CHAPTER 11

SOLUTIONS TO EXERCISES – SET B

EXERCISE 11-1B

1. True.

2. True.

3. False. Most of the largest U.S. corporations are *publicly* held corporations.

4. True.

5. False. The net income of a corporation *is* taxed as a separate entity.

6. False. Creditors have *no* legal claim on the personal assets of the owners of a corporation if the corporation does not pay its debts.

7. False. The transfer of stock from one owner to another *does not require* the approval of either the corporation or other stockholders; *it is entirely at the discretion of the stockholder.*

8. False. The board of directors of a corporation *manages* the corporation *for the stockholders, who legally own the corporation.*

9. True.

10. False. Corporations are subject to *more* state and federal regulations than partnerships or proprietorships.

EXERCISE 11-2B

1. True.

2. False. *Corporation management (separation of ownership and manage­ment),* government regulations, and additional taxes are the major disadvantages of a corporation.

3. False. When a corporation is formed, organization costs are expensed as incurred.

4. True.

5. False. The number of issued shares is always *less* than or equal to the number of authorized shares.

6. False. *No* journal entry is required for the authorization of capital stock.

7. False. Publicly held corporations usually issue stock *indirectly through an investment banking firm.*

EXERCISE 11-2B (Continued)

8. True.

9. False. The market value of common stock *has no relationship with the* par value.

10. False. *Paid-in capital* is the total amount of cash and other assets paid in to the corporation by stockholders in exchange for capital stock.

EXERCISE 11-3B

(a) Jan. 10 Cash (80,000 X $5) 400,000

Common Stock 400,000

July 1 Cash (50,000 X $7) 350,000

Common Stock (50,000 X $5) 250,000

Paid-in Capital in Excess of

  Par—Common Stock

  (50,000 X $2)  100,000

(b) Jan. 10 Cash (80,000 X $5) 400,000

Common Stock (80,000 X $1)  80,000

Paid-in Capital in Excess of

  Stated Value—Common Stock

  (80,000 X $4) 320,000

July 1 Cash (50,000 X $7) 350,000

Common Stock (50,000 X $1)  50,000

Paid-in Capital in Excess of

  Stated Value—Common Stock

  (540,000 X $6) 300,000

EXERCISE 11-4B

(a) Cash 50,000

Common Stock (1,000 X $5) 5,000

Paid-in Capital in Excess of Par—

  Common Stock 45,000

EXERCISE 11-4B (Continued)

(b) Cash 50,000

Common Stock (1,000 X $5) 5,000

Paid-in Capital in Excess of Stated

  Value—Common Stock 45,000

(c) Cash 50,000

Common Stock 50,000

(d) Organization Expense 50,000

Common Stock (1,000 X $5) 5,000

Paid-in Capital in Excess of Par—

  Common Stock 45,000

(e) Land 50,000

Common Stock (1,000 X $5) 5,000

Paid-in Capital in Excess of Par—

  Common Stock 45,000

EXERCISE 11-5B

(a) Cash 2,100,000

Preferred Stock (100,000 X $20) 2,000,000

Paid-in Capital in Excess of Par—

  Preferred Stock 100,000

(b) Total Dividend $ 500,000

Less: Preferred Stock Dividend

($2,000,000 X 7%) 140,000

Common Stock Dividends $ 360,000

(c) Total Dividend $ 500,000

Less: Preferred Stock Dividend

[($2,000,000 X 7%) X 3] 420,000

Common Stock Dividends $ 80,000

EXERCISE 11-6B

1. Land 125,000

Common Stock (5,000 X $20) 100,000

Paid-in Capital in Excess of Par—

  Common Stock  25,000

2. Land (20,000 X $14) 280,000

Common Stock (20,000 X $10) 200,000

Paid-in Capital in Excess of Par—

  Common Stock (20,000 X $4)  80,000

EXERCISE 11-7B

Treasury Stock 250,000

Cash 250,000

Cash (2,000 X $54) 108,000

Treasury Stock (2,000 X $50) 100,000

Paid-in Capital from Treasury Stock 8,000

Cash (2,000 X $49) 98,000

Paid-in Capital from Treasury Stock………………... 2,000

Treasury Stock (2,000 X $50) 100,000

Cash (1,000 X $38) 38,000

Paid-in Capital from Treasury Stock 6,000

Retained Earnings 6,000

Treasury Stock (1,000 X $50) 50,000

EXERCISE 11-8B

Mar.  2 Organization Expense  30,000

Common Stock (5,000 X $4)   20,000

Paid-in Capital in Excess of Par—

  Common Stock  10,000

June 12 Cash 370,000

Common Stock (60,000 X $4)  240,000

Paid-in Capital in Excess of Par—

  Common Stock 130,000

July 11 Cash (1,000 X $112) 112,000

Preferred Stock (1,000 X $100) 100,000

Paid-in Capital in Excess of Par—

  Preferred Stock (1,000 X $12)   12,000

Nov. 28 Treasury Stock  70,000

Cash  70,000

EXERCISE 11-9B

(a) Mar. 1 Treasury Stock (50,000 X $14) 700,000

Cash 700,000

July 1 Cash (10,000 X $15) 150,000

Treasury Stock (10,000 X $14) 140,000

Paid-in Capital from Treasury

  Stock (10,000 X $1)  10,000

Sept. 1 Cash (8,000 X $12) 96,000

Paid-in Capital from Treasury

  Stock   10,000

Retained Earnings………………………. 6,000

Treasury Stock (8,000 X $14) 112,000

(b) Sept. 1 Cash (8,000 X $10)  80,000

Paid-in Capital from Treasury

  Stock  10,000

Retained Earnings  22,000

Treasury Stock (8,000 X $14) 112,000

EXERCISE 11-10B

(a) Feb. 1 Cash (20,000 X $52) 1,040,000

Preferred Stock (20,000 X $50) 1,000,000

Paid-in Capital in Excess

  of Par—Preferred

  Stock (20,000 X $2)    40,000

July 1 Cash (12,000 X $56)   672,000

Preferred Stock

  (12,000 X $50)   600,000

Paid-in Capital in Excess

  of Par—Preferred

  Stock (12,000 X $6)    72,000

(b)

Preferred Stock

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Date |  | Explanation |  | Ref. |  | Debit |  | Credit |  | Balance |
| Feb. 1  July 1 |  |  |  |  |  |  |  | 1,000,000    600,000 |  | 1,000,000  1,600,000 |

Paid-in Capital in Excess of Par—Preferred Stock

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Date |  | Explanation |  | Ref. |  | Debit |  | Credit |  | Balance |
| Feb. 1  July 1 |  |  |  |  |  |  |  | 40,000     72,000 |  | 40,000  112,000 |

(c) Preferred stock—listed first in paid-in capital under capital stock.

Paid-in Capital in Excess of Par—Preferred Stock—listed first under additional paid-in capital.

EXERCISE 11-11B

(a) Common stock outstanding is 590,000 shares. (Issued shares 600,000 less treasury shares 10,000.)

(b) The stated value of the common stock is $2 per share. (Common stock issued $1,200,000 ÷ 600,000 shares.)

(c) The par value of the preferred stock is $100 per share. (Preferred stock $400,000 ÷ 4,000 shares.)

(d) The dividend rate is 7.5%, or ($30,000 ÷ $400,000).

(e) The Retained Earnings balance is still $1,858,000. Cumulative dividends in arrears are only disclosed in the notes to the financial statements.

EXERCISE 11-12B

May  2 Cash (10,000 X $13) 130,000

Common Stock (10,000 X $10)  100,000

Paid-in Capital in Excess of Par—

  Common Stock (10,000 X $3)  30,000

10 Cash (10,000 X $60) 600,000

Preferred Stock (10,000 X $50) 500,000

Paid-in Capital in Excess of Par—

  Preferred Stock (10,000 X $10) 100,000

15 Treasury Stock  15,000

Cash  15,000

31 Cash (500 X $16)   8,000

Treasury Stock (500 X $15)   7,500

Paid-in Capital from Treasury

  Stock (500 X $1)     500

EXERCISE 11-13B

(a) June 15 Cash Dividends (115,000 X $1) 115,000

Dividends Payable 115,000

July 10 Dividends Payable 115,000

Cash 115,000

Dec. 15 Cash Dividends (117,000 X $1.20) 140,400

Dividends Payable 140,400

(b) In the retained earnings statement, dividends of $255,400 will be deducted. In the balance sheet, Dividends Payable of $140,400 will be reported as a current liability.

EXERCISE 11-14B

(a) Stock Dividends (14,000\* X $18) 252,000

Common Stock Dividends Distributable  
   (14,000 X $10) 140,000

Paid-in Capital in Excess of Par—  
   Common Stock (14,000 X $8) 112,000

\*[($1,000,000 ÷ $10) + 40,000] X 10%.

(b) Stock Dividends (24,000\* X $20) 480,000

Common Stock Dividends Distributable

  (24,000 X $5) 120,000

Paid-in Capital in Excess of Par—

  Common Stock (24,000 X $15) 360,000

\*[($1,000,000 ÷ 5) + 40,000] X 10%.

EXERCISE 11-15B

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | Before  Action |  | After  Stock  Dividend |  | After  Stock  Split |
|  |  |  |  |  |  |  |
| Stockholders’ equity  Paid-in capital  Common stock  In excess of par-com.stock  Total paid-in capital  Retained earnings  Total stockholders’    equity |  | $ 200,000  0  200,000  900,000  $1,100,000 |  | $ 212,000  4,800     216,800  883,200  $1,100,000 |  | $ 200,000  0     200,000  900,000  $1,100,000 |
|  |  |  |  |  |  |  |
| Outstanding shares |  | 20,000 |  | 21,200 |  | 40,000 |
|  |  |  |  |  |  |  |
| Par value per share |  | $10.00 |  | $10.00 |  | $5.00 |

EXERCISE 11-16B

1. Dec. 31 Retained Earnings    50,000

Interest Expense    50,000

2. 31 Stock Dividends     8,000

Dividends Payable    10,000

Common Stock Dividends

  Distributable    10,000

Paid-in Capital in Excess

  of Par—Common Stock     8,000

3. 31 Common Stock 2,000,000

Retained Earnings 2,000,000

EXERCISE 11-17B

LADD CORPORATION

Retained Earnings Balance

December 31, 2022

Balance, January 1 $505,000

Add: Net income 320,000

 825,000

Less: Cash dividends $120,000

Stock dividends 60,000 180,000

Balance, December 31 $645,000

EXERCISE 11-18B

PITTS COMPANY

Retained Earnings Balance

December 31, 2022

Balance, January 1, as reported $330,000

Add: Net income 280,000

610,000

Less: Cash dividends $120,0001

Stock dividends 180,0002 300,000

Balance, December 31 $310,000

1(200,000 X $.60/sh) 2(200,000 X .06 X $15/sh)

EXERCISE 11-19B

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | Paid-in Capital | | |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| Account |  | Capital  Stock |  | Additional |  | Retained  Earnings |  | Other |
|  |  |  |  |  |  |  |  |  |
| Common Stock  Preferred Stock  Treasury Stock  Paid-in Capital in Excess of Par—    Preferred Stock  Paid-in Capital in Excess of    Stated Value—Common Stock  Paid-in Capital from Treasury    Stock  Retained Earnings |  | X  X |  | X  X  X |  | X |  | X |

EXERCISE 11-20B

BERRY INC.

Balance Sheet (Partial)

December 31, 2022

Stockholders’ equity

Paid-in capital

Capital stock

8% Preferred stock, $5 par value,

  40,000 shares authorized,

  30,000 shares issued $  150,000

Common stock, no par, $1 stated

  value, 400,000 shares autho-

  rized, 300,000 shares issued

  and 290,000 outstanding $  300,000

Common stock dividends

  distributable 30,000 330,000

Total capital stock    480,000

Additional paid-in capital

In excess of par—

  preferred stock    344,000

In excess of stated value—

  common stock 1,400,000

Total additional paid-in

  capital 1,744,000

Total paid-in capital  2,224,000

Retained earnings (see Note R) 700,000

Total paid-in capital and

  retained earnings  2,924,000

Less: Treasury stock (10,000 common

shares) 74,000

Total stockholders’ equity $2,850,000

Note R: Retained earnings is restricted for plant expansion, $150,000.

EXERCISE 11-21B

DELTA COMPANY

Balance Sheet (Partial)

December 31, 2022

Paid-in capital

Capital stock

Preferred stock $125,000

Common stock 400,000

Total capital stock $ 525,000

Additional paid-in capital

In excess of par—preferred stock 75,000

In excess of par—common stock 120,000

Total additional paid-in capital 195,000

Total paid-in capital 720,000

Retained earnings 454,000\*

Total paid-in capital and retained earnings 1,174,000

Less: Treasury stock 45,000

Total stockholders’ equity $ 1,129,000

\*$350,000 + $150,000 – $46,000

EXERCISE 11-22B

(a) HAMILTON CORPORATION

Income Statement

For the Year Ended December 31, 2022

Net sales $ 600,000

Cost of goods sold 350,000

Gross profit 250,000

Operating expenses 150,000

Income from operations 100,000

Interest expense 9,000

Income before income taxes 91,000

Income tax expense (30% X $91,000) 27,300

Net income $ 63,700

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| (b) | Net income – preferred dividends | = | $63,700 – $20,000 | = | 21.9% |
| Average common stockholders’ equity | $200,000 |

\*EXERCISE 11-23B

(a) ALUMINUM COMPANY OF AMERICA

Stockholders’ equity (in millions of dollars)

Paid-in capital

Capital stock

Preferred stock, $100 par value, $3.75

  dividend, cumulative, 557,740 shares

  authorized, 557,649 shares issued and

\*EXERCISE 11-23B (Continued)

  546,024 shares outstanding $    55

Common stock, $1 par value,

  1,800,000,000 shares authorized,

  924,600,000 issued and 844,800,000

  shares outstanding 925

Total capital stock    980

Additional paid-in capital 6,101

Total paid-in capital    7,081

Retained earnings 7,824

Total paid-in capital and retained

earnings 14,905

Less: Treasury stock 2,828

Total stockholders’ equity $12,077

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| (b) | Total Stockholder’s Equity – Par Value Preferred Stock | = | $12,077 - $55 | = | $14.23 |
| No. of Common Shares Outstanding | 844.8 |

\*EXERCISE 11-24B

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | (a) |  | (b) |
| Total stockholders’ equity |  | $3,300,000 |  | $3,300,000 |
| Less: Preferred stock equity |  |  |  |  |
| Par value |  | ($500,000) |  |  |
| Call price (10,000 X $65) |  |  |  | (650,000) |
| Dividends in arrears (10,000 X $5) |  |  |  | (50,000) |
| Common stock equity |  | $2,800,000 |  | $2,600,000 |
|  |  |  |  |  |
| Common shares outstanding |  | 200,000 |  | 200,000 |
|  |  |  |  |  |
| Book value per share |  | $14 |  | $13 |
|  |  |  |  |  |