

Accounting, 9e (Horngren)

Chapter 13 Corporations: Effects on Retained Earnings and the Income Statement

Learning Objective 13-1

1) Stock dividends have no effect on assets or liabilities.

Answer: TRUE

Diff: 1

LO: 13-1

EOC Ref: E13-12

AACSB: Content/Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

2) Cash dividends affect only stockholders' equity accounts.

Answer: FALSE

Diff: 1

LO: 13-1

EOC Ref: S13-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

3) Stock dividends are distributed to stockholders in proportion to the number of shares each stockholder already owns.

Answer: TRUE

Diff: 1

LO: 13-1

EOC Ref: E13-12

AACSB: Content/Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

4) The declaration of a stock dividend creates a liability for the corporation.

Answer: FALSE

Diff: 1

LO: 13-1

EOC Ref: E13-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

5) On June 30, 2014, Stephans Company showed the following data on the equity section of their balance sheet:

Stockholders' equity		
Common stock, \$1 par	100,000 shares authorized	\$40,000
	40,000 shares issued	
Paid-in capital in excess of par		260,000
Retained earnings		940,000
Total stockholder's equity		\$1,240,000

On July 1, 2014, Stephans distributed a 5% stock dividend. The market value of the stock at that time was \$13 per share. Following this transaction, the total shareholders' equity would go down by \$26,000.

Answer: FALSE

Diff: 2

LO: 13-1

EOC Ref: E13-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

6) On June 30, 2014, Stephans Company showed the following data on the equity section of their balance sheet:

Stockholders' equity		
Common stock, \$1 par	100,000 shares authorized	\$40,000
	40,000 shares issued	
Paid-in capital in excess of par		260,000
Retained earnings		940,000
Total stockholder's equity		\$1,240,000

On July 1, 2014, Stephans distributed a 5% stock dividend. The market value of the stock at that time was \$13 per share. Following this transaction, the number of shares authorized would stay the same, but the number of shares issued would go up by 5%.

Answer: TRUE

Diff: 2

LO: 13-1

EOC Ref: E13-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

7) On March 1, 2013, Parkinson Company originally issued 10,000 shares of common stock at \$4.00 per share. The stock had a par value of \$0.01 per share. On March 1, 2012, Parkinson distributed a 12% stock dividend; the market price at that time had dropped to \$3.75 per share. Parkinson must record a loss of \$300.

Answer: FALSE

Diff: 2

LO: 13-1

EOC Ref: E13-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

8) Qdot International originally issued common stock at a price of \$20 per share. A year later, they distributed a 10% stock dividend to shareholders. At the time of the stock dividend, the share price had gone up to \$24 per share. Under the rules of GAAP for stock dividends, Qdot will record neither a gain nor a loss on the stock dividend, despite the fact that the share price went up.

Answer: TRUE

Diff: 2

LO: 13-1

EOC Ref: E13-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

9) The account to be debited when a stock dividend is declared and distributed on the same date would be:

A) Common stock.

B) Retained earnings.

C) Dividends.

D) Paid-in capital in excess of par.

Answer: B

Diff: 1

LO: 13-1

EOC Ref: E13-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

10) Which of the following is NOT true of stock dividends?

A) Stock dividends have no effect on assets or liabilities.

B) Stock dividends increase dividends payable and reduce cash.

C) Stock dividends affect only stockholder's equity accounts.

D) Stock dividends have no effect on total stockholders' equity.

Answer: B

Diff: 2

LO: 13-1

EOC Ref: E13-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

11) Which of the following will happen to a stockholder's percentage ownership in the stock of a corporation when the corporation declares a stock dividend?

A) The stockholder's percentage ownership decreases.

B) The stockholder's percentage ownership can increase or decrease.

C) The stockholder's percentage ownership increases.

D) The stockholder's percentage ownership stays the same.

Answer: D

Diff: 1

LO: 13-1

EOC Ref: E13-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

12) Which of the following occurs when a corporation distributes a stock dividend?

- A) Total liabilities increase.
- B) Stockholders' equity increases.
- C) Total assets decrease.
- D) Stockholders' equity remains unchanged.

Answer: D

Diff: 1

LO: 13-1

EOC Ref: E13-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

13) Which of the following occurs when a corporation's board of directors distributes a 10% stock dividend?

- A) Retained earnings will be credited for the new shares times the current market value of the stock.
- B) Retained earnings will be debited for the new shares times the current market value of the stock.
- C) Retained earnings will be debited for the new shares times the par value of the stock.
- D) Retained earnings will be credited for the new shares times the par value of the stock.

Answer: B

Diff: 2

LO: 13-1

EOC Ref: E13-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

14) The entry to record a stock dividend depends on its size. Which of the following percentages is the upper limit for a stock dividend to be classified as a small stock dividend?

- A) 20%
- B) 10%
- C) 15%
- D) 25%

Answer: D

Diff: 1

LO: 13-1

EOC Ref: E13-12

AACSB: Content/Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

15) Stock dividends are declared by the:

- A) chief financial officer of the company.
- B) board of directors of the company.
- C) chief executive officer of the company.
- D) stockholders of the company.

Answer: B

Diff: 1

LO: 13-1

EOC Ref: E13-12

AACSB: Content/Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

16) A company originally issued 10,000 shares of \$5 par value common stock at \$7 per share. The board of directors declares a 10% stock dividend when the market price of the stock is \$9 a share. Which of the following is included in the entry to record the stock dividend?

- A) Retained earnings is debited for \$9,000.
- B) Retained earnings is credited for \$9,000.
- C) Retained earnings is debited for \$5,000.
- D) Common stock is credited for \$9,000.

Answer: A

Explanation: A) Calculations: $10,000 \times 10\% \times \9 market price = \$9,000 total dividend debited to Retained earnings.

Diff: 2

LO: 13-1

EOC Ref: E13-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

17) A company originally issued 10,000 shares of \$5 par value common stock at \$9 per share. The board of directors declares an 8% stock dividend when the market price of the stock is \$10 a share. Which of the following is included in the entry to record the stock dividend?

- A) Retained earnings is debited for \$4,000.
- B) Common stock is credited for \$7,200.
- C) Common stock is credited for \$8,000.
- D) Retained earnings is debited for \$8,000.

Answer: D

Explanation: D) Calculations: Retained earnings ($10,000 \text{ shares} \times 8\% \times \10 market) = \$8,000

Diff: 2

LO: 13-1

EOC Ref: E13-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

18) A corporation reported the following equity section on its current balance sheet. The common stock is currently selling for \$12.00 per share.

Common stock, \$5 par, 100,000 shares authorized, 50,000 shares issued	\$250,000
Paid in capital in excess of par—common	150,000
Retained earnings	300,000
Total stockholders' equity	\$700,000

Which of the following would be included in the entry to record a 10% stock dividend?

- A) Common stock would be credited for \$25,000.
- B) Common stock would be debited for \$25,000.
- C) Paid-in capital in excess of par—common is debited for \$35,000.
- D) Retained earnings would be credited for \$60,000.

Answer: A

Explanation: A) Calculations: Retained earnings $50,000 \text{ shares} \times 10\% \times \$5 = \$25,000$

Diff: 2

LO: 13-1

EOC Ref: E13-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

19) Gordon Corporation reported the following equity section on its current balance sheet. The common stock is currently selling for \$11.50 per share.

Common stock, \$5 par, 100,000 shares authorized, 40,000 shares issued	\$200,000
Paid in capital in excess of par—common	120,000
Retained earnings	290,000
Total stockholders' equity	\$610,000

What would be the Total stockholders' equity after a 10% common stock dividend?

- A) \$656,000
- B) \$320,000
- C) \$610,000
- D) \$366,000

Answer: C

Diff: 2

LO: 13-1

EOC Ref: E13-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

20) Gordon Corporation reported the following equity section on its current balance sheet. The common stock is currently selling for \$11.50 per share.

Common stock, \$5 par, 100,000 shares authorized, 40,000 shares issued	\$200,000
Paid in capital in excess of par—common	120,000
Retained earnings	290,000
Total stockholders' equity	\$610,000

What would be the balance in the Common stock account after the issuance of a 10% stock dividend?

- A) \$200,000
- B) \$246,000
- C) \$220,000
- D) \$226,000

Answer: C

Explanation: C) Calculations: $\$200,000 + (40,000 \times \$5 \times 10\%) = \$220,000$

Diff: 2

LO: 13-1

EOC Ref: E13-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

21) Landess Corporation currently has 120,000 shares outstanding of \$1 par value common stock. The stock was originally issued for \$12 per share. On March 15, the board of directors declares a 10% stock dividend when the stock is selling for \$16 per share. Which of the following is the correct journal entry to record this transaction?

- A) Debit Common stock \$12,000, debit Paid-in capital \$180,000 and credit Retained earnings \$192,000.
- B) Debit Retained earnings \$192,000 and credit Common stock \$192,000.
- C) Debit Retained earnings \$192,000, credit Common stock \$12,000 and credit Paid-in capital \$180,000.
- D) Debit Paid-in capital \$192,000 and credit Retained earnings \$192,000.

Answer: C

Explanation: C) Calculations: $120,000 \times 10\% \times \$16 = \$192,000$

Diff: 2

LO: 13-1

EOC Ref: E12-13

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

22) Happy Holiday, Inc. has 100,000 shares of common stock issued and outstanding, with a par value of \$0.01 per share. They distributed a 15% common stock dividend; market value is \$12 per share. Which of the following is the correct journal entry to record the transaction?

- A) Debit Retained earnings \$180,000 and credit Paid-in capital \$180,000.
- B) Debit Retained earnings \$180,000, credit Common stock \$150 and credit Paid-in capital \$179,850.
- C) Debit Retained earnings \$180,000 and credit Cash \$180,000.
- D) Debit Common stock \$150, debit Paid-in capital \$179,850 and credit Retained earnings \$180,000.

Answer: B

Explanation: B) Calculations: $100,000 \times 15\% \times \$12 = \$180,000$

Diff: 2

LO: 13-1

EOC Ref: E13-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

23) On December 1, 2014, Arbor Company had 20,000 shares of \$1 par value common stock issued and outstanding. The next day they distributed a 50% stock dividend. The market value of the stock on that date was \$9 per share. Please provide the journal entry for the transaction. Which of the following is the correct journal entry to record this transaction?

- A) Debit Retained earnings \$90,000 and credit Cash \$90,000.
- B) Debit Retained earnings \$90,000, credit Common stock \$10,000 and credit Paid-in capital \$80,000.
- C) Debit Common stock \$10,000 and credit Retained earnings \$10,000.
- D) Debit Retained earnings \$10,000 and credit Common stock \$10,000.

Answer: D

Explanation: D) Calculations: $(20,000 \times 50\%) \times \$1 = \$10,000$

Diff: 2

LO: 13-1

EOC Ref: E13-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

24) On June 30, 2013, Stephans Company showed the following data on the equity section of their balance sheet:

Stockholders' equity		
Common stock, \$1 par	100,000 shares authorized	\$40,000
	40,000 shares issued	
Paid-in capital in excess of par		260,000
Retained earnings		940,000
Total stockholder's equity		\$1,240,000

On July 1, 2013, Stephans distributed a 5% stock dividend. The market value of the stock at that time was \$13 per share. Following this transaction, what would be the new balance in the Common stock account?

- A) \$42,000
- B) \$26,000
- C) \$66,000
- D) \$246,000

Answer: A

Explanation: A) Calculations: $\$40,000 + [(40,000 \times 5\%) \times \$1] = \$42,000$

Diff: 2

LO: 13-1

EOC Ref: E13-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

25) On June 30, 2013, Stephans Company showed the following data on the equity section of their balance sheet:

Stockholders' equity		
Common stock, \$1 par	100,000 shares authorized	\$40,000
	40,000 shares issued	
Paid-in capital in excess of par		260,000
Retained earnings		940,000
Total stockholder's equity		\$1,240,000

On July 1, 2013, Stephans distributed a 5% stock dividend. The market value of the stock at that time was \$13 per share. Following this transaction, what would be the new number of shares issued shown on the balance sheet?

- A) 26,000
- B) 66,000
- C) 42,000
- D) 105,000

Answer: C

Explanation: C) Calculations: $(40,000 \times 5\%) + 40,000 = 42,000$ shares

Diff: 2

LO: 13-1

EOC Ref: E13-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

26) On June 30, 2013, Stephans Company showed the following data on the equity section of their balance sheet:

Stockholders' equity		
Common stock, \$1 par	100,000 shares authorized	\$40,000
	40,000 shares issued	
Paid-in capital in excess of par		260,000
Retained earnings		940,000
Total stockholder's equity		\$1,240,000

On July 1, 2013, Stephans distributed a 5% stock dividend. The market value of the stock at that time was \$13 per share. Following this transaction, what would be the new balance in Paid-in capital in excess of par?

- A) \$286,000
- B) \$284,000
- C) \$260,000
- D) \$234,000

Answer: B

Explanation: B) Calculations: $\$260,000 + (\$26,000 - \$2,000) = \$284,000$

Diff: 2

LO: 13-1

EOC Ref: E13-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

27) On June 30, 2013, Stephans Company showed the following data on the equity section of their balance sheet:

Stockholders' equity		
Common stock, \$1 par	100,000 shares authorized	\$40,000
	40,000 shares issued	
Paid-in capital in excess of par		260,000
Retained earnings		940,000
Total stockholder's equity		\$1,240,000

On July 1, 2013, Stephans distributed a 5% stock dividend. The market value of the stock at that time was \$13 per share. Following this transaction, how much would the total stockholders' equity be?

- A) \$1,240,000
- B) \$1,500,000
- C) \$1,260,000
- D) \$1,214,000

Answer: A

Diff: 2

LO: 13-1

EOC Ref: E13-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

28) On June 30, 2013, Stephans Company showed the following data on the equity section of their balance sheet:

Stockholders' equity		
Common stock, \$1 par	100,000 shares authorized	\$40,000
	40,000 shares issued	
Paid-in capital in excess of par		260,000
Retained earnings		940,000
Total stockholder's equity		\$1,240,000

On July 1, 2013, Stephans distributed a 5% stock dividend. The market value of the stock at that time was \$13 per share. Following this transaction, what would the new balance in Retained earnings be?

- A) \$916,000
- B) \$942,000
- C) \$966,000
- D) \$914,000

Answer: D

Explanation: D) Calculations: $\$940,000 - \$26,000 = \$914,000$

Diff: 2

LO: 13-1

EOC Ref: E13-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

29) On March 1, 2014, Parkinson Company originally issued 10,000 shares of common stock at \$4.00 per share. The stock had a par value of \$0.01 per share. On March 1, 2015, Parkinson distributed a 12% stock dividend; the market price at that time had dropped to \$3.75 per share. Which of the following statements is TRUE?

- A) Parkinson will record a loss of \$300 on the transaction.
- B) Parkinson will record a gain of \$300 on the transaction.
- C) Parkinson will record neither a gain nor a loss on the transaction.
- D) Parkinson will record sales revenues of \$4,500 for the stock issued.

Answer: C

Diff: 2

LO: 13-1

EOC Ref: E13-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

30) Qdot International originally issued 50,000 shares of common stock at a price of \$20 per share. A year later, they distributed a 10% stock dividend to shareholders. At the time of the stock dividend, the share price had gone up to \$24 per share. Which of the following statements is TRUE?

- A) Qdot will record sales revenues of \$120,000.
- B) Qdot will record a loss of \$20,000.
- C) Qdot will record a gain of \$20,000.
- D) Qdot will record neither a gain nor a loss.

Answer: D

Diff: 2

LO: 13-1

EOC Ref: E13-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

31) Landess Corporation currently has 120,000 shares outstanding of \$1 par value common stock. The stock was originally issued for \$12 per share. On March 15, the board of directors declares a 10% stock dividend when the stock is selling for \$16 per share. Prepare the journal entry to record the stock dividend.

Answer:

Retained earnings	192,000	
Common stock		12,000
Paid-in capital in excess of par		180,000

Explanation: Calculations: $(120,000 \times 10\%) \times \$16 = \$192,000$

This question is not available in MyAccountingLab.

Diff: 2

LO: 13-1

EOC Ref: E12-13

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

32) Happy Holiday, Inc. has 100,000 shares of common stock issued and outstanding, with a par value of \$0.01 per share. They distributed a 15% common stock dividend; market value is \$12 per share. Please provide the journal entry to record this transaction.

Answer:

Retained earnings	180,000	
Common stock		150
Paid-in capital in excess of par		179,850

Explanation: Calculations: $(100,000 \times 15\%) \times \$12 = \$180,000$

This question is not available in MyAccountingLab.

Diff: 2

LO: 13-1

EOC Ref: E13-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

33) On December 1, 2013, Arbor Company had 20,000 shares of \$1 par value common stock issued and outstanding. The next day they distributed a 50% stock dividend. The market value of the stock on that date was \$9 per share. Please provide the journal entry for the transaction.

Answer:

Retained earnings	10,000	
Common stock		10,000

Explanation: Calculations: $(20,000 \times 50\%) \times \$1 = \$10,000$

This question is not available in MyAccountingLab.

Diff: 2

LO: 13-1

EOC Ref: E13-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

Learning Objective 13-2

1) A stock split is an increase in the number of issued and outstanding shares of stock, coupled with a proportionate reduction in the par value of the stock.

Answer: TRUE

Diff: 1

LO: 13-2

EOC Ref: S13-5

AACSB: Content/Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

2) A stock split is fundamentally the same transaction as a stock dividend.

Answer: FALSE

Diff: 1

LO: 13-2

EOC Ref: S13-5

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

3) Preferred Products started business on March 1, 2012, and issued 100,000 shares of \$2 par value common stock at a market price of \$50 per share. One year later, the share price had soared to \$120. If Preferred Products does a 3-for-1 stock split, the balance sheet will show that there are 200,000 shares issued.

Answer: FALSE

Diff: 1

LO: 13-2

EOC Ref: S13-5

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

4) Preferred Products started business on March 1, 2012, and issued 100,000 shares of \$2 par value common stock at a market price of \$50 per share. One year later, the share price had soared to \$120. If Preferred Products does a 3-for-1 stock split, the balance sheet will show common stock with a par value of \$0.67 per share.

Answer: TRUE

Diff: 1

LO: 13-2

EOC Ref: S13-5

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

5) If a company does not have enough cash to pay out regular dividends, but still wishes to give the shareholders something that they would consider of value, the company should consider doing a stock split.

Answer: FALSE

Diff: 2

LO: 13-2

EOC Ref: S13-5

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

6) If a company's share price is getting so high that the company thinks it might inhibit some investors from buying stock, it should consider doing a stock split.

Answer: TRUE

Diff: 2

LO: 13-2

EOC Ref: S13-5

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

7) Preferred Products started business on March 1, 2012, and issued 100,000 shares of \$2 par value common stock at a market price of \$50 per share. One year later, the share price had soared to \$120. If Preferred Products does a 3-for-1 stock split, the market value of the stock will drop to \$60 per share.

Answer: FALSE

Diff: 1

LO: 13-2

EOC Ref: S13-5

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

8) Which of the following is a reason why a company would do a stock split?

A) To defend against a hostile takeover

B) To generate additional sales revenues

C) To reduce the market price at which the stock is trading

D) To provide the shareholders with something of value, when the company cannot afford a cash dividend

Answer: C

Diff: 2

LO: 13-2

EOC Ref: S13-5

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

9) Which of the following occurs due to a 4-for-1 stock split?

- A) The par value of each share of common stock is 25% of the par value before the split.
- B) The par value of each share of common stock is 200% of the par value before the split.
- C) The par value of each share of common stock remains the same as before the split.
- D) The par value of each share of common stock is 400% of the par value before the split.

Answer: A

Diff: 1

LO: 13-2

EOC Ref: S13-5

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

10) Which of the following statements is TRUE?

- A) Both a stock dividend and a stock split increase the balance in the common stock account.
- B) Both a stock dividend and a stock split reduce retained earnings.
- C) Neither a stock dividend nor a stock split will result in net gains or losses.
- D) A stock split increases the par value of the stock.

Answer: C

Diff: 2

LO: 13-2

EOC Ref: S13-5

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

11) Which of the following would be included in the entry to record a 2-for-1 stock split?

- A) There is no journal entry to record a stock split.
- B) Common stock would be credited.
- C) Retained earnings would be credited.
- D) Retained earnings would be debited.

Answer: A

Diff: 2

LO: 13-2

EOC Ref: S13-5

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

12) Which of the following would have the same effect on the number of shares issued and outstanding as a 2-for-1 stock split?

- A) A 20% stock dividend
- B) A 200% stock dividend
- C) A 100% stock dividend
- D) A 120% stock dividend

Answer: C

Diff: 2

LO: 13-2

EOC Ref: S13-5

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

13) Which of the following occurs when the board of directors declares a 2-for-1 stock split on 20,000 outstanding shares of \$15 par common stock?

- A) The par value of the stock remains the same.
- B) The par value of the stock increases to \$30 per share.
- C) Outstanding shares decrease to 10,000.
- D) Outstanding shares increase to 40,000.

Answer: D

Diff: 1

LO: 13-2

EOC Ref: S13-5

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

14) Which of the following is a TRUE statement?

- A) A stock split will increase total stockholders' equity, but a stock dividend will not.
- B) Neither a stock split nor a stock dividend will increase total stockholders' equity.
- C) A stock dividend will increase total stockholders' equity, but a stock split will not.
- D) A stock split will decrease retained earnings, but a stock dividend will not.

Answer: B

Diff: 2

LO: 13-2

EOC Ref: S13-5

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

15) Which of the following occurs when a 2-for-1 stock split is declared?

- A) The balance in common stock remains the same.
- B) The balance in common stock is reduced to half the original amount.
- C) The balance in common stock doubles.
- D) The balance in paid-in capital doubles.

Answer: A

Diff: 2

LO: 13-2

EOC Ref: S13-5

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

16) Gordon Corporation reported the following equity section on its current balance sheet. The common stock is currently selling for \$11.50 per share.

Common stock, \$5 par, 100,000 shares authorized, 40,000 shares issued	\$200,000
Paid in capital in excess of par—common	120,000
Retained earnings	290,000
Total stockholders' equity	\$610,000

What will the total number of shares issued be after the declaration of a 10% stock dividend?

- A) 20,000 common shares
- B) 44,000 common shares
- C) 40,000 common shares
- D) 4,000 common shares

Answer: B

Explanation: B) Calculations: $40,000 + (40,000 \times 10\%) = 44,000$

Diff: 1

LO: 13-2

EOC Ref: E13-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

17) Gordon Corporation reported the following equity section on its current balance sheet. The common stock is currently selling for \$11.50 per share.

Common stock, \$5 par, 100,000 shares authorized, 40,000 shares issued	\$200,000
Paid in capital in excess of par—common	120,000
Retained earnings	290,000
Total stockholders' equity	\$610,000

Which of the following would be TRUE if the company issued a 2-for-1 stock split?

- A) Retained earnings would be decreased by \$460,000.
- B) Common stock would be increased by \$200,000.
- C) Paid-in capital in excess of par would be increased by \$260,000.
- D) None of the account balances would change.

Answer: D

Diff: 1

LO: 13-2

EOC Ref: S13-5

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

18) Gordon Corporation reported the following equity section on its current balance sheet. The common stock is currently selling for \$11.50 per share.

Common stock, \$5 par, 100,000 shares authorized, 40,000 shares issued	\$200,000
Paid in capital in excess of par—common	120,000
Retained earnings	290,000
Total stockholders' equity	\$610,000

What would the balance in Paid-in capital in excess of par be after a 2-for-1 stock split?

- A) \$580,000
- B) \$460,000
- C) \$380,000
- D) \$120,000

Answer: D

Diff: 1

LO: 13-2

EOC Ref: S13-5

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

19) Gordon Corporation reported the following equity section on its current balance sheet. The common stock is currently selling for \$11.50 per share.

Common stock, \$5 par, 100,000 shares authorized, 40,000 shares issued	\$200,000
Paid in capital in excess of par—common	120,000
Retained earnings	290,000
Total stockholders' equity	\$610,000

After a 2-for-1 stock split, what would the number of shares issued be?

- A) 40,000
- B) 80,000
- C) 60,000
- D) 120,000

Answer: B

Explanation: B) Calculations: $40,000 \times 2 = 80,000$

Diff: 1

LO: 13-2

EOC Ref: S13-5

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

20) Which of the following is a TRUE statement?

- A) Both a stock split and a stock dividend will decrease total assets.
- B) Both a stock split and a stock dividend will increase total liabilities.
- C) A stock split will increase total assets, but a stock dividend will not.
- D) Neither a stock split nor a stock dividend will affect total assets or total liabilities.

Answer: D

Diff: 1

LO: 13-2

EOC Ref: S13-5

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

21) Which of the following does NOT require a formal journal entry?

- A) Cash dividend
- B) Stock dividend
- C) Stock split
- D) Issuance of new shares

Answer: C

Diff: 1

LO: 13-2

EOC Ref: S13-5

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

22) Apira has 2,000 shares of common stock outstanding. A stockholder has 100 shares. If Apira distributes a 20% stock dividend, how many shares of Apira will the stockholder have?

- A) 120
- B) 105
- C) 100
- D) 20

Answer: A

Explanation: A) Calculations: $100 + (100 \times 20\%) = 120$

Diff: 1

LO: 13-2

EOC Ref: E13-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

23) ABC has 45,000 shares of \$10 par common stock outstanding. They offer a stock split of 4-for-1. The effect of the split will be:

- A) par stays at \$10; total shares go to 11,250.
- B) par drops to \$5; total shares stay at 45,000.
- C) par drops to \$2.50; total shares go to 180,000.
- D) par goes to \$40; total shares go to 180,000.

Answer: C

Diff: 1

LO: 13-2

EOC Ref: S13-5

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

24) A 3-for-1 stock split will:

- A) triple the par value and drop the number of outstanding shares by one-third.
- B) have no effect on the par value, but will affect the number of outstanding shares.
- C) have no effect on the number of outstanding shares, but will affect par value.
- D) cut the par value by one-third and triple the number of outstanding shares.

Answer: D

Diff: 1

LO: 13-2

EOC Ref: S13-5

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

25) On January 1, 2013, Parquet Sales issued 40,000 shares of common stock at a price of \$22 per share. The stock has a par value of \$1.00 per share. In mid-2014, due to dramatic increases in profits, the stock reached a market value of \$90 per share. The board of directors approved a 2-for-1 stock split. After the stock split, what will the balance sheet show as the number of shares issued?

- A) 40,000
- B) 80,000
- C) 60,000
- D) 44,000

Answer: B

Explanation: B) Calculations: $40,000 \times 2 = 80,000$

Diff: 1

LO: 13-2

EOC Ref: S13-5

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

26) On January 1, 2013, Parquet Sales issued 40,000 shares of common stock at a price of \$22 per share. The stock has a par value of \$1.00 per share. In mid-2014, due to dramatic increases in profits, the stock reached a market value of \$90 per share. The board of directors approved a 2-for-1 stock split. After the stock split, what will the balance sheet show as the par value of common stock?

- A) \$2.00
- B) \$1.50
- C) \$1.00
- D) \$0.50

Answer: D

Explanation: D) Calculations: $1 \times 1/2 = 0.50$

Diff: 1

LO: 13-2

EOC Ref: S13-5

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

27) On January 1, 2013, Parquet Sales issued 40,000 shares of common stock at a price of \$22 per share. The stock has a par value of \$1.00 per share. In mid-2014, due to dramatic increases in profits, the stock reached a market value of \$90 per share. The board of directors approved a 2-for-1 stock split. After the stock split, what will the market value of the stock be?

- A) \$45.00 per share
- B) \$44.00 per share
- C) \$135.00 per share
- D) \$0.50 per share

Answer: A

Explanation: A) Calculations: $90 \times 1/2 = 45$

Diff: 1

LO: 13-2

EOC Ref: S13-5

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

28) Which of the following actions will increase the balance in the Common stock account?

- A) Cash dividend
- B) Stock split
- C) Stock dividend
- D) Purchase of treasury stock

Answer: C

Diff: 2

LO: 13-2

EOC Ref: S13-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

29) Which of the following actions could increase the balance in the Paid-in capital in excess of par account?

- A) Cash dividend
- B) Stock split
- C) Stock dividend
- D) Purchase of treasury stock

Answer: C

Diff: 2

LO: 13-2

EOC Ref: S13-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

30) Which of the following will decrease the balance in Retained earnings?

- A) Repayment of bond principal
- B) Stock split
- C) Stock dividend
- D) Purchase of treasury stock

Answer: C

Diff: 2

LO: 13-2

EOC Ref: S13-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

31) Which of the following will decrease the balance in Retained earnings?

- A) Cash dividend
- B) Stock split
- C) Purchase of long-term assets
- D) Purchase of treasury stock

Answer: A

Diff: 2

LO: 13-2

EOC Ref: S13-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

32) Which of the following will decrease the amount of Total stockholders' equity?

- A) Cash dividend
- B) Stock split
- C) Stock dividend
- D) Repayment of bond principal

Answer: A

Diff: 2

LO: 13-2

EOC Ref: S13-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

33) Which of the following will decrease the amount of Total stockholders' equity?

- A) Purchase of treasury stock
- B) Stock split
- C) Stock dividend
- D) Repayment of bond principal

Answer: A

Diff: 2

LO: 13-2

EOC Ref: S13-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

34) On July 31, 2013, the Archer Company reported the following information in the equity section of their balance sheet:

Stockholders' equity	
Common stock, \$1.00 par, 500,000 shares authorized, 20,000 shares issued	\$20,000
Paid-in capital in excess of par	1,180,000
Retained earnings	3,200,000
Total stockholder's equity	\$4,400,000

Assume that Archer carries out a 2-for-1 stock split. Please prepare a similar equity section showing the effects of the stock split.

Stockholders' equity	

Answer:

Stockholders' equity	
Common stock, \$0.50 par, 1,000,000 shares authorized, 40,000 shares issued	\$20,000
Paid-in capital in excess of par	1,180,000
Retained earnings	3,200,000
Total stockholder's equity	\$4,400,000

Explanation: This question is not available in MyAccountingLab.

Diff: 2

LO: 13-2

EOC Ref: S13-15

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

35) On July 31, 2013, the Archer Company reported the following information in the equity section of their balance sheet:

Stockholders' equity	
Common stock, \$1.00 par, 500,000 shares authorized, 20,000 shares issued	\$20,000
Paid-in capital in excess of par	1,180,000
Retained earnings	3,200,000
Total stockholder's equity	\$4,400,000

Assume that Archer carries out a 3-for-1 stock split. Please prepare a similar equity section showing the effects of the stock split. (Please round all numbers to the nearest cent.)

Stockholders' equity	

Answer:

Stockholders' equity	
Common stock, \$0.33 par, 1,000,000 shares authorized, 60,000 shares issued	\$20,000
Paid-in capital in excess of par	1,180,000
Retained earnings	3,200,000
Total stockholder's equity	\$4,400,000

Explanation: This question is not available in MyAccountingLab.

Diff: 2

LO: 13-2

EOC Ref: S13-15

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

36) On July 31, 2013, the Archer Company reported the following information in the equity section of their balance sheet:

Stockholders' equity	
Common stock, \$1.00 par, 500,000 shares authorized, 20,000 shares issued	\$20,000
Paid-in capital in excess of par	1,180,000
Retained earnings	3,200,000
Total stockholder's equity	\$4,400,000

Assume that Archer carries out a 4-for-1 stock split. Please prepare a similar equity section showing the effects of the stock split. (Please round all numbers to the nearest cent.)

Stockholders' equity	

Answer:

Stockholders' equity	
Common stock, \$0.25 par, 2,000,000 shares authorized, 80,000 shares issued	\$20,000
Paid-in capital in excess of par	1,180,000
Retained earnings	3,200,000
Total stockholder's equity	\$4,400,000

Explanation: This question is not available in MyAccountingLab.

Diff: 2

LO: 13-2

EOC Ref: S13-15

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

Learning Objective 13-3

1) Treasury stock is a corporation's own stock that it has issued and later reacquired.

Answer: TRUE

Diff: 1

LO: 13-3

EOC Ref: E13-17

AACSB: Content/Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

2) The purchase of treasury stock requires a credit to the Common stock account.

Answer: FALSE

Diff: 1

LO: 13-3

EOC Ref: E13-17

AACSB: Content/Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

3) A corporation must record a gain on sale for the sale of treasury stock at an amount greater than its purchase price.

Answer: FALSE

Diff: 1

LO: 13-3

EOC Ref: E13-17

AACSB: Content/Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

4) One of the reasons for acquiring treasury stock is to avoid a hostile takeover by an outside party.

Answer: TRUE

Diff: 1

LO: 13-3

EOC Ref: E13-17

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

5) Please refer to the following information for Petra Sales Company:

- Common stock, \$1.00 par, 200,000 issued, 180,000 outstanding
- Paid-in capital in excess of par: \$1,600,000
- Retained earnings: \$2,440,000
- Treasury stock: 20,000 shares purchased at \$12 per share

If Petra Sales purchases an additional 5,000 shares of treasury stock at \$14 per share, the total equity of the company will go down by \$70,000.

Answer: TRUE

Diff: 1

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

6) Please refer to the following information for Petra Sales Company:

- Common stock, \$1.00 par, 200,000 issued, 180,000 outstanding
- Paid-in capital in excess of par: \$1,600,000
- Retained earnings: \$2,440,000
- Treasury stock: 20,000 shares purchased at \$12 per share

If Petra Sales sells 10,000 shares of treasury stock at \$14 per share, the company will record a gain on the sale of treasury stock of \$20,000.

Answer: FALSE

Diff: 1

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

7) Please refer to the following information for Petra Sales Company:

- Common stock, \$1.00 par, 200,000 issued, 180,000 outstanding
- Paid-in capital in excess of par: \$1,600,000
- Retained earnings: \$2,440,000
- Treasury stock: 20,000 shares purchased at \$12 per share

If Petra Sales sells 10,000 shares of treasury stock at \$14 per share, the number of shares outstanding will go down by 10,000.

Answer: FALSE

Diff: 1

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

8) Please refer to the following information for Peartree Company:

- Common stock, \$1.00 par, 100,000 issued, 95,000 outstanding
- Paid-in capital in excess of par: \$2,150,000
- Retained earnings: \$910,000
- Treasury stock: 5,000 shares purchased at \$20 per share

If Peartree purchases an additional 1,000 shares of treasury stock at \$18 per share, the total equity of the company will go up by \$18,000.

Answer: FALSE

Diff: 1

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

9) Please refer to the following information for Peartree Company:

- Common stock, \$1.00 par, 100,000 issued, 95,000 outstanding
- Paid-in capital in excess of par: \$2,150,000
- Retained earnings: \$910,000
- Treasury stock: 5,000 shares purchased at \$20 per share

If Peartree purchases an additional 1,000 shares of treasury stock at \$18 per share, the company will record a loss of \$2 per share on the transaction.

Answer: FALSE

Diff: 1

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

10) Please refer to the following information for Peartree Company:

- Common stock, \$1.00 par, 100,000 issued, 95,000 outstanding
- Paid-in capital in excess of par: \$2,150,000
- Retained earnings: \$910,000
- Treasury stock: 5,000 shares purchased at \$20 per share

If Peartree resold 1,000 shares of treasury stock for \$24 per share, the total equity of the company would remain unchanged.

Answer: FALSE

Diff: 2

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

11) Please refer to the following information for Peartree Company:

- Common stock, \$1.00 par, 100,000 issued, 95,000 outstanding
- Paid-in capital in excess of par: \$2,150,000
- Retained earnings: \$910,000
- Treasury stock: 5,000 shares purchased at \$20 per share

If Peartree resold 1,000 shares of treasury stock for \$24 per share, the company would record a gain on sale of treasury stock for \$4,000.

Answer: FALSE

Diff: 1

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

12) Please refer to the following information for Peartree Company:

- Common stock, \$1.00 par, 100,000 issued, 95,000 outstanding
- Paid-in capital in excess of par: \$2,150,000
- Retained earnings: \$910,000
- Treasury stock: 5,000 shares purchased at \$20 per share

If Peartree resold 800 shares of treasury stock for \$15 per share, the total equity of the company would remain unchanged.

Answer: FALSE

Diff: 2

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

13) Please refer to the following information for Peartree Company:

- Common stock, \$1.00 par, 100,000 issued, 95,000 outstanding
- Paid-in capital in excess of par: \$2,150,000
- Retained earnings: \$910,000
- Treasury stock: 5,000 shares purchased at \$20 per share

If Peartree resold 800 shares of treasury stock for \$15 per share, the company would record a loss on the sale of treasury stock for \$4,000.

Answer: FALSE

Diff: 2

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

14) Which of the following statements is TRUE?

- A) The purchase of treasury stock decreases assets and decreases stockholders' equity.
- B) The purchase of treasury stock increases assets and increases stockholders' equity.
- C) The purchase of treasury stock increases assets and decreases stockholders' equity.
- D) The purchase of treasury stock decreases assets and increases stockholders' equity.

Answer: A

Diff: 1

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

15) Which of the following statements is TRUE?

- A) Treasury stock causes the number of issued shares to go down.
- B) Treasury stock causes the number of issued shares to exceed authorized shares.
- C) Treasury stock causes the number of outstanding shares to go up.
- D) Treasury stock causes the number of outstanding shares to go down.

Answer: D

Diff: 1

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

16) What type of account is treasury stock?

- A) Treasury stock is a contra stockholders' equity account.
- B) Treasury stock is a contra asset account.
- C) Treasury stock is liability account.
- D) Treasury stock is a contra liability account.

Answer: A

Diff: 1

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

17) A corporation originally issued \$5 par value stock for \$6 per share. Which of the following would be included in the entry to record the purchase of 200 shares of treasury stock for \$8 per share?

- A) Treasury stock would be debited for \$1,600.
- B) Treasury stock would be credited for \$1,600.
- C) Retained earnings would be debited for \$1,000.
- D) Treasury stock would be debited for \$1,000.

Answer: A

Explanation: A) Calculations: $200 \times \$8 = \$1,600$

Diff: 1

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

18) A corporation originally issued \$8 par value stock for \$9 per share. It purchased the stock for \$10 per share for the treasury. Which of the following would be included in the entry to record the reissue of 20 shares of treasury stock for \$11 per share?

- A) Paid-in capital from treasury stock transactions is credited for \$220.
- B) Treasury stock is credited for \$200.
- C) Treasury stock is credited for \$220.
- D) Paid-in capital from treasury stock transactions is credited for \$200.

Answer: B

Explanation: B) Calculations: $20 \times \$10 = \200

Diff: 2

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

19) Ross Corporation reported the following equity section on its current balance sheet:

Common stock, \$5 par, 140,000 shares authorized, 50,000 shares issued	\$250,000
Paid in capital in excess of par—common	200,000
Retained earnings	207,000
Total stockholders' equity	\$657,000

Which of the following would be included in the entry to record the corporation's purchase of 10,000 shares of its common stock for \$7.50 per share?

- A) Treasury stock would be debited for \$75,000.
- B) Paid-in capital from treasury stock transactions would be credited for \$70,000.
- C) Retained earnings would be debited for \$75,000.
- D) Common stock would be credited for \$50,000.

Answer: A

Explanation: A) Calculations: $10,000 \times \$7.50 = \$75,000$

Diff: 2

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

20) Ross Corporation reported the following equity section on its current balance sheet:

Common stock, \$5 par, 140,000 shares authorized, 50,000 shares issued	\$250,000
Paid in capital in excess of par—common	200,000
Retained earnings	207,000
Total stockholders' equity	\$657,000

Which of the following would occur if the corporation purchased 15,000 shares of its common stock for \$9.50 per share?

- A) Stockholders' equity would increase by \$142,500.
- B) Stockholders' equity would decrease by \$75,000.
- C) Stockholders' equity would decrease by \$142,500.
- D) Stockholders' equity would neither increase nor decrease.

Answer: C

Explanation: C) Calculations: Treasury stock: $15,000 \times \$9.50 = \$142,500$

Diff: 2

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

21) Ross Corporation reported the following equity section on its current balance sheet:

Common stock, \$5 par, 140,000 shares authorized, 50,000 shares issued	\$250,000
Paid in capital in excess of par—common	200,000
Retained earnings	207,000
Total stockholders' equity	\$657,000

The corporation purchases 15,000 shares of its common stock at \$9.50 per share. Which of the following is the number of common shares issued and the number of common shares outstanding?

- A) There are 50,000 shares issued and 65,000 shares outstanding.
- B) There are 50,000 shares issued and 35,000 shares outstanding.
- C) There are 50,000 shares issued and 50,000 shares outstanding.
- D) There are 65,000 shares issued and 50,000 shares outstanding.

Answer: B

Explanation: B) Calculations: $50,000 - 15,000 = 35,000$

Diff: 1

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

22) The treasury stock account is:

- A) credited upon purchase of treasury stock.
- B) debited upon purchase of treasury stock.
- C) treated like a common stock account.
- D) deducted from the common stock account and shown as a net amount.

Answer: B

Diff: 1

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

23) Rakish Co. purchases 3,500 shares of its own \$1 par value common stock for \$80 per share. Which of the following is the correct journal entry to record this transaction?

- A) Debit Common stock \$3,500, debit Paid-in capital \$276,500 and credit Cash \$280,000.
- B) Debit Cash \$280,000, credit Common stock \$3,500 and credit Paid-in capital \$276,500.
- C) Debit Cash \$280,000 and credit Treasury stock \$280,000.
- D) Debit Treasury stock \$280,000 and credit Cash \$280,000.

Answer: D

Explanation: D) Calculations: $3,500 \times \$80 = \$280,000$

Diff: 1

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

24) Rakish Co. purchases 3,500 shares of the company's \$6 par value common stock for \$8 per share. It later sells 2,000 shares for \$12 per share. Which of the following is the correct journal entry to record this transaction?

- A) Debit Cash \$24,000 and credit Treasury stock \$24,000.
- B) Debit Cash \$24,000, credit Treasury stock \$16,000 and credit Paid-in capital \$8,000.
- C) Debit Treasury stock \$24,000 and credit Cash \$24,000.
- D) Debit Common stock \$12,000, debit Paid-in capital \$12,000 and credit Cash \$24,000.

Answer: B

Explanation: B) Calculations: $2,000 \times \$12 = \$24,000$
 $2,000 \times \$8 = \$16,000$

Diff: 2

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

25) Please refer to the following information for Petra Sales Company:

- Common stock, \$1.00 par, 200,000 issued, 180,000 outstanding
- Paid-in capital in excess of par: \$1,600,000
- Retained earnings: \$2,440,000
- Treasury stock: 20,000 shares purchased at \$12 per share

If Petra Sales purchases an additional 5,000 shares of treasury stock at \$14 per share, what journal entry is required?

- A) Debit Cash \$70,000 and credit Treasury stock \$70,000.
- B) Debit Treasury stock \$70,000 and credit Cash \$70,000.
- C) Debit Treasury stock \$70,000 and credit Sales revenue \$70,000.
- D) Debit Treasury stock \$60,000, debit Paid-in capital \$10,000 and credit Cash \$70,000.

Answer: B

Explanation: B) Calculations: $5,000 \times \$14 = \$70,000$

Diff: 2

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

26) Please refer to the following information for Petra Sales Company:

- Common stock, \$1.00 par, 200,000 issued, 180,000 outstanding
- Paid-in capital in excess of par: \$1,600,000
- Retained earnings: \$2,440,000
- Treasury stock: 20,000 shares purchased at \$12 per share

If Petra Sales purchases an additional 5,000 shares of treasury stock at \$14 per share, what number of shares will be shown as issued and outstanding?

- A) 175,000 issued; 180,000 outstanding
- B) 195,000 issued; 180,000 outstanding
- C) 200,000 issued; 175,000 outstanding
- D) 200,000 issued; 180,000 outstanding

Answer: C

Explanation: C) Calculations: $180,000 - 5,000 = 175,000$

Diff: 1

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

27) Please refer to the following information for Petra Sales Company:

- Common stock, \$1.00 par, 200,000 issued, 180,000 outstanding
- Paid-in capital in excess of par: \$1,600,000
- Retained earnings: \$2,440,000
- Treasury stock: 20,000 shares purchased at \$12 per share

If Petra Sales sells 10,000 shares of treasury stock at \$14 per share, what journal entry will be made?

- A) Debit Cash \$140,000 and credit Treasury stock \$140,000.
- B) Debit Cash \$140,000, credit Treasury stock \$120,000 and credit Paid-in capital \$20,000.
- C) Debit Treasury stock \$140,000 and credit Cash \$140,000.
- D) Debit Cash \$140,000, credit Treasury stock \$120,000 and credit Gain on sale of treasury stock \$20,000.

Answer: B

Explanation: B) Calculation: $10,000 \times 14 = 140,000$ $10,000 \times 12 = 120,000$

Diff: 3

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

28) Please refer to the following information for Petra Sales Company:

- Common stock, \$1.00 par, 200,000 issued, 180,000 outstanding
- Paid-in capital in excess of par: \$1,600,000
- Retained earnings: \$2,440,000
- Treasury stock: 20,000 shares purchased at \$12 per share

If Petra Sales sells 10,000 shares of treasury stock at \$14 per share, what amounts will be shown for the number of shares issued and outstanding?

- A) 200,000 issued; 190,000 outstanding
- B) 210,000 issued; 190,000 outstanding
- C) 210,000 issued; 180,000 outstanding
- D) 200,000 issued; 170,000 outstanding

Answer: A

Explanation: A) Calculations: $180,000 + 10,000 = 190,000$

Diff: 3

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

29) Please refer to the following information for Petra Sales Company:

- Common stock, \$1.00 par, 200,000 issued, 180,000 outstanding
- Paid-in capital in excess of par: \$1,600,000
- Retained earnings: \$2,440,000
- Treasury stock: 20,000 shares purchased at \$12 per share

If Petra Sales sells 10,000 shares of treasury stock at \$14 per share, which of the following would be TRUE?

- A) Retained earnings will go up.
- B) The Treasury stock account balance will increase.
- C) A gain on sale will be recorded.
- D) Paid-in capital will increase.

Answer: D

Diff: 3

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

30) Please refer to the following information for Peartree Company:

- Common stock, \$1.00 par, 100,000 issued, 95,000 outstanding
- Paid-in capital in excess of par: \$2,150,000
- Retained earnings: \$910,000
- Treasury stock: 5,000 shares purchased at \$20 per share

If Peartree purchases an additional 1,000 shares of treasury stock at \$18 per share, what journal entry will be required?

- A) Debit Treasury stock \$18,000 and credit Retained earnings \$18,000.
- B) Debit Treasury stock \$20,000, credit Loss on sale \$2,000 and credit Cash \$18,000.
- C) Debit Treasury stock \$18,000 and credit Cash \$18,000.
- D) Debit Cash \$18,000 and credit Treasury stock \$18,000.

Answer: C

Explanation: C) Calculations: $1,000 \times \$18 = \$18,000$

Diff: 1

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

31) Please refer to the following information for Peartree Company:

- Common stock, \$1.00 par, 100,000 issued, 95,000 outstanding
- Paid-in capital in excess of par: \$2,150,000
- Retained earnings: \$910,000
- Treasury stock: 5,000 shares purchased at \$20 per share

If Peartree purchases an additional 1,000 shares of treasury stock at \$18 per share, what amounts will be shown for the number of shares issued and outstanding?

- A) 100,000 issued; 94,000 outstanding
- B) 99,000 issued; 95,000 outstanding
- C) 100,000 issued; 96,000 outstanding
- D) 101,000 issued; 99,000 outstanding

Answer: A

Explanation: A) Calculations: $95,000 - 1,000 = 94,000$

Diff: 1

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

32) Please refer to the following information for Peartree Company:

- Common stock, \$1.00 par, 100,000 issued, 95,000 outstanding
- Paid-in capital in excess of par: \$2,150,000
- Retained earnings: \$910,000
- Treasury stock: 5,000 shares purchased at \$20 per share

If Peartree purchases an additional 1,000 shares of treasury stock at \$18 per share, which of the following statements would be TRUE?

- A) Total equity of the company would remain unchanged.
- B) Total equity of the company would go up by \$18,000.
- C) Total equity of the company would go down by \$18,000.
- D) Total equity of the company would go down by \$2,000.

Answer: C

Explanation: C) Calculations: $1,000 \times \$18 = \$18,000$

Diff: 1

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

33) Please refer to the following information for Peartree Company:

- Common stock, \$1.00 par, 100,000 issued, 95,000 outstanding
- Paid-in capital in excess of par: \$2,150,000
- Retained earnings: \$910,000
- Treasury stock: 5,000 shares purchased at \$20 per share

If Peartree purchases an additional 1,000 shares of treasury stock at \$18 per share, which of the following statements would be TRUE?

- A) The Treasury stock account would go down by \$18,000.
- B) The Paid-in capital account would not be affected.
- C) The Retained earnings account would go down by \$2,000.
- D) The Paid-in capital account would go down by \$2,000.

Answer: B

Diff: 2

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

34) Please refer to the following information for Peartree Company:

- Common stock, \$1.00 par, 100,000 issued, 95,000 outstanding
- Paid-in capital in excess of par: \$2,150,000
- Retained earnings: \$910,000
- Treasury stock: 5,000 shares purchased at \$20 per share

If Peartree resold 1,000 shares of treasury stock for \$24 per share, what journal entry would be required?

- A) Debit Treasury stock \$24,000 and credit Cash \$24,000.
- B) Debit Treasury stock \$20,000, debit Paid-in capital \$2,000 and credit Cash \$24,000.
- C) Debit Cash \$24,000 and credit Treasury stock \$24,000.
- D) Debit Cash \$24,000, credit Treasury stock \$20,000 and credit Paid-in capital \$4,000.

Answer: D

Diff: 2

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

35) Please refer to the following information for Peartree Company:

- Common stock, \$1.00 par, 100,000 issued, 95,000 outstanding
- Paid-in capital in excess of par: \$2,150,000
- Retained earnings: \$910,000
- Treasury stock: 5,000 shares purchased at \$20 per share

If Peartree resold 1,000 shares of treasury stock for \$24 per share, what amounts would be shown for number of shares issued and outstanding?

- A) 100,000 issued; 96,000 outstanding
- B) 100,000 issued; 94,000 outstanding
- C) 101,000 issued; 96,000 outstanding
- D) 95,000 issued; 94,000 outstanding

Answer: A

Diff: 2

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

36) Please refer to the following information for Peartree Company:

- Common stock, \$1.00 par, 100,000 issued, 95,000 outstanding
- Paid-in capital in excess of par: \$2,150,000
- Retained earnings: \$910,000
- Treasury stock: 5,000 shares purchased at \$20 per share

If Peartree resold 1,000 shares of treasury stock for \$24 per share, which of the following statements would be TRUE?

- A) Total equity of the company would remain unchanged.
- B) Total equity of the company would go up by \$24,000.
- C) Total equity of the company would go down by \$24,000.
- D) Total equity of the company would go up by \$4,000.

Answer: B

Explanation: B) Calculations: $1,000 \times \$24 = \$24,000$

Diff: 3

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

37) Please refer to the following information for Peartree Company:

- Common stock, \$1.00 par, 100,000 issued, 95,000 outstanding
- Paid-in capital in excess of par: \$2,150,000
- Retained earnings: \$910,000
- Treasury stock: 5,000 shares purchased at \$20 per share

If Peartree resold 1,000 shares of treasury stock for \$24 per share, which of the following statements would be TRUE?

- A) The Treasury stock account would go down by \$20,000.
- B) The Paid-in capital account would not be affected.
- C) The Treasury stock account would go up by \$24,000.
- D) The Paid-in capital account would go down by \$4,000.

Answer: A

Explanation: A) Calculations: $1,000 \times \$20 = \$20,000$

Diff: 2

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

38) Please refer to the following information for Peartree Company:

- Common stock, \$1.00 par, 100,000 issued, 95,000 outstanding
- Paid-in capital in excess of par: \$2,150,000
- Retained earnings: \$910,000
- Treasury stock: 5,000 shares purchased at \$20 per share

(Assume there are no balances in Paid-in capital from treasury stock transactions.)

If Peartree resold 800 shares of treasury stock for \$15 per share, what journal entry would be required?

- A) Debit Treasury stock \$16,000, debit Loss on sale \$4,000 and credit Cash \$20,000.
- B) Debit Treasury stock \$12,000 and credit Cash \$12,000.
- C) Debit Cash \$12,000 and credit Treasury stock \$12,000.
- D) Debit Cash \$12,000, debit Retained earnings \$4,000 and credit Treasury stock \$16,000.

Answer: D

Explanation: D) Calculations: $800 \times \$15 = \$12,000$

Diff: 3

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

39) Please refer to the following information for Peartree Company:

- Common stock, \$1.00 par, 100,000 issued, 95,000 outstanding
- Paid-in capital in excess of par: \$2,150,000
- Retained earnings: \$910,000
- Treasury stock: 5,000 shares purchased at \$20 per share

If Peartree resold 800 shares of treasury stock for \$15 per share, what amounts would be shown for the number of shares issued and outstanding?

- A) 100,800 issued; 95,000 outstanding
- B) 100,000 issued; 95,800 outstanding
- C) 100,000 issued; 94,200 outstanding
- D) 100,000 issued; 5,800 outstanding

Answer: B

Explanation: B) Calculations: $95,000 + 800 = 95,800$

Diff: 2

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

40) Please refer to the following information for Peartree Company:

- Common stock, \$1.00 par, 100,000 issued, 95,000 outstanding
- Paid-in capital in excess of par: \$2,150,000
- Retained earnings: \$910,000
- Treasury stock: 5,000 shares purchased at \$20 per share

If Peartree resold 800 shares of treasury stock for \$15 per share, which of the following statements would be TRUE?

- A) The total equity of the company would be unchanged.
- B) The total equity of the company would go up by \$12,000.
- C) The total equity of the company would go down by \$12,000.
- D) The total equity of the company would go down by \$4,000.

Answer: B

Explanation: B) Calculations: $800 \times \$15 = \$12,000$

Diff: 3

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

41) Please refer to the following information for Peartree Company:

- Common stock, \$1.00 par, 100,000 issued, 95,000 outstanding
- Paid-in capital in excess of par: \$2,150,000
- Retained earnings: \$910,000
- Treasury stock: 5,000 shares purchased at \$20 per share

If Peartree resold 800 shares of treasury stock for \$15 per share, which of the following statements would be TRUE?

- A) The Treasury stock account would go down by \$12,000.
- B) The Paid-in capital account would go up by \$4,000.
- C) The Treasury stock account would go down by \$16,000.
- D) The Retained earnings account would go up by \$4,000.

Answer: C

Explanation: C) Calculations: $800 \times \$20 = \$16,000$

Diff: 3

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

42) At March 31, 2014, the Park Place Company shows the following data on their balance sheet:

Stockholders' equity	
Common stock, \$1 par, 1,000,000 shares authorized, 120,000 shares issued, 110,000 shares outstanding	\$120,000
Paid-in capital in excess of par	2,470,000
Retained earnings	5,440,000
Treasury stock, 10,000 shares at \$25	(250,000)
Total stockholder's equity	\$7,780,000

Assume Park Place purchases an additional 2,000 shares of treasury stock at \$25 per share. What will the total equity be after this transaction?

- A) \$7,802,000
- B) \$7,800,000
- C) \$7,830,000
- D) \$7,730,000

Answer: D

Explanation: D) Calculations: $\$7,780,000 - (2,000 \times \$25) = \$7,730,000$

Diff: 3

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

43) At March 31, 2014, the Park Place Company shows the following data on their balance sheet:

Stockholders' equity	
Common stock, \$1 par, 1,000,000 shares authorized, 120,000 shares issued, 110,000 shares outstanding	\$120,000
Paid-in capital in excess of par	2,470,000
Retained earnings	5,440,000
Treasury stock, 10,000 shares at \$25	(250,000)
Total stockholder's equity	\$7,780,000

Assume that Park Place sells 900 shares of treasury stock at \$32 per share. What will the total equity be after this transaction?

- A) \$7,751,200
- B) \$7,808,800
- C) \$7,780,900
- D) \$7,730,000

Answer: B

Explanation: B) Calculations: $\$7,780,000 + (900 \times \$32) = \$7,808,800$

Diff: 3

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

44) Which of the following is a common reason for companies to retire preferred stock?

- A) To stop paying out dividends to preferred shareholders
- B) To make a profit on the retirement of preferred stock
- C) To reward the preferred shareholders
- D) To increase stockholders' equity

Answer: A

Diff: 1

LO: 13-3

EOC Ref: E13-17

AACSB: Content/Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

45) If a company retires preferred stock, which of the following is TRUE?

- A) Total equity will decrease.
- B) Total equity will increase.
- C) The company can record a gain or loss on retirement of stock.
- D) The number of outstanding shares will go up.

Answer: A

Diff: 1

LO: 13-3

EOC Ref: E13-17

AACSB: Content/Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

46) Rakish Co. purchases 3,500 shares of the company's \$6 par common stock for \$8/share. Journalize the transaction.

Answer:

Treasury stock	280,000	
Cash		280,000

Explanation: Calculations: $3,500 \times \$8 = \$280,000$

This question is not available in MyAccountingLab.

Diff: 1

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

47) Rakish Co. purchases 3,500 shares of the company's \$6 par value common stock for \$8 per share. It later sells 2,000 shares for \$12 per share. Please provide the journal entry for the sale of the treasury stock.

Answer:

Cash	24,000	
Treasury stock		16,000
Paid-in capital from treasury stock transactions		8,000

Explanation: Calculations: $2,000 \times \$12 = \$24,000$
 $2,000 \times \$8 = \$16,000$

This question is not available in MyAccountingLab.

Diff: 2

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

48) At March 31, 2014, the Park Place Company shows the following data on their balance sheet:

Stockholders' equity	
Common stock, \$1 par, 1,000,000 shares authorized, 120,000 shares issued, 110,000 shares outstanding	\$120,000
Paid-in capital in excess of par	2,470,000
Retained earnings	5,440,000
Treasury stock, 10,000 shares at \$25	(250,000)
Total stockholder's equity	\$7,780,000

Assume Park Place purchases an additional 2,000 shares of treasury stock at \$25 per share. Please restate the equity section of the balance sheet to properly reflect the transaction.

Stockholders' equity	

Answer:

Stockholders' equity	
Common stock, \$1 par, 1,000,000 shares authorized, 120,000 shares issued, 108,000 shares outstanding	\$120,000
Paid-in capital in excess of par	2,470,000
Retained earnings	5,440,000
Treasury stock, 12,000 shares at \$25	(300,000)
Total stockholder's equity	\$7,730,000

Explanation: This question is not available in MyAccountingLab.

Diff: 3

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

49) At March 31, 2014, the Park Place Company shows the following data on their balance sheet:

Stockholders' equity	
Common stock, \$1 par, 1,000,000 shares authorized, 120,000 shares issued, 110,000 shares outstanding	\$120,000
Paid-in capital in excess of par	2,470,000
Retained earnings	5,440,000
Treasury stock, 10,000 shares at \$25	(250,000)
Total stockholder's equity	\$7,780,000

Assume that Park Place sells 900 shares of treasury stock at \$32 per share. Please restate the equity section of the balance sheet to reflect that transaction.

Stockholders' equity	

Answer:

Stockholders' equity	
Common stock, \$1 par, 1,000,000 shares authorized, 120,000 shares issued, 110,900 shares outstanding	\$120,000
Paid-in capital in excess of par & Paid-in capital— treasury stock	2,476,300
Retained earnings	5,440,000
Treasury stock, 9,100 shares at \$25	(227,500)
Total stockholder's equity	\$7,808,800

Explanation: This question is not available in MyAccountingLab.

Diff: 3

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

50) At March 31, 2014, the Park Place Company shows the following data on their balance sheet:

Stockholders' equity	
Common stock, \$1 par, 1,000,000 shares authorized, 120,000 shares issued, 110,000 shares outstanding	\$120,000
Paid-in capital in excess of par	2,470,000
Retained earnings	5,440,000
Treasury stock, 10,000 shares at \$25	(250,000)
Total stockholder's equity	\$7,780,000

Assume that Park Place sells 2,500 shares of treasury stock at \$20 per share. Please restate the equity section of the balance sheet to reflect that transaction.

Stockholders' equity	

Answer:

Stockholders' equity	
Common stock, \$1 par, 1,000,000 shares authorized, 120,000 shares issued, 112,500 shares outstanding	\$120,000
Paid-in capital in excess of par	2,470,000
Retained earnings	5,427,500
Treasury stock, 7,500 shares at \$25	(187,500)
Total stockholder's equity	\$7,830,000

Explanation: This question is not available in MyAccountingLab.

Diff: 3

LO: 13-3

EOC Ref: E13-17

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

Learning Objective 13-4

1) Lenders may restrict the amount of treasury stock a corporation may purchase in order to ensure a minimum level of stockholders' equity.

Answer: TRUE

Diff: 1

LO: 13-4

EOC Ref: E13-18

AACSB: Content/Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

2) Companies usually report their retained earnings restrictions on the balance sheet.

Answer: FALSE

Diff: 1

LO: 13-4

EOC Ref: E13-18

AACSB: Content/Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

3) If a company wanted to put a limit on cash dividends to ensure they would have enough retained earnings for a specific project intended to expand and grow the company, the appropriation of a portion of retained earnings would be a good strategy.

Answer: TRUE

Diff: 2

LO: 13-4

EOC Ref: E13-18

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

4) If a company's lenders wanted to ensure that the company maintained adequate levels of equity to pay back their loans, a good strategy would be to impose restrictions on dividend payments and purchases of treasury stock.

Answer: TRUE

Diff: 2

LO: 13-4

EOC Ref: E13-18

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

5) The entry to record an appropriation of retained earnings requires a debit to Retained earnings and a credit to Cash.

Answer: FALSE

Diff: 1

LO: 13-4

EOC Ref: E13-18

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

6) Which of the following statements is TRUE?

A) Restrictions on retained earnings require adjusting journal entries.

B) Restrictions on retained earnings are usually reported in the notes to the financial statements.

C) Restrictions on retained earnings are disclosed on the income statement.

D) Restrictions on retained earnings are designed to maximize dividends paid to shareholders.

Answer: B

Diff: 2

LO: 13-4

EOC Ref: E13-18

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

7) Which of the following would be a reason for a company to restrict its cash dividends or treasury stock purchases?

- A) Because the company needs treasury stock to offer as performance incentives to upper management
- B) In order to give shareholders stock dividends
- C) Due to the desire of shareholders to retain the company's earnings for future growth and capital expenditures
- D) Due to requirements of lenders or creditors that companies maintain enough equity to meet their obligations

Answer: D

Diff: 2

LO: 13-4

EOC Ref: E13-18

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

8) Which of the following BEST describes restrictions on cash dividends and treasury stock purchases?

- A) Restrictions on cash payments that are made to ensure higher reported profits
- B) Limits required by lenders or creditors to ensure that the company maintains adequate levels of equity
- C) Restrictions on payments made by the shareholders to lower federal income tax expense
- D) Limits that are established to boost sales revenues

Answer: B

Diff: 2

LO: 13-4

EOC Ref: E13-18

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

9) Which of the following BEST describes the appropriation of retained earnings?

- A) Earmarking certain amounts for specific business purposes, such as for growth or expansion projects
- B) Restricting cash dividends or treasury stock purchases so that the company maintains adequate levels of equity
- C) Designating certain amounts of retained earnings for cash dividends to be paid out to shareholders
- D) Limiting company transactions in order to boost earnings and profits

Answer: A

Diff: 2

LO: 13-4

EOC Ref: E13-18

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

10) Which of the following would be a reason for a company to appropriate a portion of retained earnings?

- A) To ensure that the business does not take on too much debt
- B) To increase the amount of earnings available for dividends
- C) To help the company control levels of operating expenses
- D) To limit the amount of retained earnings available for dividends, in order to retain sufficient funds for growth

Answer: D

Diff: 2

LO: 13-4

EOC Ref: E13-18

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

11) Which of the following statements is TRUE?

- A) Appropriations of retained earnings require journal entries, but restrictions on retained earnings do not.
- B) No journal entries are needed to either appropriate or restrict retained earnings.
- C) Both appropriations and restrictions of retained earnings require journal entries.
- D) Restrictions on retained earnings must be journalized, but appropriations do not need to be journalized.

Answer: A

Diff: 2

LO: 13-4

EOC Ref: E13-18

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

Learning Objective 13-5

1) Gains and losses from the disposal of old plant and equipment are reported as other gains or losses in the multi-step income statement.

Answer: TRUE

Diff: 1

LO: 13-5

EOC Ref: E13-19

AACSB: Content/Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

2) The sale or other disposition of a segment of a business is recorded as an extraordinary gain or loss.

Answer: FALSE

Diff: 1

LO: 13-5

EOC Ref: E13-19

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

3) Public companies are required to publish financial statements, but privately held companies are generally not required to do so.

Answer: TRUE

Diff: 2

LO: 13-5

EOC Ref: E13-19

AACSB: Content/Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

4) Prior period adjustments are shown as an adjustment to the beginning balance of Retained earnings, as reported on the statement of retained earnings.

Answer: TRUE

Diff: 1

LO: 13-5

EOC Ref: S13-11

AACSB: Content/Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

5) Comprehensive income is the company's change in total stockholders' equity from all sources other than its owners, and sometimes includes items not found on the income statement.

Answer: TRUE

Diff: 1

LO: 13-5

EOC Ref: S13-10

AACSB: Content/Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

6) Certain types of transactions, other than dividend payments, that are NOT included in the income statement, but have an effect on retained earnings would be treated as part of comprehensive income.

Answer: TRUE

Diff: 1

LO: 13-5

EOC Ref: S13-10

AACSB: Content/Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

7) Comprehensive income is equal to the net income of a company, excluding the effects of discontinued operations and extraordinary items.

Answer: FALSE

Diff: 1

LO: 13-5

EOC Ref: S13-10

AACSB: Content/Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

8) RT Corp. shows a loss from flooding of \$235,000 for the year. Flooding is not uncommon in the area, and so this loss will be included in operating income.

Answer: TRUE

Diff: 1

LO: 13-5

EOC Ref: E13-19

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

9) Companies are NOT allowed to combine the income statement and the statement of retained earnings, but must show them as two separate reports.

Answer: FALSE

Diff: 1

LO: 13-5

EOC Ref: E13-23

AACSB: Content/Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

10) Which of the following BEST describes *operating income*?

- A) The gains and losses from transactions that are not part of the normal operations of the business
- B) The income or loss from segments of the business that have been sold or terminated
- C) The income or loss generated from unusual or infrequent events
- D) The income or loss generated from the normal operations of the business

Answer: D

Diff: 1

LO: 13-5

EOC Ref: E13-19

AACSB: Content/Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

11) Which of the following best describes *other gains (losses)* on the income statement?

- A) The gains and losses from transactions that are not part of the normal operations of the business
- B) The income or loss from segments of the business that have been sold or terminated
- C) The income or loss generated from unusual and infrequent events
- D) The income or loss generated from the normal operations of the business

Answer: A

Diff: 1

LO: 13-5

EOC Ref: E13-19

AACSB: Content/Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

12) Which of the following best describes *extraordinary items* on the income statement?

- A) The gains and losses from transactions that are not part of the normal operations of the business
- B) The income or loss from segments of the business that have been sold or terminated
- C) The income or loss generated from unusual and infrequent events
- D) The income or loss generated from the normal operations of the business

Answer: C

Diff: 1

LO: 13-5

EOC Ref: E13-19

AACSB: Content/Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

13) Which of the following best describes *discontinued operations* on the income statement?

- A) The gains and losses from transactions that are not part of the normal operations of the business
- B) The income or loss from segments of the business that have been sold or terminated
- C) The income or loss generated from unusual or infrequent events
- D) The income or loss generated from the normal operations of the business

Answer: B

Diff: 1

LO: 13-5

EOC Ref: E13-19

AACSB: Content/Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

14) For the year 2013, Foxmore Company reports the following items as part of their financial results:

Sales revenues from regular business operations	\$3,000,000
Cost of goods sold	900,000
Operating expenses from their regular business operations	600,000
Gain on disposal of several items of property, plant & equipment	15,000
Income tax expense on continuing operations	330,000
Loss on the termination of a discontinued business segment, net of tax	120,000
Losses on damage caused by earthquake, net of tax	280,000

How much is total operating income (loss)?

A) \$1,065,000

B) \$1,500,000

C) \$1,515,000

D) \$1,185,500

Answer: B

Explanation: B) Calculations: $\$3,000,000 - \$900,000 - \$600,000 = \$1,500,000$

Diff: 1

LO: 13-5

EOC Ref: E13-19

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

15) For the year 2013, Foxmore Company reports the following items as part of their financial results:

Sales revenues from regular business operations	\$3,000,000
Cost of goods sold	900,000
Operating expenses from their regular business operations	600,000
Gain on disposal of several items of property, plant & equipment	15,000
Income tax expense on continuing operations	330,000
Loss on the termination of a discontinued business segment, net of tax	120,000
Losses on damage caused by earthquake, net of tax	280,000

How much is the income (loss) from continuing operations, before tax?

A) \$1,065,000

B) \$1,500,000

C) \$1,515,000

D) \$1,185,500

Answer: C

Explanation: C) Calculations: $\$3,000,000 - \$900,000 - \$600,000 + \$15,000 = \$1,515,000$

Diff: 1

LO: 13-5

EOC Ref: E13-19

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

16) For the year 2013, Foxmore Company reports the following items as part of their financial results:

Sales revenues from regular business operations	\$3,000,000
Cost of goods sold	900,000
Operating expenses from their regular business operations	600,000
Gain on disposal of several items of property, plant & equipment	15,000
Income tax expense on continuing operations	330,000
Loss on the termination of a discontinued business segment, net of tax	120,000
Losses on damage caused by earthquake, net of tax	280,000

How much is the income (loss) from continuing operations, after tax?

- A) \$1,065,000
- B) \$1,500,000
- C) \$1,515,000
- D) \$1,185,000

Answer: D

Explanation: D) Calculations: $\$3,000,000 - \$900,000 - \$600,000 + \$15,000 - \$330,000 = \$1,185,000$

Diff: 1

LO: 13-5

EOC Ref: E13-19

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

17) For the year 2013, Foxmore Company reports the following items as part of their financial results:

Sales revenues from regular business operations	\$3,000,000
Cost of goods sold	900,000
Operating expenses from their regular business operations	600,000
Gain on disposal of several items of property, plant & equipment	15,000
Income tax expense on continuing operations	330,000
Loss on the termination of a discontinued business segment, net of tax	120,000
Losses on damage caused by earthquake, net of tax	280,000

How much is the income (loss) before extraordinary items?

- A) \$1,065,000
- B) \$1,500,000
- C) \$1,515,000
- D) \$1,185,000

Answer: A

Explanation: A) Calculations: $\$3,000,000 - \$900,000 - \$600,000 + \$15,000 - \$330,000 - \$120,000 = \$1,065,000$

Diff: 1

LO: 13-5

EOC Ref: E13-19

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

18) For the year 2013, Foxmore Company reports the following items as part of their financial results:

Sales revenues from regular business operations	\$3,000,000
Cost of goods sold	900,000
Operating expenses from their regular business operations	600,000
Gain on disposal of several items of property, plant & equipment	15,000
Income tax expense on continuing operations	330,000
Loss on the termination of a discontinued business segment, net of tax	120,000
Losses on damage caused by earthquake, net of tax	280,000

How much is the "bottom line" net income (loss)?

- A) \$1,065,000
- B) \$1,500,000
- C) \$1,515,000
- D) \$785,000

Answer: D

Explanation: D) Calculations: $\$3,000,000 - \$900,000 - \$600,000 + \$15,000 - \$330,000 - \$120,000 - \$280,000 = \$785,000$

Diff: 1

LO: 13-5

EOC Ref: E13-19

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

19) At January 1, 2014, Foxmore Company had 80,000 shares of common stock outstanding and no preferred stock. During the year, they issued 40,000 additional shares of common stock. At December 31, 2014, Foxmore had 120,000 shares of common stock outstanding, and no preferred stock. In addition, Foxmore reported the following results for the year 2014:

Sales revenues from regular business operations	\$3,000,000
Cost of goods sold	900,000
Operating expenses from their regular business operations	600,000
Gain on disposal of several items of property, plant & equipment	15,000
Income tax expense on continuing operations	330,000
Loss on the termination of a discontinued business segment, net of tax	120,000
Losses on damage caused by earthquake, net of tax	280,000

At December 31, 2014, how much is the earnings per share for income (loss) from continuing operations? (Please round all calculations to the nearest cent.)

- A) \$(1.20)
- B) \$7.85
- C) \$10.65
- D) \$11.85

Answer: D

Explanation: D) Calculations: $\$1,185,000 / [(\$80,000 + \$120,000)/2] = \11.85

Diff: 2

LO: 13-5

EOC Ref: E13-20

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

20) At January 1, 2014, Foxmore Company had 80,000 shares of common stock outstanding and no preferred stock. During the year, they issued 40,000 additional shares of common stock. At December 31, 2014, Foxmore had 120,000 shares of common stock outstanding, and no preferred stock. In addition, Foxmore reported the following results for the year 2014:

Sales revenues from regular business operations	\$3,000,000
Cost of goods sold	900,000
Operating expenses from their regular business operations	600,000
Gain on disposal of several items of property, plant & equipment	15,000
Income tax expense on continuing operations	330,000
Loss on the termination of a discontinued business segment, net of tax	120,000
Losses on damage caused by earthquake, net of tax	280,000

At December 31, 2014, how much is the earnings per share for income (loss) from discontinued operations? (Please round all calculations to the nearest cent.)

A) \$(1.20)

B) \$7.85

C) \$10.65

D) \$(2.80)

Answer: A

Explanation: A) Calculations: $(\$120,000) / [(\$80,000 + \$120,000)/2] = (\$1.20)$

Diff: 2

LO: 13-5

EOC Ref: E13-20

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

21) At January 1, 2014, Foxmore Company had 80,000 shares of common stock outstanding and no preferred stock. During the year, they issued 40,000 additional shares of common stock. At December 31, 2014, Foxmore had 120,000 shares of common stock outstanding, and no preferred stock. In addition, Foxmore reported the following results for the year 2014:

Sales revenues from regular business operations	\$3,000,000
Cost of goods sold	900,000
Operating expenses from their regular business operations	600,000
Gain on disposal of several items of property, plant & equipment	15,000
Income tax expense on continuing operations	330,000
Loss on the termination of a discontinued business segment, net of tax	120,000
Losses on damage caused by earthquake, net of tax	280,000

At December 31, 2014, how much is the earnings per share for income (loss) before extraordinary items?
(Please round all calculations to the nearest cent.)

A) \$(1.20)

B) \$7.85

C) \$10.65

D) \$(2.80)

Answer: C

Explanation: C) Calculations: $\$1,065,000 / [(\$80,000 + \$120,000)/2] = \10.65

Diff: 2

LO: 13-5

EOC Ref: E13-20

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

22) At January 1, 2014, Foxmore Company had 80,000 shares of common stock outstanding and no preferred stock. During the year, they issued 40,000 additional shares of common stock. At December 31, 2014, Foxmore had 120,000 shares of common stock outstanding, and no preferred stock. In addition, Foxmore reported the following results for the year 2014:

Sales revenues from regular business operations	\$3,000,000
Cost of goods sold	900,000
Operating expenses from their regular business operations	600,000
Gain on disposal of several items of property, plant & equipment	15,000
Income tax expense on continuing operations	330,000
Loss on the termination of a discontinued business segment, net of tax	120,000
Losses on damage caused by earthquake, net of tax	280,000

At December 31, 2014, how much is the earnings per share for income (loss) for extraordinary items?
(Please round all calculations to the nearest cent.)

A) \$(1.20)

B) \$7.85

C) \$10.65

D) \$(2.80)

Answer: D

Explanation: D) Calculations: $(\$280,000) / [(\$80,000 + \$120,000)/2] = (\$2.80)$

Diff: 2

LO: 13-5

EOC Ref: E13-20

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

23) At January 1, 2014, Foxmore Company had 80,000 shares of common stock outstanding and no preferred stock. During the year, they issued 40,000 additional shares of common stock. At December 31, 2014, Foxmore had 120,000 shares of common stock outstanding, and no preferred stock. In addition, Foxmore reported the following results for the year 2014:

Sales revenues from regular business operations	\$3,000,000
Cost of goods sold	900,000
Operating expenses from their regular business operations	600,000
Gain on disposal of several items of property, plant & equipment	15,000
Income tax expense on continuing operations	330,000
Loss on the termination of a discontinued business segment, net of tax	120,000
Losses on damage caused by earthquake, net of tax	280,000

At December 31, 2014, how much is the earnings per share for total net income (loss)?
(Please round all calculations to the nearest cent.)

- A) \$(1.20)
- B) \$7.85
- C) \$10.65
- D) \$(2.80)

Answer: B

Explanation: B) Calculations: $\$785,000 / [(\$80,000 + \$120,000) / 2] = (\$7.85)$

Diff: 2

LO: 13-5

EOC Ref: E13-20

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

24) During the current year, a corporation has 2,000 shares of 10%, \$50 par, cumulative preferred stock outstanding and 6,000 shares of \$10 par common stock outstanding. The company has net income of \$53,000 and paid all preferred dividends as usual. Compute earnings per share. Round all amounts to nearest cent.

- A) \$7.17
- B) \$8.83
- C) \$5.38
- D) \$6.63

Answer: A

Explanation: A) Calculations: $\$53,000 - (2,000 \times 5) = \$43,000$
 $\$43,000 / 6,000 = \7.17

Diff: 3

LO: 13-5

EOC Ref: S13-20

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

25) What are the conditions that must be TRUE for an event to be considered extraordinary?

- A) The event must be infrequent, but not unusual, to be considered extraordinary.
- B) The event must be both infrequent and unusual to be considered extraordinary.
- C) The event must be unusual, but not infrequent, to be considered extraordinary.
- D) Infrequent and unusual are not requirements for an event to be considered extraordinary.

Answer: B

Diff: 1

LO: 13-5

EOC Ref: E13-19

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

26) A corporation closes a facility and moves to a new location. How would a loss on the disposal of the equipment at the closed facility be reported on an income statement?

- A) As an operating expense in net income from continuing operations
- B) As a component of discontinued operations
- C) As an extraordinary loss
- D) As another loss in net income from continuing operations

Answer: B

Diff: 1

LO: 13-5

EOC Ref: E13-19

AACSB: Content/Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

27) A corporation has net income of \$365,000 for the current year. It paid its required preferred dividend of \$17,500 and had no other stock transactions during the year. The average number of common shares outstanding during the year was 69,500. What is the earnings per share?

- A) \$5.84
- B) \$5.00
- C) \$4.37
- D) \$1.00

Answer: B

Explanation: B) Calculations: $\$365,000 - \$17,500 = \$347,500$
 $\$347,500 / 69,500 = \5.00

Diff: 2

LO: 13-5

EOC Ref: E13-20

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

28) Which of the following items is NOT included in comprehensive income?

- A) Net income
- B) Foreign-currency translation adjustments
- C) Unrealized gains or losses on certain investments
- D) Contingent liabilities

Answer: D

Diff: 1

LO: 13-5

EOC Ref: S13-10

AACSB: Content/Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

29) Which of the following items would NOT be shown on a combined statement of income and retained earnings?

- A) Net income
- B) Accumulated depreciation
- C) Dividends paid
- D) Retained earnings beginning balance

Answer: B

Diff: 1

LO: 13-5

EOC Ref: E13-23

AACSB: Content/Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

30) Which of the following statements is TRUE about prior period adjustments?

- A) Prior period adjustments require a complete restatement of prior year financial reports.
- B) Prior period adjustments are shown on the statement of retained earnings as corrections to the beginning balance.
- C) Prior period adjustments affect balance sheet accounts only, and must be included on single-step income statements.
- D) Prior period adjustments must be included as a separate line item on a multi-step income statement.

Answer: B

Diff: 1

LO: 13-5

EOC Ref: S13-11

AACSB: Content/Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

31) Alexander Company reported the ending balance of Retained earnings as \$400,000 on December 31, 2013. During the first month of 2014, they discovered an error in the ledger which had the effect of overstating net income in 2013 by \$45,000. At the end of 2014, they included this item as a prior period adjustment. Year 2014 results included \$52,000 of net income and \$15,000 of dividends paid. What amount would be shown as the ending balance of Retained earnings on the December 31, 2014 financial statements?

- A) \$430,000
- B) \$347,000
- C) \$437,000
- D) \$392,000

Answer: D

Explanation: D) Calculations: $\$400,000 - \$45,000 = \$355,000$
 $\$355,000 + \$52,000 - \$15,000 = \$392,000$

Diff: 2

LO: 13-5

EOC Ref: S13-11

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

32) Unrealized gains or losses on certain investments, foreign currency translation adjustments, gains and losses from post-retirement benefit plans, and deferred gains and losses from derivatives are subject to specialized accounting treatment. These items would normally be found on the:

- A) statement of comprehensive income.
- B) income statement, included with extraordinary items.
- C) statement of net cash flow.
- D) balance sheet under liabilities.

Answer: A

Diff: 1

LO: 13-5

EOC Ref: S13-10

AACSB: Content/Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

33) At January 1, 2013, Foxmore Company had 80,000 shares of common stock outstanding and no preferred stock. During the year, they issued 40,000 additional shares of common stock. At December 31, 2013, Foxmore had 120,000 shares of common stock outstanding, and no preferred stock. In addition, Foxmore reported the following results for the year 2013:

Sales revenues from regular business operations	\$3,000,000
Cost of goods sold	900,000
Operating expenses from their regular business operations	600,000
Gain on disposal of several items of property, plant & equipment	15,000
Income tax expense on continuing operations	330,000
Loss on the termination of a discontinued business segment, net of tax	120,000
Losses on damage caused by earthquake, net of tax	280,000

Please prepare a multi-step income statement from the above data. Do not include earnings per share information.

Foxmore Company
Income Statement
Year Ended December 31, 2013

Answer:

Foxmore Company
Income Statement
Year Ended December 31, 2013

Sales revenue	\$3,000,000
Cost of goods sold	900,000
Gross profit	2,100,000
Operating expenses	600,000
Operating income (loss)	1,500,000
Other gains (losses)	
Gain on disposal of PP&E	15,000
Income (loss) from continuing operations, before tax	1,515,000
Income tax expense	330,000
Income (loss) from continuing operations, after tax	1,185,000
Loss on discontinued operations, net of tax	(120,000)
Income (loss) before extraordinary items	1,065,000
Extraordinary loss on earthquake, net of tax	(280,000)
Net income (loss)	\$785,000

Explanation: This question is not available in MyAccountingLab.

Diff: 3

LO: 13-5

EOC Ref: E13-19

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

34) At January 1, 2013, Foxmore Company had 80,000 shares of common stock outstanding and no preferred stock. During the year they issued 40,000 additional shares of common stock. At December 31, 2013, Foxmore had 120,000 shares of common stock outstanding, and no preferred stock. In addition, Foxmore reported the following results for the year 2013:

Sales revenues from regular business operations	\$3,000,000
Cost of goods sold	900,000
Operating expenses from their regular business operations	600,000
Gain on disposal of several items of property, plant & equipment	15,000
Income tax expense on continuing operations	330,000
Loss on the termination of a discontinued business segment, net of tax	120,000
Losses on damage caused by earthquake, net of tax	280,000

Please prepare earnings per share information in the following format. (Round all amounts to nearest cent.)

Earnings per share	
Income (loss) from continuing operations	
Income (loss) from discontinued operations	
Income (loss) before extraordinary items	
Extraordinary loss	
Net income (loss)	

Answer:

Earnings per share	
Income (loss) from continuing operations	\$11.85
Income (loss) from discontinued operations	(1.20)
Income (loss) before extraordinary items	10.65
Extraordinary loss	(2.80)
Net income (loss)	7.85

Explanation: Calculation: $80,000 + 120,000/2 = 100,000$ average shares

This question is not available in MyAccountingLab.

Diff: 3

LO: 13-5

EOC Ref: E13-20

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting