,150,000

Common Stock Subscriptions Receivable 2,340,000

Preferred Stock Subscribed 3,000,000

Paid-ln Capital in Excess of Par—Preferred 150,000

Common Stock Subscribed 225,000

Paid-ln Capital in Excess of Stated

Value—Common 2,115,000

Cash 1,647,000

Preferred Stock Subscriptions Receivable 945,000

Common Stock Subscriptions Receivable 702,000

(b) Cash 3,733,800

Preferred Stock Subscriptions Receivable 2,205,000

Common Stock Subscriptions Receivable 1,528,800

Preferred Stock Subscribed 3,000,000

Common Stock Subscribed 210,000

Preferred Stock 3,000,000

Common Stock 210,000

Common Stock Subscribed 15,000

Paid-ln Capital in Excess of Stated Value—Common 141,000

Common Stock Subscriptions Receivable 109,200

Cash 46,800

(c) Treasury Stock 420,000

Cash 420,000

(d) Preferred Stock 3,000,000

Paid-ln Capital in Excess of Par—Preferred 150,000

Common Stock 300,000

Paid-ln Capital in Excess of Stated Value—Common 2,850,000

13–53. (Concluded)

(e) Machinery 430,000

Treasury Stock 420,000

Paid-ln Capital from Treasury Stock 10,000

(f) No journal entry is necessary. Instead, a memorandum entry would note that the stated value has decreased from $2.50 to $1.25.

(g) Income Summary 83,000

Retained Earnings 83,000

**2. Stockholders’ Equity**

Contributed capital:

Common stock, $1.25 stated value, 500,000 shares authorized,

408,000 shares issued and outstanding $ 510,000

Paid-in capital in excess of stated value 4,824,000

Paid-in capital from treasury stock 10,000

Total contributed capital $ 5,344,000

Retained earnings 83,000

Total stockholders’ equity $ 5,427,000

13–54.

1. (b) Cash 480,000

Preferred Stock 400,000

Paid-In Capital in Excess of Par—Preferred 80,000

*Sold 4,000 shares of $100 par preferred stock*

*at $120.*

(d) Treasury Stock—Preferred 75,000

Paid-ln Capital in Excess of Par—Preferred 15,000

Cash 75,000

Paid-ln Capital from Treasury Stock 15,000

*Reacquired 750 shares of $100 par preferred*

*stock at par.*

(f) Cash 44,800

Treasury Stock—Preferred 40,000

Paid-ln Capital in Excess of Par—Preferred 4,800

*Sold 400 shares of $100 par preferred treasury*

*stock at $112.*

2. (a) Land 275,000

Common Stock 8,000

Paid-ln Capital in Excess of Par—Common 267,000

*Issued 8,000 shares of $1 par common stock in*

*exchange for land valued at $275,000.*

13–54. (Concluded)

(c) Cash 112,500

Common Stock 2,500

Paid-ln Capital in Excess of Par—Common 110,000

*Sold 2,500 shares of $1 par common stock at $45.*

(e) Treasury Stock—Common 78,000

Cash 78,000

*Reacquired 2,000 shares of $1 par common*

*stock at $39.*

(g) Cash 22,500

Treasury Stock—Common 19,500

Paid-ln Capital from Treasury Stock 3,000

*Sold 500 shares of $1 par common treasury*

*stock at $45; cost, $39.*

(h) Treasury Stock—Common 8,600

Cash 8,600

*Reacquired 200 shares of $1 par common*

*stock at $43.*

Cash 8,000

Paid-ln Capital from Treasury Stock 600\*

Treasury Stock—Common 8,600

*Sold 200 shares of $1 par common stock at $40,*

*cost $43.*

\*Alternatively, Retained Earnings could be debited for $600.

13–55.

1. (a) Cash (30,000 shares × $26) 780,000

9% Preferred Stock 600,000

Paid-ln Capital in Excess of Par—Preferred 180,000

*Sold 30,000 shares of $20 par preferred stock*

*at $26.*

(b) Cash (50,000 shares × $33) 1,650,000

Common Stock 150,000

Paid-ln Capital in Excess of Par—Common 1,500,000

*Sold 50,000 shares of $3 par common stock*

*at $33.*

13–55. (Concluded)

(c) 9% Preferred Stock 80,000

Paid-ln Capital in Excess of Par—Preferred

(4,000 shares × $6) 24,000\*

Retained Earnings 8,000\*

Cash (4,000 shares × $28) 112,000

*Purchased and retired 4,000 shares of $20 par*

*preferred stock at $28; original issue price, $26.*

\*Alternatively, Retained Earnings could be debited for $32,000.

(d) Treasury Stock, Common (6,000 shares × $35) 210,000

Cash 210,000

*Reacquired 6,000 shares of $3 par common*

*stock at $35.*

(e) Cash (1,000 shares × $37) 37,000

Treasury Stock, Common 35,000

Paid-ln Capital from Treasury Stock 2,000

*Sold 1,000 shares of common treasury stock*

*at $37; cost, $35.*

**2. Stockholders’ Equity**

Contributed capital:

9% preferred stock, $20 par, 26,000 shares issued and

outstanding $ 520,000

Paid-in capital in excess of par—preferred 156,000

Common stock, $3 par, 50,000 shares issued, which includes

5,000 shares held as treasury stock 150,000

Paid-in capital in excess of par—common 1,500,000

Paid-in capital from treasury stock 2,000

Total contributed capital $ 2,328,000

Retained earnings 177,000

Total contributed capital and retained earnings $ 2,505,000

Less: Treasury stock, 5,000 shares at cost 175,000

Total stockholders’ equity $ 2,330,000

13–56.

1. 2012

Dec. 31 Compensation Expense 240,000

Paid-In Capital from Stock Options 240,000

Call Compensation: ($9 × 80,000) ÷ 3 years = $240,000

2013

Dec. 31 Compensation Expense 390,000

Paid-In Capital from Stock Options 390,000

Call Compensation: ($9 × 80,000) ÷ 3 years = $240,000

Neilson Compensation: ($10 × 45,000) ÷ 3 years = $150,000

2014

Dec. 31 Compensation Expense 481,667

Paid-In Capital from Stock Options 481,667

Call Compensation: ($9 × 80,000) ÷ 3 years = $240,000

Neilson Compensation: ($10 × 45,000) ÷ 3 years = $150,000

Gwynn Compensation: ($11 × 25,000) ÷ 3 years = $91,667

2015

Dec. 31 Compensation Expense 241,667

Paid-In Capital from Stock Options 241,667

Neilson Compensation: ($10 × 45,000) ÷ 3 years = $150,000

Gwynn Compensation: ($11 × 25,000) ÷ 3 years = $91,667

Call option exercise:

Dec. 31 Cash (80,000 × $30) 2,400,000

Paid-In Capital from Stock Options 720,000

Common Stock ($1 par) 80,000

Paid-In Capital in Excess of Par 3,040,000

2016

Dec. 31 Compensation Expense 91,666

Paid-In Capital from Stock Options 91,666

Gwynn Compensation: ($11 × 25,000) ÷ 3 years = $91,666 (rounded down)

Neilson option exercise:

Dec. 31 Cash (45,000 × $38) 1,710,000

Paid-In Capital from Stock Options 450,000

Common Stock ($1 par) 45,000

Paid-In Capital in Excess of Par 2,115,000

13–56. (Concluded)

Gwynn option exercise:

2017

Dec. 31 Cash (25,000 × $43) 1,075,000

Paid-In Capital from Stock Options 275,000

Common Stock ($1 par) 25,000

Paid-In Capital in Excess of Par 1,325,000

2. Note Disclosure—Fixed Stock Option Plan, 2014

Weighted-Average

Shares Exercise Price

Outstanding at December 31, 2013 125,000 $32.88\*

Granted during 2014 25,000 43.00

Exercised during 2014 0 —

Forfeited during 2014 0 —

Outstanding at December 31, 2014 150,000 34.57†

\* [(80,000 × $30) + (45,000 × $38)] ÷ 125,000 = $32.88

† [(80,000 × $30) + (45,000 × $38) + (25,000 × $43)] ÷ 150,000 = $34.57

Options exercisable at December 31, 2014 80,000

Weighted-average fair value of

options granted during 2014 $11

Note Disclosure—Fixed Stock Option Plan, 2016

Weighted-Average

Shares Exercise Price

Outstanding at December 31, 2015 70,000 $39.79\*

Granted during 2016 0 —

Exercised during 2016 45,000 38.00

Forfeited during 2016 0 —

Outstanding at December 31, 2016 25,000 43.00

\* [(45,000 × $38) + (25,000 × $43)] ÷ 70,000 = $39.79

Options exercisable at December 31, 2016 25,000

Weighted-average fair value of

options granted during 2016 none

13–57.

2014

Dec. 31 Compensation Expense 40,500

Paid-In Capital from Stock Options 40,500

Probable 2017 income at December 31, 2014 $ 140,000

Options for probable income 18,000

Fair value of options at grant date $9

Estimated compensation expense from options $ 162,000

Number of years in service period ÷ 4 years

2014 compensation expense $ 40,500

2015

Dec. 31 Compensation Expense 94,500

Paid-In Capital from Stock Options 94,500

Probable 2017 income at December 31, 2015 $ 170,000

Options for probable income 30,000

Fair value of options at grant date $9

Estimated compensation expense from options $ 270,000

Number of years in service period 4 years

Revised compensation expense for 2014 and 2015

($270,000 × 2/4) $ 135,000

Less: 2014 compensation expense 40,500

2015 compensation expense $ 94,500

2016

Dec. 31 Paid-In Capital from Stock Options 13,500

Compensation Expense 13,500

Probable 2017 income at December 31, 2016 $ 135,000

Options for probable income 18,000

Fair value of options at grant date $9

Estimated compensation expense from options $ 162,000

Number of years in service period 4 years

Revised compensation expense for 2014, 2015, and 2016

($162,000 × 3/4) $121,500

Less: 2014 and 2015 compensation expense 135,000

2016 compensation expense $ (13,500)

13–57. (Concluded)

2017

Dec. 31 Compensation Expense 40,500

Paid-In Capital from Stock Options 40,500

Actual 2017 income $ 145,000

Options earned 18,000

Fair value of options at grant date $9

Total compensation expense from options $ 162,000

Less: 2014–2016 compensation expense 121,500

2017 compensation expense $ 40,500

Option exercise:

2017

Dec. 31 Cash (18,000 × $20) 360,000

Paid-In Capital from Stock Options 162,000

Common Stock, $5 par 90,000

Paid-In Capital in Excess of Par 432,000

13–58.

1. Shares Outstanding

Net Change Common Preferred

Jan. 2, 2011 2,000 1,000

Dec. 31, 2011 2,000 1,000

Jan. 2, 2012 Common issued to

preferred shareholders + 40 Common

Dec. 31, 2012 2,040 1,000

May 1, 2013 Acquisition of Booth

Corporation + 1,000 Common

Dec. 31, 2013 3,040 1,000

Jan. 1, 2014 3:2 Common split + 1,520 Common

Dec. 31, 2014 4,560 1,000

Jan. 1, 2015 2:1 Common split + 4,560 Common

July 1, 2015 Conversion of preferred + 400 Common

– 200 Preferred

Dec. 31, 2015 9,520 800

2. Year Computation of Cash Dividends on Common Total

2011–2012 0

2013 3,040 shares × $3.19 $ 9,698\*

2014 4,560 shares × $4.50 20,520

2015 (9,120 shares × $1.25) + (9,520 shares × $1.25) 23,300

\*Rounded.

13–59.

1. Authorized shares 16,000

× 0.75

Issued shares 12,000

Less: Outstanding shares 11,000

Treasury shares 1,000

Average purchase price per share of treasury stock × $37.50

Total dollar amount of treasury stock $ 37,500

2. 2015

Jan. 15 Cash (800 × $55) 44,000

Preferred Stock (800 × $50) 40,000

Paid-ln Capital in Excess of Par—Preferred 4,000

Feb. 1 Cash (1,500 × $42) 63,000

Common Stock (1,500 × $2) 3,000

Paid-ln Capital in Excess of Stated

Value—Common 60,000

Mar. 15 Dividends (Retained Earnings) 1,875

Dividends Payable (12,500 × $0.15) 1,875

Apr. 15 Treasury Stock (200 × $43) 8,600

Cash 8,600

30 Dividends Payable 1,875

Cash 1,875

(*Note:* Dividends are paid to all shareholders as of the record date, April 1, including those whose shares were purchased as treasury stock on April 15.)

30 Cash (1,000 × $50) 50,000

Paid-In Capital from Stock Options 6,000

Common Stock (1,000 × $2) 2,000

Paid-ln Capital in Excess of Stated

Value—Common 54,000

May 1 Dividends (Retained Earnings) (1,330\* × $50) 66,500

Stock Dividends Distributable (1,330 × $2) 2,660

Paid-ln Capital in Excess of Stated

Value—Common 63,840

\*11,000 + 1,500 – 200 + 1,000 = 13,300 shares outstanding

before stock dividend; 13,300 × 0.10 = 1,330 shares distributable

Market value of newly issued shares: $55 ÷ 1.1 = $50

31 Cash (350 × $57) 19,950

Treasury Stock ($6,450\* + $7,500) 13,950

Paid-ln Capital from Treasury Stock 6,000

\*150 shares × $43 = $6,450

13–59. (Concluded)

June 1 Stock Dividends Distributable 2,660

Common Stock 2,660

Sept. 15 Dividends (Retained Earnings) 4,247

Dividends Payable—Preferred (800 × $50 × 0.05) 2,000

Dividends Payable—Common (14,980\* × $0.15) 2,247

\*13,300 + 1,330 + 350 = 14,980 shares

Oct. 15 Dividends Payable—Preferred 2,000

Dividends Payable—Common 2,247

Cash 4,247

Dec. 31 Income Summary 50,000

Retained Earnings 50,000

31 Retained Earnings 72,622\*

Dividends 72,622

\*$1,875 + $66,500 + $4,247 = $72,622

(*Note:* Last entry is not needed if dividend declarations are debited   
directly to Retained Earnings.)

3. Stockholders’ Equity

Contributed capital:

5% preferred stock, $50 par, cumulative, 2,000 shares

authorized, 800 shares outstanding $ 40,000

Paid-in capital in excess of par—preferred stock 4,000

Common stock, $2 stated value, 16,000 shares

authorized, 15,830 issued, 14,980 outstanding 31,660

Paid-in capital in excess of stated value—common stock 593,840

Paid-in capital from treasury stock 6,000

Total contributed capital $ 675,500

Retained earnings 87,378

Total contributed capital and retained earnings $ 762,878

Less: Treasury stock at cost (850 shares) 32,150\*

Total stockholders’ equity $ 730,728

\*800 shares at $37.50 each and 50 shares at $43 each.

13–60.

2015

Jan. 31 Treasury Stock (20,000 shares × $41) 820,000

Cash 820,000

Apr. 1 Retained Earnings 450,000

Stock Dividends Distributable 450,000\*

\*300,000 shares issued × 0.30 = 90,000 shares

distributable; 90,000 shares × $5 par value = $450,000

Alternatively, the debit could be to Paid-In Capital

in Excess of Par.

30 Retained Earnings (280,000 shares × $0.80) 224,000

Dividends Payable 224,000

June 1 Stock Dividends Distributable 450,000

Dividends Payable 224,000

Common Stock, $5 par 450,000

Cash 224,000

Aug. 31 Cash 1,144,000\*

Treasury Stock 820,000

Paid-ln Capital from Treasury Stock 324,000

\*20,000 original treasury shares plus 6,000 shares issued as

stock dividend = 26,000 shares; 26,000 × $44 = $1,144,000

13–61.

1. *No stock dividend:* If no stock dividend is declared, Cozumel can expect to have unrestricted retained earnings available by year-end of $240,000 ($460,000 beginning retained earnings plus expected net income of $130,000 less the debt covenant constraint of $350,000). Assuming cash is available, this level of unrestricted retained earnings could easily accommodate maintenance of past dividends ($0.75 per share, or a total of $75,000) and could even allow for a dividend increase, if desired.

2. *10% stock dividend:* This option would require the transfer of $163,600 from Retained Earnings to Paid-In Capital [10,000 new shares created multiplied by the new market price of $16.36 per share ($18 ÷ 1.1 = $16.36)]. Projected unrestricted retained earnings is $76,400 ($460,000 – $163,600 stock dividend + $130,000 net income – $350,000 constraint). With the increased number of shares from the 10% stock dividend, the reduction in retained earnings from a $0.75 per share dividend is $82,500 (110,000 shares × $0.75). This option would make it imperative that operating results improve beyond the forecasted amount in order for cash dividends to be maintained at the same level per share.

13–61. (Concluded)

3. *25% stock dividend:* This option would require the transfer of $12,500 from Retained Earnings (or from Additional Paid-In Capital) to Paid-In Capital at Par (25,000 new shares created multiplied by the par value of $0.50 per share). Projected unrestricted retained earnings is $227,500 ($460,000 – $12,500 stock dividend + $130,000 net income – $350,000 constraint). As with the no stock dividend option, this level of unrestricted retained earnings could easily accommodate maintenance of past dividends.

Both the no stock dividend and 25% stock dividend options would easily allow the maintenance of prior dividends. The declaration of the 10% stock dividend would reflect strong confidence by the board about expected profitability.

13–62.

1. 2014

Jan. 2 Cash (15,000 shares × $14) 210,000

Common Stock 210,000

2 Cash (4,000 shares × $211) 844,000

Preferred Stock, $200 par 800,000

Paid-ln Capital in Excess of Par—Preferred 44,000

Mar. 2 Cash 308,300\*

Common Stock 308,300

\*Sold: 11,300 shares × $19 = $214,700

3,900 shares × $24 = 93,600

$308,300

July 10 Land 500,000

Preferred Stock (800 shares × $200) 160,000

Paid-ln Capital in Excess of Par—Preferred

(800 shares × $11) 8,800

Common Stock ($500,000 – $168,800) 331,200

Dec. 16 Dividends (Retained Earnings) 208,350

Dividends Payable—Preferred Stock 96,000\*

Dividends Payable—Common Stock 112,350†

\*Preferred dividend: 4,800 shares × $20 = $96,000

†Common dividend: 64,200 shares × $1.75 = $112,350

28 Dividends Payable—Preferred Stock 96,000

Dividends Payable—Common Stock 112,350

Cash 208,350

31 Income Summary 600,000

Retained Earnings 600,000

13–62. (Concluded)

2015

Feb. 27 Treasury Stock—Common (11,000 shares × $18) 198,000

Cash 198,000

27 Retained Earnings 198,000

Retained Earnings Appropriated for Purchase

of Treasury Stock 198,000

June 17 Cash (8,000 shares × $21) 168,000

Treasury Stock—Common 144,000

Paid-ln Capital from Treasury Stock 24,000

17 Retained Earnings Appropriated for Purchase of

Treasury Stock 144,000

Retained Earnings 144,000

July 31 Cash (3,000 shares × $16) 48,000

Paid-ln Capital from Treasury Stock 6,000

Treasury Stock—Common 54,000

31 Retained Earnings Appropriated for Purchase of

Treasury Stock 54,000

Retained Earnings 54,000

Sept. 30 Cash (17,000 shares × $22) 374,000

Common Stock 374,000

Dec. 16 Dividends (Retained Earnings) 152,840

Dividends Payable—Preferred Stock 96,000\*

Dividends Payable—Common Stock 56,840†

\*Preferred dividend: 4,800 shares × $20 = $96,000

†Common dividend: 81,200 shares × $0.70 = $56,840

28 Dividends Payable—Preferred Stock 96,000

Dividends Payable—Common Stock 56,840

Cash 152,840

31 Income Summary 550,000

Retained Earnings 550,000

2. Stockholders’ Equity

Contributed capital:

10% preferred stock, $200 par, 40,000 shares authorized, 4,800

shares issued and outstanding $ 960,000

Paid-in capital in excess of par—preferred 52,800

Common stock, no-par, 300,000 shares authorized, 81,200 shares

issued and outstanding 1,223,500

Paid-in capital from treasury stock 18,000

Total contributed capital $ 2,254,300

Retained earnings 788,810

Total stockholders’ equity $ 3,043,110

13–63.

1. 2013

Dec. 20 Dividends (Retained Earnings) 84,000

Dividends Payable—Preferred Stock 6,000\*

Dividends Payable—Common Stock 3,000†

Stock Dividends Distributable—Common Stock

(3,000 shares × $50 × 0.50) 75,000

\* Preferred dividend: 750 shares × $8 = $6,000

† Common dividend: 3,000 shares × $1 = $3,000

31 Income Summary 67,500

Retained Earnings 67,500

*Closed Income Summary to Retained Earnings.*

2014

Jan. 10 Stock Dividends Distributable—Common Stock 75,000

Common Stock, $50 par 75,000

*Distributed stock dividend declared*

*December 20, 2013.*

10 Dividends Payable—Preferred Stock 6,000

Dividends Payable—Common Stock 3,000

Cash 9,000

*Paid cash dividend declared December 20, 2013.*

Feb. 12 Accumulated Depreciation 72,000

Retained Earnings 72,000

*Adjustment of accumulated depreciation*

*from prior period caused by accounting error.*

12 Retained Earnings 22,500

Cash 22,500

*Paid additional income tax for prior years.*

Mar. 3 Treasury Stock—Common (300 shares × $54) 16,200

Cash 16,200

*Acquired treasury stock.*

3 Retained Earnings 16,200

Retained Earnings Appropriated for Purchase

of Treasury Stock 16,200

Dec. 20 Dividends (Retained Earnings) 11,250

Dividends Payable—Preferred Stock 6,000\*

Dividends Payable—Common Stock 5,250†

\* Preferred dividend: 750 shares × $8.00 = $6,000

† Common dividend: 4,200 shares × $1.25 = $5,250

31 Income Summary 39,000

Retained Earnings 39,000

*Closed Income Summary to Retained Earnings.*

13–63. (Continued)

2015

Jan. 10 Dividends Payable—Preferred Stock 6,000

Dividends Payable—Common Stock 5,250

Cash 11,250

*Paid cash dividends declared on*

*December 20, 2014.*

Aug. 10 Cash (300 shares × $59) 17,700

Treasury Stock—Common 16,200

Paid-ln Capital from Treasury Stock 1,500

10 Retained Earnings Appropriated for Purchase of

Treasury Stock 16,200

Retained Earnings 16,200

*Returned appropriation to Retained Earnings.*

Sept. 12 Common Stock, $50 par 225,000\*

Paid-ln Capital in Excess of Par—Common 30,000

Retained Earnings 15,000

Common Stock, $15 stated value 270,000

\*18,000 shares common × $15 = $270,000 issued in

exchange for 4,500 shares common × $50 = $225,000

Dec. 20 Dividends (Retained Earnings) 24,000

Dividends Payable—Preferred Stock 6,000\*

Dividends Payable—Common Stock 18,000†

\*Preferred dividends: 750 shares × $8 = $6,000

†Common dividends: 18,000 shares × $1 = $18,000

31 Income Summary 51,000

Retained Earnings 51,000

*Close Income Summary to Retained Earnings.*

2. Stockholders’ Equity at December 31, 2013

Contributed capital:

8% preferred stock, $100 par, cumulative, 750 shares authorized,

all issued and outstanding $ 75,000

Common stock, $50 par, 15,000 shares authorized, 3,000 shares

issued and outstanding 150,000

50% stock dividend distributable on common, January 10, 2014,

1,500 shares 75,000

Paid-in capital in excess of par—common 30,000

Total contributed capital $ 330,000

Retained earnings 133,500

Total stockholders’ equity $ 463,500

13–63. (Concluded)

Stockholders’ Equity at December 31, 2014

Contributed capital:

8% preferred stock, $100 par, cumulative, 750 shares authorized,

all issued and outstanding $ 75,000

Common stock, $50 par, 15,000 shares authorized, 4,500 shares

issued; treasury stock, 300 shares 225,000

Paid-in capital in excess of par—common 30,000

Total contributed capital $ 330,000

Retained earnings:

Appropriated for purchase of treasury stock $ 16,200

Unappropriated 194,550

Total retained earnings $ 210,750

Total contributed capital and retained earnings $ 540,750

Less: Common treasury stock, at cost (300 shares at $54) 16,200

Total stockholders’ equity $ 524,550

Stockholders’ Equity at December 31, 2015

Contributed capital:

8% preferred stock, $100 par, cumulative, 750 shares authorized,

all issued and outstanding $ 75,000

Common stock, $15 stated value, 18,000 shares issued and

outstanding 270,000

Paid-in capital from treasury stock 1,500

Total contributed capital $ 346,500

Retained earnings 222,750

Total stockholders’ equity $ 569,250

13–64.

Schmidt Company

Statement of Cash Flows

For the Year Ended December 31, 2015

Cash flows from operating activities:

Net income $ 218,000\*

Adjustments:

Depreciation 59,000

Net cash provided by operating activities $ 277,000

Cash flows from investing activities:

Sale of machinery $ 20,000

Purchase of equipment (215,000)

Net cash used in investing activities (195,000)

Cash flows from financing activities:

Payment of cash dividends on preferred stock $ (27,000)

Payment of cash dividends on common stock (115,000)

Net cash used in financing activities (142,000)

Net decrease in cash $ (60,000)

\*Assuming no changes in current operating receivable and payable balances, cash

revenues ($582,000) – cash expenses ($305,000) – depreciation expense ($59,000) =

net income ($218,000).

Supplemental information:

Land was acquired in exchange for 5,000 shares of $0.50 par value common stock. The land had a fair market value of $170,000.

(*Note:*  The retained earnings appropriation, the stock dividend, and the stock split did not require cash and thus do not appear on the statement of cash flows.)

13–65.

1. 2015

Jan. 15 Appropriated Retained Earnings 500,000

Retained Earnings 500,000

Mar. 3 Cash 800,000\*

Common Stock 500,000\*

Paid-ln Capital in Excess of Par 300,000\*

May 18 Dividends (Retained Earnings) 562,500\*\*

Dividends Payable 562,500

June 19 Retained Earnings 400,000

Appropriated Retained Earnings 400,000

July 31 Dividends Payable 562,500

Cash 562,500

13–65. (Concluded)

Nov. 12 Property Dividend (Retained Earnings) 455,000†

Property Dividend Payable 315,000†

Gain on Distribution of Property Dividend 140,000†

Dec. 31 Income Summary 885,000

Retained Earnings 885,000

31 Property Dividend Payable 315,000

Investment in Hampton Inc. Stock 315,000

COMPUTATIONS:

\*100,000 shares × $8 per share = $800,000

100,000 shares × $5 par = $500,000

100,000 shares × ($8 – $5) = $300,000

\*\*375,000 shares outstanding × $1.50 per share = $562,500

†35,000 shares of Hampton × $13 per share = $455,000

35,000 shares of Hampton × $9 per share = $315,000

$455,000 – $315,000 = $140,000

2. Stockholders’ Equity

Common stock ($5 par, 500,000 shares authorized,

375,000 issued and outstanding) $ 1,875,000\*

Paid-in capital in excess of par 850,000\*\*

Total paid-in capital $ 2,725,000

Unappropriated retained earnings $ 1,302,500†

Appropriated retained earnings 400,000

Total retained earnings 1,702,500

Total stockholders’ equity $ 4,427,500

COMPUTATIONS:

\*$1,375,000 + $500,000 = $1,875,000

\*\*$550,000 + $300,000 = $850,000

†Beginning retained earnings $ 1,335,000

Add: Reversal of appropriated retained earnings 500,000

Deduct: Appropriation of retained earnings (400,000)§

$ 1,435,000

Add: Net income 885,000

$ 2,320,000

Deduct: Dividends (1,017,500)

Retained earnings balance, December 31, 2015 $ 1,302,500

§Alternatively, the retained earnings restriction can be disclosed in the notes

to the financial statements.

13–66.

2015

Jan. 15 Cash (850 shares × $50) 42,500

Paid-ln Capital from Treasury Stock 12,750

Treasury Stock. 55,250\*

\*Cost of treasury stock: $74,750 ÷ 1,150 = $65 per share

Cost of shares sold: 850 shares × $65 = $55,250

Feb. 2 Cash ($120,000 × 1.03) 123,600

Discount on Bonds Payable 3,600

Bonds Payable 120,000

Common Stock Warrants 7,200\*

\*Price of bonds without warrants attached: 0.97 × $120,000 = $116,400

Value of detached warrants: 80 × $90 = $7,200

Because value of bonds plus value of detachable warrants

is equal to the total issuance price ($116,400 + $7,200 =

$123,600), the value assigned to the bonds and warrants

is the fair value of each.

Mar. 6 Cash 42,930

Common Stock Subscriptions Receivable 52,470

Common Stock Subscribed 3,600

Paid-ln Capital in Excess of Par 91,800

20 Cash 43,725

Common Stock Subscriptions Receivable 43,725

20 Common Stock Subscribed 3,000

Common Stock, $2 par 3,000

20 Common Stock Subscribed 600

Paid-ln Capital in Excess of Par 15,300

Common Stock Subscriptions Receivable 8,745

Paid-ln Capital from Forfeited Stock

Subscriptions 7,155

Nov. 1 Cash (65 × 15 × $50) 48,750

Common Stock Warrants (65 × $90) 5,850

Common Stock, $2 par 1,950

Paid-ln Capital in Excess of Par 52,650

13–67.

**1. The correct answer is a. At the time the options were granted, the options had a fair value of $25. This would result in compensation of $25 × 1,000 shares, or $25,000, recorded as follows:**

Compensation Expense 25,000

Paid-In Capital from Stock Options 25,000

**When the options are exercised, the credit would be reversed, the cash would be recorded, and the shares would be issued. The entry would be:**

Cash 20,000

Paid-In Capital from Stock Options 25,000

**Common Stock (par) 10,000**

**Additional Paid-In Capital 35,000**

**Since the compensation would reduce earnings and ultimately retained earnings, the net effect on stockholders’ equity would be $10,000 + $35,000 – $25,000, or an increase of $20,000.**

**2. The correct answer is c. No entry is made when rights are issued without consideration. Common stock and additional paid-in capital would be affected if the rights are exercised.**

**3. The correct answer is c. A sale of treasury stock for more than its cost would be recorded with a debit to Cash for the proceeds, a credit to Treasury Stock for the cost, and a credit to Additional Paid-In Capital for the excess.**

**4. The correct answer is c. When converting foreign company financial statements into U.S. dollars, any translation gain or loss is accumulated as part of   
accumulated other comprehensive income. The discount or premium on bonds, including convertible bonds, is reported as an adjustment to the reported amount of bonds payable. Organization costs are typically expensed as incurred.**

CASES

Discussion Case 13–68

Stock warrants entitle the holder to buy (and obligate the issuer to sell) a specified number of shares of a specified company’s stock at a specified price. Warrants also have specified expiration dates. Basically, the value of a warrant is a function of the following factors:

**a.** How close the exercise price is to the underlying stock price. If the exercise price is above the stock price, the warrant is said to be “out of the money.” Landon’s stock warrants are out of the money. However, that does not mean that they are worthless.

**b.** The variability of the price of the underlying stock. Assume that the stock now trading for $40 is expected to fluctuate between the prices of $39 and $41. In this case, whether the stock goes up or down, the warrants are still out of the money, will not be exercised, and thus have no value. How-ever, if the stock price is expected to fluctuate between $25 and $55, in some instances it will make sense to exercise the warrants (at a market price above $50), so the warrants do have value. Thus, the more variable the price of the underlying stock, the more valuable the warrants.

**c.** How long until the warrants expire. If the warrants expire tomorrow, their exercise price is $50, and the stock price today is $40, there is almost no way that the stock price will increase enough in one day to make it worthwhile to exercise the warrants. However, if the warrants expire in a year, then the possibility that the stock price will go up enough to justify exercising the warrants is increased.

Discussion Case 13–69

According to generally accepted accounting principles, transactions in a firm’s own stock do not give rise to gains or losses. An issuance of stock raises capital; a repurchase of stock reduces capital. Gains, losses, revenues, and expenses should result only from the operations of the firm, not from capital transactions with stockholders.

Viewed in another way, though, treasury stock transactions do affect the economic value of the firm. Undeniably, a firm that buys its own stock at $47 per share and reissues it at $31.13 has suffered an economic loss. A financial analyst quoted in *Forbes* said: “Anytime you make an investment with corporate assets and lose money, it’s a loss to shareholders and poor use of corporate capital.”

Discussion Case 13–70

On the ex-dividend date, Mycroft’s shares should go down in price by the amount of the dividend, from $30.00 to $29.50 per share. This assumes that if the stock is worth $30.00 with the expectation of receiving the $0.50 dividend, it must be worth that amount less the dividend amount when the right to receive the dividend is removed. The actual evidence with prices is a bit more complicated than this simple example. It has been shown that the stock price falls by about 80% of the dividend amount on the ex-dividend date. One explanation for this is that before the 1986 Tax Reform Act, dividends were taxed at a higher rate than capital gains. There is some evidence that—subsequent to the equalization of dividend and capital gains tax rates by the 1986 act—stock prices fell by the full amount of the dividend on ex-dividend dates.

Now consider the stock price implications of the dividend announcement on March 23. A dividend announcement has both signaling and cash flow implications. First consider the signaling implications. If the $0.50 per share dividend declared by Mycroft is down from, say, $0.75 per share in the previous quarter, the dividend decrease would probably be interpreted as bad news about Mycroft’s future prospects. Evidence has shown that announcements of dividend decreases are, on average, followed by earnings decreases in subsequent years. Similarly, announcements of dividend increases are followed by subsequent earnings increases. So, the announcement of a dividend increase or decrease conveys information about how management thinks the firm will do in the future. Dividend announcements involving no change from dividends in the previous quarter typically have no impact on stock prices.

Discussion Case 13–70 (Concluded)

A more difficult question is whether the cash flow implications of a dividend announcement have any impact on stock prices. Stated more simply, do investors prefer companies that pay high dividends, pay low dividends, or does it make any difference? Theoretical models suggest that in the absence of taxes and transactions costs, whether a firm pays dividends or not makes no difference. Investors will get their return through dividends with high-dividend firms and through share price appreciation (capital gains) with low-dividend firms, but the total return will be the same. Others argue that investors actually prefer firms to pay low dividends because high-dividend firms are forced to borrow money or issue stock more frequently and these are costly transactions. Also, investors have been said to prefer low-dividend firms because dividend income has sometimes been taxed at a higher rate than capital gains in the United States.

Another argument is that investors prefer high-dividend firms because dividend payments are concrete evidence of profitability and because a dividend bird in the hand is worth two capital gain birds in the bush. In summary, arguments have been made for high dividends, for low dividends, and for the fact that it makes no difference. Clearly, there is no definitive answer. In practice, we see wide diversity in firms’ dividend policies.

Discussion Case 13–71

The question of why a company splits its shares is a surprisingly difficult one to answer. The conventional wisdom is that firms want their share prices to remain in a trading range—somewhere between $20 and $80 per share. A share price that is too low gives the company the undesirable aura of a cheap penny stock. On the other hand, so the conventional wisdom goes, if the price per share is too high, individual investors will not be able to afford a round lot (100 shares). Warren Buffett has used this argument for keeping the price per share of Berkshire Hathaway so high: He wants the price per share high enough that only serious investors can afford a share of stock.

In deciding between a stock split and a large stock dividend, Driftwood Construction Company should consider the following factors:

• A large stock dividend will require a transfer from Retained Earnings and/or Additional Paid-In Capital. If state incorporation laws restrict Driftwood’s dividend-paying ability to the amount of retained earnings or capital surplus, a large stock dividend could potentially harm its ability to pay cash dividends in the future. If Driftwood is confident that future earnings will be sufficient to maintain the cash dividend level, a large stock dividend would not harm its ability to pay cash dividends.

• Driftwood’s par value per share of $20 is quite high. As discussed in the chapter, most companies now have par values of less than $1 per share. Driftwood’s par value seems out of date. The company might consider a stock split just to get the par value per share down to a more common level.

Discussion Case 13–72

Items not included on the income statement receive much less attention than items that impact the “bottom line.” For example, *The Wall Street Journal* publishes the quarterly earnings report for all major companies. However, it is very rare indeed for it to publish a firm’s statement of changes in stockholders’   
equity. So, a direct charge to Retained Earnings would be more likely to escape public scrutiny, and it seems reasonable to think, this would make it more likely that companies deducting director bonuses   
directly from Retained Earnings would pay larger bonuses to their directors.

Discussion Case 13–72 (Concluded)

In the United States there are examples of companies lobbying for accounting rules that result in direct equity adjustments, bypassing the income statement. A prominent example is the foreign currency translation adjustment. Under pre-Codification FASB *Statement No. 8*, any changes in a company’s equity because of relative changes in the currency values in foreign countries where that company had operations were to be reported as impacting net income for the year. This rule was widely despised, and there was great pressure on the FASB to change it. Pre-Codification FASB *Statement No. 52* (now in FASB ASC Subtopic 830-30) superseded FASB *Statement No. 8* and mandates that the foreign currency translation adjustment be a direct adjustment to equity. Similarly, pre-Codification FASB *Statement No. 115* (now in FASB ASC Topic 320) mandates that certain market value adjustments to securities available for sale be made directly to equity.

Accounting standards cannot and should not be neutral in their impact on companies. By giving investors and creditors better information about companies, accounting standards will cause some companies to be more favorably evaluated. The important thing is that accounting standard setters do not choose in advance the companies or industries that they think should be benefited.

Case 13–73

**1.** The par value of $0.01 for each share of Disney common stock can be found in the Equity section of the balance sheet. The balance sheet also discloses that 2.7 billion shares had been issued as of October 1, 2011. Because total paid-in capital from common shares is $30.296 billion, the average issuance price is approximately $11.22 ($30.296 billion/2.7 billion shares).

**2.** Like most U.S. companies, Disney uses the cost method of accounting for treasury stock. As of October 1, 2011, the average acquisition price of the shares in treasury was $30.56 ($28,656 million/937.8 million shares).

**3.** Average reacquisition cost $30.56

Less: Average issuance price 11.22

Excess per share $19.34

Estimated reduction in retained earnings if treasury shares are retired: 937.8 million shares × $19.34 per share = $18,137.05 million.

**4.** In fiscal 2011, the foreign currency translation adjustment was a debit (loss) of $37 million. The change represents a net debit, or decrease in equity, in 2011 of $37 million. This means that the foreign currencies in the countries where Disney has subsidiaries got weaker in 2011 relative to the U.S. dollar.

Case 13–74

**1.** Total revenue reserves of HK$18,399 million are distributable.

**2.** The U.S. concept that most closely resembles Swire’s revenue reserve is retained earnings, in that retained earnings includes the retained profit for each year.

**3.** The capital redemption reserve ensures that distributable equity is reduced by the entire amount of cash used to repurchase shares.

Case 13–75

To: Board of Directors, J. D. Michael Company

From: Me (Resident Accounting Expert)

Subject: Choice of Accounting Method for Treasury Stock

I recommend that we adopt the cost method of accounting for treasury stock purchases. My reasons are as follows:

• *Prevailing practice*. Over 95% of the publicly traded companies in the United States use the cost method to account for treasury stock purchases. Adoption of the par value method would raise eyebrows among analysts⎯they would think we are strange and would wonder what we are up to.

• *Financial statement impact.* The par value method essentially results in repurchased shares being recorded as if they had been retired. The most important implication is that, when shares are repurchased for more than their original issue price, the difference is recognized as a reduction in retained earnings. So, any company that has had an increasing stock price, as we have, and uses the par   
value method will reduce its retained earnings balance every time it repurchases shares. These reductions can be substantial. For example, if The Walt Disney Company were to use the par value   
method, it would be required to reduce its reported retained earnings balance by approximately $18.1 billion (see Case 13–73).

• *Financial flexibility.* Because of the retained earnings reductions associated with use of the par value method, our ability to maintain our current level of cash dividends could be impaired. State incorporation laws tie our cash dividend payments to the amount in retained earnings—use of the par value method would reduce the available pool of distributable funds.

For these reasons, I strongly recommend that we follow common industry practice and use the cost method of accounting for treasury stock purchases.

Case 13–76

Declaring a stock dividend “in lieu” of a cash dividend is not unethical—this happens all the time. And this wouldn’t be the first time that a company thought it was fooling the investors.

Your key responsibility is to make sure investors know that this stock dividend is in place of the regular cash dividend—that is, there will be no cash dividend this quarter.

As far as the underlying reason for the cessation of cash dividends, it isn’t your place to disclose private company information. However, don’t worry. Investors aren’t as stupid as Best Ski’s board of directors thinks. When the stock dividend is announced, investors will immediately begin to bombard Best Ski’s corporate headquarters with questions. If Best Ski is a large enough company, some enterprising financial press reporter will investigate and find out about the decline in orders. The news will get out. You just make sure the press release lets investors know the real story behind this particular 10% stock dividend⎯that cash dividends have been dropped.

Case 13–77

Solutions to this problem can be found on the Instructor’s Resource CD-ROM or downloaded from the Web at www.cengagebrain.com.