CHAPTER 15

EQUITY

TRUE-FALSE—Conceptual

Answer	No.	Description
T	1.	State a corporation incorporates in.
F	2.	Definition of preemptive right.
T	3.	Ordinary shares as residual interest.
F	4.	Earned capital definition.
T	5.	Reporting true no-par shares.
F	6.	Allocating proceeds in lump sum sales.
T	7.	Accounting for shares issued for noncash consideration.
F	8.	Definition of treasury shares.
F	9.	Reporting treasury shares under cost method.
T	10.	Selling treasury shares below cost.
F	11.	Participating preference shares.
T	12.	Callable preference shares.
T	13.	Restricting legal capital.
F	14.	Disclosing dividend policy.
F	15.	Affect of dividends on total equity.
T	16.	Property dividends definition.
T	17.	Accounting for small share dividend.
F	18.	Share splits and large share dividends.
F	19.	Computing rate of return on ordinary share equity.
T	20.	Computing payout ratio.

MULTIPLE CHOICE—Conceptual

Answer	No.	Description
c	21.	Nature of shareholders' interest.
b	22.	Pre-emptive right.
a	23.	Pre-emptive right.
b	S24.	Special characteristics of corporate form.
b	25.	Definition of ordinary shares.
c	26.	Identification of equity categories.
c	S27.	Definition of residual owner.
c	28.	Nature of shareholders' equity.
d	29.	Sources of shareholders' equity.
d	30.	Classification of shareholders' equity.
d	31.	Allocation methods for a lump sum issuance.
b	32.	Ordinary shares issued in payment of services.
a	33.	Costs of issuing ordinary shares.
b	34.	Creation of "secret reserves."
a	P35.	Authorized shares.
d	S36.	Par value shares.
b	S37.	Legal restrictions for profit distributions.
b	38.	Ordinary No-par shares.
a	39.	Accounting for issue costs.
a	S40.	Acquisition of treasury shares.

MULTIPLE CHOICE—Conceptual (cont.)

Answer	No.	Description
d	P41.	Treasury shares definition.
c	42.	Purchase of treasury shares at greater than par value.
a	43.	Sale of treasury shares.
a	44.	Reissued treasury shares at less than acquisition cost.
b	45.	Reissued treasury shares at greater than acquisition cost.
c	46.	Effect of treasury shares transactions.
c	47.	Preference shares—debt features.
b	48.	Cumulative feature of preference shares.
b	P49.	Reporting redeemable shares.
c	S50.	Reporting dividends in arrears.
a	51.	Features of preference shares.
b	52.	Preference shares participating feature.
c	53.	Liquidating dividends.
c	54.	Issued vs. outstanding ordinary shares.
b	55.	Timing of entry to record dividends.
c	56.	Shares entitled to receive a cash dividend.
c	57.	Accounting for a property dividend.
a	58.	Distribution of a property dividend.
a	59.	Liquidating dividend.
b	60.	Entry to record a liquidating dividend.
b	61.	Effects of a share dividend.
b	62.	Effects of a share dividend.
b	63.	Effect of a large share dividend.
b	64.	Large share dividend.
a	65.	Small share dividend.
a	66.	Small share dividend.
b	67.	Classification of share dividends distributable.
b	68.	Effect of share splits and share dividends.
c	69.	Effect of a share split.
b	70.	Disclosures in the statement of financial position.
a	71.	Return on ordinary share equity calculation.
b	72.	Payout ratio calculation.
c	73.	Book value per share.
a	P74.	Computing book value per share.
b	75.	IFRS required financial statements.
b	76.	Trading on the equity definition.
c	*77.	Dividends and treasury shares.
a	*78.	Noncumulative preference shares and dividends in arrears.
a	*79.	Disclosure of preference dividends in arrears.

P These questions also appear in the Problem-Solving Survival Guide.
S These questions also appear in the Study Guide.
*This topic is dealt with in an Appendix to the chapter.

MULTIPLE CHOICE—Computational

Answer	No.	Description
a	80.	Composition of equity.
b	81.	Calculation of total contributed capital.
b	82.	Allocating proceeds in lump sum sales.
c	83.	Allocating proceeds in lump sum sales.
d	84.	Computing total contributed capital.
b	85.	Allocating proceeds in lump sum sales.
c	86.	Allocating proceeds in lump sum sales.
d	87.	Allocating proceeds in lump sum sales.
c	88.	Allocating proceeds in lump sum sales.
d	89.	Recording issuance of stated value shares.
b	90.	Reissue treasury shares above cost.
d	91.	Computing share premium—treasury amount.
d	92.	Recording purchase of treasury shares.
b	93.	Reissue treasury shares—above acquisition cost.
c	94.	Reissue treasury shares—cost method.
c	95.	Computing share premium with treasury share transactions.
d	96.	Calculation of total share premium amount.
c	97.	Calculation of total share premium amount.
a	98.	Total equity with treasury share transactions.
c	99.	Total equity with treasury share exchange.
c	100.	Calculate dividends for cumulative preference shares.
a	101.	Calculate dividends for ordinary shares.
a	102.	Calculate dividends for ordinary shares.
c	103.	Recording issuance of convertible preference shares.
b	104.	Recording conversion of convertible preference shares.
c	105.	Reduction in retained earnings from property dividends.
d	106.	Reduction in retained earnings from property dividends.
b	107.	Reduction in retained earnings caused by a property dividend.
d	108.	Reduction in retained earnings from property dividends.
d	109.	Reduction in retained earnings from property dividends.
a	110.	Decrease in retained earnings from cash and share dividends.
c	111.	Calculation of a large share dividend.
a	112.	Calculation of a small share dividend.
b	113.	Calculation of a small share dividend.
b	114.	Small share dividend's effect on retained earnings.
b	115.	Balance of retained earnings after a small share dividend.
a	116.	Calculate retained earnings available for dividends.
a	117.	Calculate decrease in retained earnings.
d	118.	Calculate retained earnings available for dividends.
d	119.	Calculate decrease in retained earnings.
b	120.	Recording small share dividend.
d	121.	Accounting for share split.
a	122.	Compute book value per share.
b	123.	Compute rate of return on ordinary share equity.
a	124.	Compute payout ratio.
c	125.	Calculate the payout ratio.
a	126.	Calculate book value per share.
c	127.	Calculate rate of return on ordinary share equity.

MULTIPLE CHOICE—Computational (cont.)

Answer	No.	Description
c	128.	Calculate price-earnings ratio.
a	129.	Calculate dividends paid to ordinary shareholders.
b	130.	Rate of return on ordinary share equity.
c	131.	Determine the rate of return on ordinary share equity.
a	132.	Determine book value per share.
b	133.	Computation of payout ratio.
b	134.	Computation of book value per share.
b	*135.	Allocation of cash dividend to ordinary and preference shares.
d	*136.	Cash dividends for cumulative preference shares.
b	*137.	Cash dividends for cumulative participating preference shares.
c	*138.	Cash dividend allocation with participating preference shares.
b	*139.	Cash dividend for cumulative preference shares.

MULTIPLE CHOICE—CPA Adapted

Answer	No.	Description
d	140.	Ordinary shares issued in payment of services.
b	141.	Proceeds from preference shares in lump sum issue.
c	142.	Determine share premium—treasury balance.
b	143.	Reissue treasury shares—cost method.
c	144.	Effect of the reissuance of treasury shares.
d	145.	Entry to record property dividends declared.
b	146.	Effect of a liquidating dividend.
d	147.	Effect of a share dividend.
d	148.	Share dividend when market price exceeds par value.
a	149.	Balance of retained earnings following share dividend.
c	*150.	Allocation of cash dividend to ordinary and preference shares.

EXERCISES

Item	Description
E15-151	Lump sum issuance of shares.
E15-152	Treasury shares.
E15-153	Treasury shares.
E15-154	Treasury shares.
E15-155	Treasury shares.
E15-156	Equity transactions.
E15-157	Share dividends.
E15-158	Share dividends and share splits.
E15-159	Computation of selected ratios.
*E15-160	Dividends on preference shares.
*E15-161	Dividends on preference shares.

PROBLEMS

Item	Description
P15-162	Equity transactions.
P15-163	Treasury share transactions.
P15-164	Share dividends.
P15-165	Equity transactions.
*P15-166	Dividends on preference and ordinary shares.

CHAPTER LEARNING OBJECTIVES

1. Discuss the characteristics of the corporate form of organization.

2. Identify the key components of equity.

3. Explain the accounting procedures for issuing shares.

4. Describe the accounting for treasury shares.

5. Explain the accounting for and reporting of preference shares.

6. Describe the policies used in distributing dividends.

7. Identify the various forms of dividend distributions.

8. Explain the accounting for small and large share dividends, and for share splits.

9. Indicate how to present and analyze equity.

*10. Explain the different types of preference share dividends and their effect on book value per share.

SUMMARY OF LEARNING OBJECTIVES BY QUESTIONS

Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type
Learning Objective 1													
1.	TF	3.	TF	22.	MC	[S]24.	MC						
2.	TF	21.	MC	23.	MC	25.	MC						
Learning Objective 2													
4.	TF	26.	MC	[S]27.	MC	28.	MC	29.	MC	30.	MC		
Learning Objective 3													
5.	TF	32.	MC	[S]36.	MC	80.	MC	84.	MC	88.	MC	151.	E
6.	TF	33.	MC	[S]37.	MC	81.	MC	85.	MC	89.	MC	162.	P
7.	TF	34.	MC	38.	MC	82.	MC	86.	MC	120.	MC		
31.	MC	[P]35.	MC	39.	MC	83.	MC	87.	MC	141.	MC		
Learning Objective 4													
8.	TF	[P]41.	MC	45.	MC	92.	MC	96.	MC	142.	MC	153.	E
9.	TF	42.	MC	46.	MC	93.	MC	97.	MC	143.	MC	154.	E
10.	TF	43.	MC	90.	MC	94.	MC	98.	MC	144.	MC	155.	E
[S]40.	MC	44.	MC	91.	MC	95.	MC	99.	MC	152.	E	163.	P
Learning Objective 5													
11.	TF	47.	MC	[P]49.	MC	51.	MC	100.	MC	102.	MC	104.	MC
12.	TF	48.	MC	[S]50.	MC	52.	MC	101.	MC	103.	MC		
Learning Objective 6													
13.	TF	14.	TF										
Learning Objective 7													
15.	TF	55.	MC	59.	MC	105.	MC	109.	MC	164.	P		
16.	TF	56.	MC	60.	MC	106.	MC	145.	MC	165.	P		
53.	MC	57.	MC	61.	MC	107.	MC	146.	MC				
54.	MC	58.	MC	62.	MC	108.	MC	156.	E				
Learning Objective 8													
17.	TF	65.	MC	69.	MC	113.	MC	117.	MC	121.	MC	157.	E
18.	TF	66.	MC	110.	MC	114.	MC	118.	MC	147.	MC	158.	E
63.	MC	67.	MC	111.	MC	115.	MC	119.	MC	148.	MC	164.	P
64.	MC	68.	MC	112.	MC	116.	MC	120.	MC	149.	MC	165.	P
Learning Objective 9													
19.	TF	72.	MC	76.	MC	125.	MC	129.	MC	133.	MC		
20.	TF	73.	MC	122.	MC	126.	MC	130.	MC	134.	MC		
70.	MC	[P]74.	MC	123.	MC	127.	MC	131.	MC	159.	E		
71.	MC	75.	MC	124.	MC	128.	MC	132.	MC				
Learning Objective *10													
77.	MC	79.	MC	136.	MC	138.	MC	150.	MC	161.	E		
78.	MC	135.	MC	137.	MC	139.	MC	160.	E	166.	P		

Note: TF = True-False
MC = Multiple Choice
E = Exercise
P = Problem

TRUE-FALSE—Conceptual

1. A corporation is incorporated in only one country regardless of the number of countries in which it operates.

2. The preemptive right allows shareholders the right to vote for directors of the company.

3. Ordinary shares is the residual corporate interest that bears the ultimate risks of loss.

4. Earned capital consists of contributed capital and retained earnings.

5. True no-par shares should be carried in the accounts at issue price without any share premium reported.

6. Companies allocate the proceeds received from a lump-sum sale of securities based on the securities' par values.

7. Companies should record shares issued for services or noncash property at either the fair value of the shares issued or the fair value of the consideration received.

8. Treasury shares are a company's own shares that have been reacquired and retired.

9. The cost method records all transactions in treasury shares at their cost and reports the treasury shares as a deduction from ordinary shares.

10. When a corporation sells treasury shares below its cost, it usually debits the difference between cost and selling price to Share Premium—Treasury.

11. Participating preference shares require that if a company fails to pay a dividend in any year, it must make it up in a later year before paying any ordinary dividends.

12. Callable preference shares permit the corporation at its option to redeem the outstanding preference shares at stipulated prices.

13. The laws of some jurisdictions require that corporations restrict their contributed capital from distribution to shareholders.

14. Many companies pay dividends in amounts equal to their legally available retained earnings.

15. All dividends, except for liquidating dividends, reduce the total shareholders' equity of a corporation.

16. Dividends payable in assets of the corporation other than cash are called property dividends or dividends in kind.

17. When a share dividend is less than 20-25 percent of the ordinary shares outstanding, a company is required to transfer the fair value of the shares issued from retained earnings.

18. Share splits and large share dividends have the same effect on a company's retained earnings and total shareholders' equity.

19. The rate of return on ordinary share equity is computed by dividing net income by the average ordinary equity.

20. The payout ratio is determined by dividing cash dividends paid to ordinary shareholders by net income available to ordinary shareholders.

True-False Answers—Conceptual

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
1.	T	6.	F	11.	F	16.	T
2.	F	7.	T	12.	T	17.	T
3.	T	8.	F	13.	T	18.	F
4.	F	9.	F	14.	F	19.	F
5.	T	10.	T	15.	F	20.	T

MULTIPLE CHOICE—Conceptual

21. The residual interest in a corporation belongs to the
    a. management.
    b. creditors.
    c. ordinary shareholders.
    d. preference shareholders.

22. The pre-emptive right of an ordinary shareholder is the right to
    a. share proportionately in corporate assets upon liquidation.
    b. share proportionately in any new issues of stock of the same class.
    c. receive cash dividends before they are distributed to preference shareholders.
    d. exclude preference shareholders from voting rights.

23. The pre-emptive right enables a shareholder to
    a. share proportionately in any new issues of shares of the same class.
    b. receive cash dividends before other classes of stock without the pre-emptive right.
    c. sell ordinary shares back to the corporation at the option of the shareholder.
    d. receive the same amount of dividends on a percentage basis as the preference shareholders.

[S]24. Special characteristics of the corporate form that affect accounting include the
    a. influence of corporate law.
    b. use of the share system.
    c. development of a variety of ownership interests.
    d. All of the above are correct.

25. Hiro Corp. issues shares which bear the ultimate risks of loss and receive the benefit of success. These shares are not guaranteed dividends nor assets upon dissolution. These shares are considered

	Ordinary	Preference
a.	Yes	Yes
b.	Yes	No
c.	No	Yes
d.	No	No

26. Categories of equity include all of the following except
    a. Non-controlling interest.
    b. Accumulated other comprehensive income.
    c. Liquidating dividends.
    d. Treasury shares.

[S]27. Shareholders of a business enterprise are said to be the residual owners. The term residual owner means that shareholders
    a. are entitled to a dividend every year in which the business earns a profit.
    b. have the rights to specific assets of the business.
    c. bear the ultimate risks and uncertainties and receive the benefits of enterprise ownership.
    d. can negotiate individual contracts on behalf of the enterprise.

28. Total shareholders' equity represents
    a. a claim to specific assets contributed by the owners.
    b. the maximum amount that can be borrowed by the enterprise.
    c. a claim against a portion of the total assets of an enterprise.
    d. only the amount of earnings that have been retained in the business.

29. A primary source of shareholders' equity is
    a. income retained by the corporation.
    b. appropriated retained earnings.
    c. contributions by shareholders.
    d. both income retained by the corporation *and* contributions by holders.

30. Equity is generally classified into two major categories:
    a. contributed capital and appropriated capital.
    b. appropriated capital and retained earnings.
    c. retained earnings and unearned capital.
    d. earned capital and contributed capital.

31. The accounting problem in a lump sum issuance is the allocation of proceeds between the classes of securities. An acceptable method of allocation is the
    a. pro forma method.
    b. proportional method.
    c. incremental method.
    d. either the proportional method or the incremental method.

32. When a corporation issues its ordinary shares in payment for services, the *least* appropriate basis for recording the transaction is the
    a. fair value of the services received.
    b. par value of the shares issued.
    c. fair value of the shares issued.
    d. Any of these provides an appropriate basis for recording the transaction.

33. Direct costs incurred to sell shares such as underwriting costs should be accounted for as
    1. a reduction of share premium.
    2. an expense of the period in which the shares are issued.
    3. an intangible asset.

    a. 1
    b. 2
    c. 3
    d. 1 or 3

34. A "secret reserve" will be created if
    a. inadequate depreciation is charged to income.
    b. a capital expenditure is charged to expense.
    c. liabilities are understated.
    d. shareholders' equity is overstated.

P35. Which of the following represents the total number of shares that a corporation may issue under the terms of its charter?
    a. authorized shares
    b. issued shares
    c. unissued shares
    d. outstanding shares

S36. Shares that have a fixed per-share amount printed on each share certificate are called
    a. stated value shares.
    b. fixed value shares.
    c. uniform value shares.
    d. par value shares.

S37. Which of the following is not a legal restriction related to profit distributions by a corporation?
    a. The amount distributed to owners must be in compliance with the laws governing corporations.
    b. The amount distributed in any one year can never exceed the net income reported for that year.
    c. Profit distributions must be formally approved by the board of directors.
    d. Dividends must be in full agreement with the capital contracts as to preferences and participation.

38. Ordinary no-par shares
    a. Are considered illegal.
    b. Are subject to high taxes.
    c. Are always sold at a premium.
    d. All of the choices are correct.

39. Dunn Trading Co. issued 2,500 ordinary shares, The shares have a ₤2 par value and sold for ₤12 per share. Dunn incurred ₤3,000 to sell the shares related to underwriting costs and legal fees. Dunn Trading Co. eill record the ₤3,000 as
a. A debit to Share Premium—Ordinary.
b. A debit to Financing Expense.
c. A credit to Share Premium—Ordinary.
d. A credit to Share Capital—Ordinary.

S40. In January 2012, Finley Corporation, a newly formed company, issued 10,000 shares of its $10 par ordinary shares for $15 per share. On July 1, 2012, Finley Corporation reacquired 1,000 shares of its outstanding shares for $12 per share. The acquisition of these treasury shares
a. decreased total shareholders' equity.
b. increased total shareholders' equity.
c. did not change total shareholders' equity.
d. decreased the number of issued shares.

P41. Treasury shares are
a. shares held as an investment by the treasurer of the corporation.
b. shares held as an investment of the corporation.
c. issued and outstanding shares.
d. issued but not outstanding shares.

42. When treasury shares are purchased for more than the par value of the shares and the cost method is used to account for treasury shares, what account(s) should be debited?
a. Treasury shares for the par value and share premium for the excess of the purchase price over the par value.
b. have premium for the purchase price.
c. Treasury shares for the purchase price.
d. Treasury shares for the par value and retained earnings for the excess of the purchase price over the par value.

43. “Gains" on sales of treasury (using the cost method) should be credited to
a. share premium—treasury.
b. share capital.
c. retained earnings.
d. other income.

44. Porter Corp. purchased its own par value shares on January 1, 2010 for $20,000 and debited the treasury shares account for the purchase price. The shares were subsequently sold for $12,000. The $8,000 difference between the cost and sales price should be recorded as a deduction from
a. share premium—treasury to the extent that previous net "gains" from sales of the same class of stock are included therein; otherwise, from retained earnings.
b. share premium—treasury without regard as to whether or not there have been previous net "gains" from sales of the same class of shares included therein.
c. retained earnings.
d. net income.

45. How should a "gain" from the sale of treasury shares be reflected when using the cost method of recording treasury shares transactions?
    a. As other income shown on the income statement.
    b. As share premium from treasury share transactions.
    c. As an increase in the amount shown for share capital.
    d. As an increase in the retained earnings amount.

46. Which of the following best describes a possible result of treasury share transactions by a corporation?
    a. May increase but not decrease retained earnings.
    b. May increase net income if the cost method is used.
    c. May decrease but not increase retained earnings.
    d. May decrease but not increase net income.

47. Which of the following features of preference shares makes the security more like debt than an equity instrument?
    a. Participating
    b. Voting
    c. Redeemable
    d. Noncumulative

48. The cumulative feature of preference shares
    a. limits the amount of cumulative dividends to the par value of the preference shares.
    b. requires that dividends not paid in any year must be made up in a later year before dividends are distributed to ordinary shareholders.
    c. means that the shareholder can accumulate preference shares until it is equal to the par value of ordinary shares at which time it can be converted into ordinary shares.
    d. enables a preference shareholder to accumulate dividends until they equal the par value of the shares and receive the shares in place of the cash dividends.

P49. According to IFRS, redeemable preference shares should be
    a. included with ordinary shares.
    b. included as a liability.
    c. excluded from the statement of financial position.
    d. included as a contra item in shareholders' equity.

S50. Cumulative preference dividends in arrears should be shown in a corporation's statement of financial position as
    a. an increase in current liabilities.
    b. an increase in equity.
    c. a footnote.
    d. an increase in current liabilities for the current portion and non-current liabilities for the long-term portion.

51. The features most frequently associated with preference shares include all of the following except
    a. Callable at the option of the shareholder.
    b. Convertible into ordinary shares.
    c. Non-voting.
    d. Preference as to assets in the event of liquidation.

52. When preference shares share ratably with the ordinary shareholders in any profit distributions beyond the prescribed rate this is known as the
    a. Cumulative feature.
    b. Participating feature.
    c. Callable feature.
    d. Redeemable feature.

53. Liquidating dividends
    a. Are prohibited under IFRS.
    b. Require a credit to Share Capital—Ordinary.
    c. Reduce amounts paid-in by shareholders.
    d. All of the choices are correct.

54. At the date of the financial statements, ordinary shares issued would exceed ordinary shares outstanding as a result of the
    a. declaration of a share split.
    b. declaration of a share dividend.
    c. purchase of treasury shares.
    d. payment in full of subscribed shares.

55. An entry is *not* made on the
    a. date of declaration.
    b. date of record.
    c. date of payment.
    d. An entry is made on all of these dates.

56. Cash dividends are paid on the basis of the number of shares
    a. authorized.
    b. issued.
    c. outstanding.
    d. outstanding less the number of treasury shares.

57. Which of the following statements about property dividends is *not* true?
    a. A property dividend is usually in the form of securities of other companies.
    b. A property dividend is also called a dividend in kind.
    c. The accounting for a property dividend should be based on the carrying value (book value) of the nonmonetary assets transferred.
    d. All of these statements are true.

58. Houser Corporation owns 4,000,000 shares of Baha Corporation. On December 31, 2012, Houser distributed these shares as a dividend to its shareholders. This is an example of a
    a. property dividend.
    b. share dividend.
    c. liquidating dividend.
    d. cash dividend.

59. A dividend which is a return to shareholders of a portion of their original investments is a
    a. liquidating dividend.
    b. property dividend.
    c. liability dividend.
    d. participating dividend.

60. A mining company declared a liquidating dividend. The journal entry to record the declaration must include a debit to
    a. Retained Earnings.
    b. Share Premium.
    c. Accumulated Depletion.
    d. Accumulated Depreciation.

61. If management wishes to "capitalize" part of the earnings, it may issue a
    a. cash dividend.
    b. share dividend.
    c. property dividend.
    d. liquidating dividend.

62. Which dividends do *not* reduce equity?
    a. Cash dividends
    b. Share dividends
    c. Property dividends
    d. Liquidating dividends

63. The declaration and issuance of a share dividend larger than 25% of the shares previously outstanding
    a. increases ordinary shares outstanding and increases total equity.
    b. decreases retained earnings but does not change total equity.
    c. may increase or decrease share premium but does not change total equity.
    d. increases retained earnings and increases total equity.

64. Quirk Corporation issued a 100% share dividend of its ordinary shares which had a par value of $10 before and after the dividend. At what amount should retained earnings be capitalized for the additional shares issued?
    a. There should be no capitalization of retained earnings.
    b. Par value
    c. Fair value on the declaration date
    d. Fair value on the payment date

65. The issuer of a 5% ordinary share dividend to ordinary shareholders preferably should transfer from retained earnings to contributed capital an amount equal to the
    a. fair value of the shares issued.
    b. book value of the shares issued.
    c. minimum legal requirements.
    d. par or stated value of the shares issued.

66. At the date of declaration of a small ordinary share dividend, the entry should *not* include
    a. a credit to Ordinary Share Dividend Payable.
    b. a credit to Share Premium—Ordinary.
    c. a debit to Retained Earnings.
    d. All of these are acceptable.

67. The balance in Ordinary Share Dividend Distributable should be reported as a(n)
    a. deduction from share capital—ordinary.
    b. addition to share capital—ordinary.
    c. current liability.
    d. contra current asset.

68. A feature common to both share splits and share dividends is
    a. a transfer to earned capital of a corporation.
    b. that there is no effect on total equity.
    c. an increase in total liabilities of a corporation.
    d. a reduction in the contributed capital of a corporation.

69. What effect does the issuance of a 2-for-1 share split have on each of the following?

	Par Value per Share	Retained Earnings
a.	No effect	No effect
b.	Increase	No effect
c.	Decrease	No effect
d.	Decrease	Decrease

70. Which one of the following disclosures should be made in the equity section of the statement of financial position, rather than in the notes to the financial statements?
    a. Dividend preferences
    b. Liquidation preferences
    c. Call prices
    d. Conversion or exercise prices

71. The rate of return on ordinary share is calculated by dividing
    a. net income less preference dividends by average ordinary shareholders' equity.
    b. net income by average ordinary shareholders' equity.
    c. net income less preference dividends by ending ordinary shareholders' equity.
    d. net income by ending ordinary shareholders' equity.

72. The payout ratio can be calculated by dividing
    a. dividends per share by earnings per share.
    b. cash dividends by net income less preference dividends.
    c. cash dividends by market price per share.
    d. dividends per share by earnings per share and dividing cash dividends by net income less preference dividends.

73. Younger Company has outstanding both ordinary shares and nonparticipating, non-cumulative preference shares. The liquidation value of the preference shares is equal to its par value. The book value per share of the ordinary shares is *unaffected* by
    a. the declaration of a share dividend on preference payable in preference shares when the market price of the preference is equal to its par value.
    b. the declaration of a share dividend on ordinary shares payable in ordinary shares when the market price of the ordinary shares is equal to its par value.
    c. the payment of a previously declared cash dividend on the ordinary shares.
    d. a 2-for-1 split of the ordinary shares.

P74. Ordinary shareholders' equity divided by the number of shares outstanding is called
a. book value per share.
b. par value per share.
c. stated value per share.
d. market value per share.

75. Which of the following is a required statement under IFRS?

	Statement of financial position	Statement of changes in equity
a.	Yes	No
b.	Yes	Yes
c.	No	No
d.	No	Yes

76. Trading on the equity is:
a. The ratio of the company's cash dividends to net income.
b. A return on assets that is higher than the cost of financing these assets.
c. The amount each share would receive if the company were liquidated.
d. The "Revaluation Surplus" related to increases or decreases in items such as property, plant, and equipment.

*77. Dividends are not paid on
a. noncumulative preference shares.
b. nonparticipating preference shares.
c. treasury shares.
d. Dividends are paid on all of these.

*78. Noncumulative preferred dividends in arrears
a. are not paid or disclosed.
b. must be paid before any other cash dividends can be distributed.
c. are disclosed as a liability until paid.
d. are paid to preference shareholders if sufficient funds remain after payment of the current preference dividend.

*79. How should cumulative preference dividends in arrears be shown in a corporation's statement of financial position?
a. Note disclosure
b. Increase in shareholders' equity
c. Increase in current liabilities
d. Increase in current liabilities for the amount expected to be declared within the year or operating cycle, and increase in non-current liabilities for the balance

Multiple Choice Answers—Conceptual

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
21.	c	30.	d	39.	a	48.	b	57.	c	66.	a	75.	b
22.	b	31.	d	40.	a	49.	b	58.	a	67.	b	76.	b
23.	a	32.	b	41.	d	50.	c	59.	a	68.	b	*77.	c
24.	b	33.	a	42.	c	51.	a	60.	b	69.	c	*78.	a
25.	b	34.	b	43.	a	52.	b	61.	b	70.	b	*79.	a
26.	c	35.	a	44.	a	53.	c	62.	b	71.	a		
27.	c	36.	d	45.	b	54.	c	63.	b	72.	b		
28.	c	37.	b	46.	c	55.	b	64.	b	73.	c		
29.	d	38.	b	47.	c	56.	c	65.	a	74.	a		

MULTIPLE CHOICE—Computational

Use the following information for questions 80 and 81.

Presented below is information related to Hale Corporation:

Share Capital—Ordinary, $1 par	$4,300,000
Share premium—Ordinary	550,000
Share Capital—Preference 8 1/2%, $50 par	2,000,000
Share premium—Preference	400,000
Retained Earnings	1,500,000
Treasury Shares—Ordinary (at cost)	150,000

80. The total equity of Hale Corporation is
    a. $8,600,000.
    b. $8,750,000.
    c. $7,100,000.
    d. $7,250,000.

81. The total contributed capital related to the ordinary shares is
    a. $4,300,000.
    b. $4,850,000.
    c. $5,250,000.
    d. $4,700,000.

82. Manning Company issued 10,000 shares of its $5 par value ordinary shares having a fair value of $25 per share and 15,000 shares of its $15 par value preference shares having a fair value of $20 per share for a lump sum of $480,000. How much of the proceeds would be allocated to the ordinary shares?
    a. $50,000
    b. $218,182
    c. $250,000
    d. $255,000

83. Norton Company issues 4,000 shares of its $5 par value ordinary shares having a fair value of $25 per share and 6,000 shares of its $15 par value preference shares having a fair value of $20 per share for a lump sum of $192,000. What amount of the proceeds should be allocated to the preference shares?
    a. $172,000
    b. $120,000
    c. $104,727
    d. $90,000

84. Berry Corporation has 50,000 shares of $10 par ordinary shares authorized. The following transactions took place during 2010, the first year of the corporation's existence:

    Sold 5,000 ordinary shares for $18 per share.
    Issued 5,000 ordinary shares in exchange for a patent valued at $100,000.

    At the end of the Berry's first year, total contributed capital amounted to
    a. $40,000.
    b. $90,000.
    c. $100,000.
    d. $190,000.

85. Glavine Company issues 6,000 shares of its $5 par value ordinary shares having a market value of $25 per share and 9,000 shares of its $15 par value preference shares having a fair value of $20 per share for a lump sum of $288,000. The proceeds allocated to the ordinary shares is
    a. $30,000
    b. $130,909
    c. $150,000
    d. $157,091

86. Wheeler Company issued 5,000 shares of its $5 par value ordinary shares having a market value of $25 per share and 7,500 shares of its $15 par value preference shares having a market value of $20 per share for a lump sum of $240,000. The proceeds allocated to the preference shares is
    a. $215,000
    b. $150,000
    c. $130,909
    d. $109,091

87. Hiro Corp. issues 1,000 €5 par value ordinary shares and 1,000 €20 par value preference shares for a lump sum of €60,000. At the issue date, the ordinary shares were selling for €36 and the preference shares were selling for €28. The Share Premium—Ordinary account will be credited for
    a. €31,000
    b. €36,000
    c. €26,250
    d. €28,750

88. Hiro Corp. issues 1,000 €5 par value ordinary shares and 1,000 €20 par value preference shares for a lump sum of €60,000. At the issue date, the ordinary shares were selling for €36 and the preference shares were selling for €28. How much is recorded in Hiro's statement of financial position for the preference shares?
    a. €31,000
    b. €36,000
    c. €26,250
    d. €28,750

89. On January 1 Hiro Corp. issues 1,000 no-par ordinary shares for €15 per share. The shares have a stated value of €5 per share. When Hiro prepares the journal entry to record the issuance of the shares which of the following will be recorded?
    a. Debit Share Capital—Ordinary €5,000.
    b. Credit Share Capital—Ordinary €15,000.
    c. Debit Share Premium—Ordinary €15,000.
    d. Credit Share Premium—Ordinary €10,000

90. Five years ago, Dunn Trading Co. issued 2,500 ordinary shares. The shares have a £2 par value and sold at that time for £12 per share. On January 1, 2012, Dunn Trading Co. Purchased 1,000 of these shares for £24 per share. On September 30, 2012, Dunn reissued 500 of the shares for £28 per share. The journal entry to record the reissuance will include
    a. A debit to Treasury Shares £12,000.
    b. A credit to Share Premium—Treasury £2,000.
    c. A credit to Treasury Shares £14,000.
    d. A credit to cash £14,000.

91. Pember Corporation started business in 2005 by issuing 200,000 shares of $20 par ordinary shares for $36 each. In 2010, 20,000 of these shares were purchased for $52 per share by Pember Corporation and held as treasury shares. On June 15, 2011, these 20,000 shares were exchanged for a piece of property that had an assessed value of $810,000. Perber's shares are actively traded and had a fair price of $60 on June 15, 2011. The cost method is used to account for treasury shares. The amount of share premium—treasury resulting from the above events would be
    a. $800,000.
    b. $480,000.
    c. $390,000.
    d. $160,000.

92. On September 1, 2012, Valdez Company reacquired 12,000 shares of its $10 par value ordinary shares for $15 per share. Valdez uses the cost method to account for treasury shares. The journal entry to record the reacquisition of the shares should debit
    a. Treasury Shares for $120,000.
    b. Share Capital—Ordinary for $120,000.
    c. Share Capital—Ordinary for $120,000 and Share Premium—Ordinary for $60,000.
    d. Treasury Shares for $180,000.

93. Gannon Company acquired 6,000 shares of its own ordinary shares at $20 per share on February 5, 2010, and sold 3,000 of these shares at $27 per share on August 9, 2011. The fair value of Gannon's ordinary shares was $24 per share at December 31, 2010, and $25 per share at December 31, 2011. The cost method is used to record treasury shares transactions. What account(s) should Gannon credit in 2011 to record the sale of 3,000 shares?
    a. Treasury Shares for $81,000.
    b. Treasury Shares for $60,000 and Share Premium—Treasury for $21,000.
    c. Treasury Shares for $60,000 and Retained Earnings for $21,000.
    d. Treasury Shares for $72,000 and Retained Earnings for $9,000.

94. Long Co. issued 100,000 shares of $10 par ordinary shares for $1,200,000. Long acquired 8,000 shares of its own shares at $15 per share. Three months later Long sold 4,000 of these shares at $19 per share. If the cost method is used to record treasury shares transactions, to record the sale of the 4,000 treasury shares, Long should credit
    a. Treasury Shares for $76,000.
    b. Treasury Shares for $40,000 and Share Premium—Treasury for $36,000.
    c. Treasury Shares for $60,000 and Share Premium—Treasury Stock for $16,000.
    d. Treasury Shares for $60,000 and Share Premium—Ordinary for $16,000.

95. An analysis of equity of Hahn Corporation as of January 1, 2012, is as follows:

Share capital—ordinary, par value $20; authorized 100,000 shares; issued and outstanding 90,000 shares	$1,800,000
Share premium—ordinary	900,000
Retained earnings	760,000
Total	$3,460,000

Hahn uses the cost method of accounting for treasury shares and during 2010 entered into the following transactions:

Acquired 2,500 of its shares for $75,000.
Sold 2,000 treasury shares at $35 per share.
Sold the remaining treasury shares at $20 per share.

Assuming no other equity transactions occurred during 2012, what should Hahn report at December 31, 2012, as total share premium?
    a. $895,000
    b. $900,000
    c. $905,000
    d. $915,000

96. Percy Corporation was organized on January 1, 2012, with an authorization of 1,200,000 ordinary shares with a par value of $6 per share. During 2012, the corporation had the following capital transactions:

January 5	issued 675,000 shares @ $10 per share
July 28	purchased 90,000 shares @ $11 per share
December 31	sold the 90,000 shares held in treasury @ $18 per share

Percy used the cost method to record the purchase and reissuance of the treasury shares. What is the total amount of share premium as of December 31, 2012?
    a. $-0-.
    b. $2,070,000.
    c. $2,700,000.
    d. $3,330,000.

97. Sosa Co.'s equity at January 1, 2012 is as follows:

Share capital—ordinary, $10 par value; authorized 300,000 shares;	
Outstanding 225,000 shares	$2,250,000
Share premium—ordinary	900,000
Retained earnings	2,190,000
Total	$5,340,000

During 2012, Sosa had the following share transactions:

Acquired 6,000 shares of its shares for $270,000.
Sold 3,600 treasury shares at $50 a share.
Sold the remaining treasury shares at $41 per share.

No other share transactions occurred during 2012. Assuming Sosa uses the cost method to record treasury share transactions, the total amount of all share premium accounts at December 31, 2012 is

a. $891,600.
b. $870,000.
c. $908,400.
d. $927,600.

98. Presented below is the equity section of Oaks Corporation at December 31, 2010:

Share capital—ordinary, par value $20; authorized 75,000 shares;	
issued and outstanding 45,000 shares	$ 900,000
Share premium—ordinary	250,000
Retained earnings	500,000
	$1,650,000

During 2011, the following transactions occurred relating to equity:

3,000 shares were reacquired at $28 per share.
3,000 shares were reacquired at $35 per share.
1,800 shares of treasury shares were sold at $30 per share.

For the year ended December 31, 2011, Oaks reported net income of $450,000. Assuming Oaks accounts for treasury under the cost method, what should it report as total equity on its December 31, 2011, statement of financial position?

a. $1,965,000.
b. $1,961,400.
c. $1,957,800.
d. $1,515,000.

99. On December 1, 2012, Abel Corporation exchanged 20,000 shares of its $10 par value ordinary shares held in treasury for a used machine. The treasury shares were acquired by Abel at a cost of $40 per share, and are accounted for under the cost method. On the date of the exchange, the ordinary shares had a fair value of $55 per share (the shares were originally issued at $30 per share). As a result of this exchange, Abel's total equity will increase by

a. $200,000.
b. $800,000.
c. $1,100,000.
d. $900,000.

100. Luther Inc., has 2,000 shares of 6%, $50 par value, cumulative preference shares and 100,000 shares of $1 par value ordinary shares outstanding at December 31, 2011, and December 31, 2010. The board of directors declared and paid a $5,000 dividend in 2010. In 2011, $24,000 of dividends are declared and paid. What are the dividends received by the preference shareholders in 2011?
   a. $17,000
   b. $12,000
   c. $ 7,000
   d. $ 6,000

101. Anders, Inc., has 5,000 shares of 5%, $100 par value, cumulative preference shares and 20,000 shares of $1 par value ordinary shares outstanding at December 31, 2011. There were no dividends declared in 2009. The board of directors declares and pays a $45,000 dividend in 2010 and in 2011. What is the amount of dividends received by the ordinary shareholders in 2011?
   a. $15,000
   b. $25,000
   c. $45,000
   d. $0

102. Colson Inc. declared a $160,000 cash dividend. It currently has 6,000 shares of 7%, $100 par value cumulative preference shares outstanding. It is one year in arrears on its preference shares. How much cash will Colson distribute to the ordinary shareholders?
   a. $76,000.
   b. $84,000.
   c. $118,000.
   d. None.

103. Everwood Co. issues 10,000 shares of £10 par value convertible preference shares for £12 cash per share. Each share is convertible into 4 ordinary shares. On this date the £1 par value ordinary shares are selling for £3 per share. Approximately 2 years later, Everwood's shareholders convert their preference shares into ordinary shares. On the date of conversion the preference shares are selling for £16 and the ordinary shares are selling for £5 per share. The journal entry on the date of *issuance* will include which of the following?
   a. Credit Share Capital—Preference £20,000.
   b. Credit Share Premium—Ordinary £20,000.
   c. Credit Share Capital—Preference £100,000.
   d. Debit Share Premium—Ordinary £20,000.

104. Everwood Co. issues 10,000 shares of £10 par value convertible preference shares for £12 cash per share. Each share is convertible into 4 ordinary shares. On this date the £1 par value ordinary shares are selling for £3 per share. Approximately 2 years later, Everwood's shareholders convert their preference shares into ordinary shares. On the date of conversion the preference shares are selling for £16 and the ordinary shares are selling for £5 per share. The journal entry on the date of conversion will include which of the following?
   a. Credit Share Capital—Preference £20,000.
   b. Credit Share Premium—Ordinary £80,000.
   c. Credit Share Capital—Ordinary £100,000.
   d. Credit Share Premium—Ordinary £160,000.

105. Pierson Corporation owned 10,000 shares of Hunter Corporation. These shares were purchased in 2009 for $90,000. On November 15, 2011, Pierson declared a property dividend of one share of Hunter for every ten shares of Pierson held by a shareholder. On that date, when the market price of Hunter was $14 per share, there were 90,000 shares of Pierson outstanding. What gain and net reduction in retained earnings would result from this property dividend?

	Gain	Net Reduction in Retained Earnings
a.	$0	$126,000
b.	$0	$ 81,000
c.	$45,000	$ 81,000
d.	$45,000	$ 36,000

106. Stinson Corporation owned 30,000 shares of Matile Corporation. These shares were purchased in 2009 for $270,000. On November 15, 2011, Stinson declared a property dividend of one share of Matile for every ten shares of Stinson held by a shareholder. On that date, when the market price of Matile was $14 per share, there were 270,000 shares of Stinson outstanding. What gain and net reduction in retained earnings would result from this property dividend?

	Gain	Net Reduction in Retained Earnings
a.	$0	$243,000
b.	$0	$378,000
c.	$135,000	$108,000
d.	$135,000	$243,000

107. Winger Corporation owned 900,000 shares of Fegan Corporation. On December 31, 2012, when Winger's account "Investment in Fegan Corporation" had a carrying value of $5 per share, Winger distributed these shares to its shareholders as a dividend. Winger originally paid $8 for each share. Fegan has 3,000,000 shares issued and outstanding, which are traded on a national stock exchange. The quoted market price for a Fegan share was $7 on the declaration date and $9 on the distribution date.

What would be the reduction in Winger's equity as a result of the above transactions?

a. $3,600,000.
b. $4,500,000.
c. $7,200,000.
d. $8,100,000.

108. Gibbs Corporation owned 20,000 shares of Oliver Corporation’s $5 par value ordinary shares. These shares were purchased in 2009 for $180,000. On September 15, 2011, Gibbs declared a property dividend of one share of Oliver for every ten shares of Gibbs held by a shareholder. On that date, when the market price of Oliver was $14 per share, there were 180,000 shares of Gibbs outstanding. What NET reduction in retained earnings would result from this property dividend?

a. $90,000
b. $252,000
c. $72,000
d. $162,000

109. Melvern's Corporation has an investment in 5,000 shares of Wallace Company ordinary shares with a cost of $218,000. These shares are used in a property dividend to shareholders of Melvern's. The property dividend is declared on May 25 and scheduled to be distributed on July 31 to shareholders of record on June 15. The market value per Wallace share is $63 on May 25, $66 on June 15, and $68 on July 31. The net effect of this property dividend on retained earnings is a reduction of
a. $340,000.
b. $330,000.
c. $315,000.
d. $218,000.

110. Hernandez Company has 350,000 shares of $10 par value ordinary shares outstanding. During the year, Hernandez declared a 10% share dividend when the market price of the stock was $30 per share. Four months later Hernandez declared a $.50 per share cash dividend. As a result of the dividends declared during the year, retained earnings decreased by
a. $1,242,500.
b. $525,000.
c. $192,500.
d. $175,000.

111. On June 30, 2012, when Ermler Co.'s stock was selling at $65 per share, its equity accounts were as follows:

Share capital—ordinary (par value $50; 60,000 shares issued)	$3,000,000
Share premium—ordinary	600,000
Retained earnings	4,200,000

If a 100% share dividend were declared and distributed, share capital—ordinary would be
a. $3,000,000.
b. $3,600,000.
c. $6,000,000.
d. $7,800,000.

112. The equity section of Gunkel Corporation as of December 31, 2010, was as follows:

Share capital—ordinary, par value $2; authorized 20,000 shares; issued and outstanding 10,000 shares	$ 20,000
Share premium—ordinary	30,000
Retained earnings	75,000
	$125,000

On March 1, 2011, the board of directors declared a 15% share dividend, and accordingly 1,500 additional shares were issued. On March 1, 2011, the fair value of the share was $6 per share. For the two months ended February 28, 2011, Gunkel sustained a net loss of $10,000.

What amount should Gunkel report as retained earnings as of March 1, 2011?
a. $56,000.
b. $62,000.
c. $66,000.
d. $72,000.

113. The equity of Howell Company at July 31, 2012 is presented below:

share capital—ordinary, par value $20, authorized 400,000 shares; issued and outstanding 160,000 shares	$3,200,000
Share premium—ordinary	160,000
Retained earnings	650,000
	$4,010,000

On August 1, 2012, the board of directors of Howell declared a 15% share dividend on ordinary shares, to be distributed on September 15th. The market price of Howell's ordinary shares was $35 on August 1, 2012, and $38 on September 15, 2012. What is the amount of the debit to retained earnings as a result of the declaration and distribution of this share dividend?

a. $800,000.
b. $840,000.
c. $912,000.
d. $600,000.

114. On January 1, 2012, Dodd, Inc., declared a 10% ordinary share dividend when the fair value of the ordinary shares was $20 per share. Equity before the share dividend was declared consisted of:

Share capital—ordinary, $10 par value, authorized 200,000 shares; issued and outstanding 120,000 shares	$1,200,000
Share premium—ordinary	150,000
Retained earnings	700,000
Total equity	$2,050,000

What was the effect on Dodd's retained earnings as a result of the above transaction?

a. $120,000 decrease
b. $240,000 decrease
c. $400,000 decrease
d. $200,000 decrease

115. On January 1, 2012, Culver Corporation had 110,000 shares of its $5 par value ordinary shares outstanding. On June 1, the corporation acquired 10,000 shares to be held in the treasury. On December 1, when the market price of the shares was $8, the corporation declared a 10% share dividend to be issued to shareholders of record on December 16, 2012. What was the impact of the 10% share dividend on the balance of the retained earnings account?

a. $50,000 decrease
b. $80,000 decrease
c. $88,000 decrease
d. No effect

116. At the beginning of 2011, Flaherty Company had retained earnings of $200,000. During the year Flaherty reported net income of $100,000, sold treasury shares at a "gain" of $36,000, declared a cash dividend of $60,000, and declared and issued a small share dividend of 3,000 shares ($10 par value) when the fair value of the shares was $20 per share. The amount of retained earnings available for dividends at the end of 2011 was

a. $180,000.
b. $210,000.
c. $216,000.
d. $246,000.

117. Masterson Company has 420,000 shares of $10 par value ordinary shares outstanding. During the year Masterson declared a 5% share dividend when the market price of the shares was $36 per share. Three months later Masterson declared a $.60 per share cash dividend. As a result of the dividends declared during the year, retained earnings decreased by
  a. $1,020,600
  b. $756,000
  c. $264,600
  d. $252,000

118. At the beginning of 2011, Hamilton Company had retained earnings of $150,000. During the year Hamilton reported net income of $75,000, sold treasury shares at a “gain” of $27,000, declared a cash dividend of $45,000, and declared and issued a small share dividend of 1,500 shares ($10 par value) when the fair value of the shares was $30 per share. The amount of retained earnings available for dividends at the end of 2011 was:
  a. $184,500.
  b. $162,000.
  c. $157,500.
  d. $135,000.

119. Mingenback Company has 560,000 shares of $10 par value ordinary shares outstanding. During the year Mingenback declared a 5% share dividend when the market price of the shares was $48 per share. Two months later Mingenback declared a $.60 per share cash dividend. As a result of the dividends declared during the year, retained earnings decreased by:
  a. $336,000.
  b. $352,800.
  c. $1,344,000.
  d. $1,696,800.

120. Janae Corporation has outstanding 10,000 shares of £10 par value ordinary shares and retained earnings of £500,000. If Janae declares a 10 percent share dividend when the fair value of the shares is £85 per share, the entry includes:
  a. A debit to Retained Earnings for £10,000.
  b. A credit to Share Premium—Ordinary for £75,000.
  c. A debit to cash for £85,000.
  d. No entry is required for a share dividend.

121. Janae Corporation has outstanding 10,000 shares of £10 par value ordinary shares and retained earnings of £500,000. If Janae declares a 2-for-1 share split when the fair value of the shares is £85 per share, the entry includes:
  a. A debit to Retained Earnings for £10,000.
  b. A credit to Share Premium—Ordinary for £75,000.
  c. A debit to cash for £85,000.
  d. No entry is required for a share split.

122. Nikos Company has cash dividends of €210,000 and net income of €620,000. Its ordinary shareholders' equity is €2,000,000 and it has 200,000 ordinary shares outstanding. The book value per share for the Nikos Company is:
   a. €10/share.
   b. €1.05/share.
   c. €3.10/share.
   d. Cannot be determined based on the information provided.

123. Nikos Company paid preference dividends of €210,000 and reported net income of €620,000. Its average ordinary shareholders' equity is €2,000,000 and it has 200,000 ordinary shares outstanding. The rate of return on ordinary share equity for the Nikos Company is approximately:
   a. 31%.
   b. 21%.
   c. 42%.
   d. Cannot be determined based on the information provided.

124. Nikos Company paid cash dividends of €210,000 and reported net income of €620,000. Its average ordinary shareholders' equity is €2,000,000 and it has 200,000 ordinary shares outstanding. Preference dividends of €100,000 were declared and paid during the period. The payout for the Nikos Company is approximately:
   a. 40%.
   b. 50%.
   c. 34%.
   d. Cannot be determined based on the information provided.

Questions 125 and 126 are based on the following information.

Layne Corporation had the following information in its financial statements for the years ended 2010 and 2011:

Cash dividends for the year 2011	$ 8,000
Net income for the year ended 2011	93,000
Market price of shares, 12/31/10	10
Market price of shares, 12/31/11	12
Ordinary shareholders' equity, 12/31/10	1,600,000
Ordinary shareholders' equity, 12/31/11	1,800,000
Outstanding shares, 12/31/11	150,000
Preference dividends for the year ended 2011	15,000

125. What is the payout ratio for Layne Corporation for the year ended 2011?
   a. 24.7%
   b. 16.1%
   c. 10.3%
   d. 8.6%

126. What is the book value per share for Layne Corporation for the year ended 2011?
   a. $12.00
   b. $11.90
   c. $11.33
   d. $10.67

Questions 127 and 128 are based on the following information.

Sealy Corporation had the following information in its financial statements for the years ended 2010 and 2011:

Cash dividends for the year 2011	$ 5,000
Net income for the year ended 2011	72,000
Market price of shares, 12/31/10	10
Market price of shares, 12/31/11	12
Ordinary shareholders' equity, 12/31/10	1,000,000
Ordinary shareholders' equity, 12/31/11	1,200,000
Outstanding shares, 12/31/11	100,000
Preference dividends for the year ended 2011	10,000

127. What is the rate of return on ordinary share equity for Sealy Corporation for the year ended 2011?
    a. 6.5%
    b. 6.0%
    c. 5.6%
    d. 5.2%

128. What is the price-earnings ratio for Sealy Corporation for the year ended 2011?
    a. 16.1
    b. 16.7
    c. 19.4
    d. 21.1

129. Mays, Inc. had net income for 2010 of $2,120,000 and earnings per share on ordinary share of $5. Included in the net income was $300,000 of bond interest expense related to its long-term debt. The income tax rate for 2010 was 30%. Dividends on preference share were $400,000. The payout ratio on ordinary share was 25%. What were the dividends on ordinary share in 2010?
    a. $430,000.
    b. $530,000.
    c. $482,500.
    d. $645,000.

130. Presented below is information related to Orender, Inc.:

	December 31,	
	2011	2010
Ordinary share	$ 75,000	$ 60,000
4% Preference share	350,000	350,000
Retained earnings (includes net income for current year)	90,000	75,000
Net income for year	30,000	32,000

What is Orender's rate of return on ordinary share equity for 2011?
    a. 20.0%
    b. 10.7%
    c. 18.2%
    d. 21.3%

Use the following information for questions 131 and 132.

The following data are provided:

	December 31, 2011	December 31, 2010
10% Cumulative preference share, $50 par	$100,000	$100,000
Ordinary share $10 par	120,000	90,000
Share premium	80,000	65,000
Retained earnings (includes current year net income)	240,000	215,000
Net income	90,000	

Additional information:
On May 1, 2011, 3,000 shares of ordinary share were issued. The prefer dividends were *not* declared during 2011. The market price of the ordinary share was $50 at December 31, 2011.

131. The rate of return on ordinary share equity for 2011 is
   a. 90 ÷ 400.
   b. 90 ÷ 440.
   c. 80 ÷ 400.
   d. 80 ÷ 440.

132. The book value per share at 12/31/11 is
   a. 430 ÷ 12.
   b. 200 ÷ 12.
   c. 330 ÷ 12.
   d. 440 ÷ 11.

Use the following information for questions 133 and 134.

Turner Corporation had the following information in its financial statements for the year ended 2010 and 2011:

Cash dividends for the year 2011	$ 15,000
Net income for the year ended 2011	124,000
Market price of shares, 12/31/11	24
Ordinary shareholders' equity, 12/31/10	2,200,000
Ordinary shareholders' equity, 12/31/11	2,400,000
Outstanding shares, 12/31/11	120,000
Preference dividends for the year ended 2011	30,000

133. What is the payout ratio for Turner Corporation for the year ended 2011?
   a. 12.1%
   b. 16.0%
   c. 36.3%
   d. 41.3%

134. What is the book value per share for Turner Corporation for the year ended 2011?
   a. $19.17
   b. $20.00
   c. $10.43
   d. $24.00

Use the following information for questions 135 through 137.

Written, Inc. has outstanding 300,000 shares of $2 par ordinary shares and 60,000 shares of no-par 8% preference shares with a stated value of $5. The preference shares are cumulative and nonparticipating. Dividends have been paid in every year except the past two years and the current year.

*135. Assuming that $150,000 will be distributed as a dividend in the current year, how much will the ordinary shareholders receive?
a. Zero.
b. $78,000.
c. $102,000.
d. $126,000.

*136. Assuming that $63,000 will be distributed as a dividend in the current year, how much will the preference shareholders receive?
a. $21,000.
b. $24,000.
c. $48,000.
d. $63,000.

*137. Assuming that $183,000 will be distributed, and the preference shares are *also* participating, how much will the ordinary shareholders receive?
a. $111,000.
b. $90,000.
c. $93,000.
d. $48,000.

*138. Yoder, Inc. has 50,000 shares of $10 par value ordinary shares and 25,000 shares of $10 par value, 6%, cumulative, participating preference shares outstanding. Dividends on the preference shares are one year in arrears. Assuming that Yoder wishes to distribute $135,000 as dividends, the ordinary shareholders will receive
a. $30,000.
b. $55,000.
c. $80,000.
d. $105,000.

*139. Mann Co. has outstanding 50,000 shares of 8% preference shares with a $10 par value and 125,000 shares of $3 par value ordinary shares. Dividends have been paid every year except last year and the current year. If the preference shares are cumulative and nonparticipating and $250,000 is distributed, the ordinary shareholders will receive
a. $0.
b. $170,000.
c. $210,000.
d. $250,000.

Multiple Choice Answers—Computational

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
80.	a	89.	d	98.	a	107.	b	116.	a	125.	c	134.	b
81.	b	90.	b	99.	c	108.	d	117.	a	126.	a	*135.	b
82.	b	91.	d	100.	c	109.	d	118.	d	127.	c	*136.	d
83.	c	92.	d	101.	a	110.	a	119.	d	128.	c	*137.	b
84.	d	93.	b	102.	a	111.	c	120.	b	129.	a	*138.	c
85.	b	94.	c	103.	c	112.	a	121.	d	130.	b	*139.	b
86.	c	95.	c	104.	d	113.	b	122.	a	131.	c		
87.	d	96.	d	105.	c	114.	b	123.	b	132.	a		
88.	c	97.	c	106.	d	115.	b	124.	a	133.	b		

MULTIPLE CHOICE—CPA Adapted

140. A corporation was organized in January 2009 with authorized capital of $10 par value ordinary shares. On February 1, 2012, shares were issued at par for cash. On March 1, 2012, the corporation's attorney accepted 7,000 ordinary shares in settlement for legal services with a fair value of $90,000. Share premium would increase on

	February 1, 2012	March 1, 2012
a.	Yes	No
b.	Yes	Yes
c.	No	No
d.	No	Yes

141. On July 1, 2012, Nall Co. issued 2,500 shares of its $10 par ordinary shares and 5,000 shares of its $10 par convertible preference shares for a lump sum of $125,000. At this date Nall's ordinary shares were selling for $24 per share and the convertible preference shares for $18 per share. The amount of the proceeds allocated to Nall's preference shares should be

a. $62,500.
b. $75,000.
c. $90,000.
d. $68,750.

142. Horton Co. was organized on January 2, 2012, with 500,000 authorized shares of $10 par value ordinary shares. During 2012, Horton had the following capital transactions:

January 5—issued 375,000 shares at $14 per share.
July 27—purchased 25,000 shares at $11 per share.
November 25—sold 15,000 shares of treasury shares at $13 per share.

Horton used the cost method to record the purchase of the treasury shares. What would be the balance in the Share Premium—Treasury account at December 31, 2012?

a. $0.
b. $15,000.
c. $30,000.
d. $45,000.

143. In 2010, Hobbs Corp. acquired 9,000 $1 par value ordinary shares at $18 per share. In 2011, Hobbs issued 4,000 of these shares at $25 per share. Hobbs uses the cost method to account for its treasury shares transactions. What accounts and what amounts should Hobbs credit in 2011 to record the issuance of the 4,000 shares?

	Treasury Shares	Share Premium	Retained Earnings	Share Capital
a.	$72,000		$70,000	
b.	$72,000	$28,000		
c.		$96,000		$4,000
d.		$68,000	$28,000	$4,000

144. At its date of incorporation, Sauder, Inc. issued 100,000 shares of its $10 par ordinary shares at $11 per share. During the current year, Sauder acquired 20,000 ordinary shares at a price of $16 per share and accounted for them by the cost method. Subsequently, these shares were reissued at a price of $12 per share. There have been no other issuances or acquisitions of its own ordinary shares. What effect does the reissuance of the shares have on the following accounts?

	Retained Earnings	Share Premium
a.	Decrease	Decrease
b.	No effect	Decrease
c.	Decrease	No effect
d.	No effect	No effect

145. Farmer Corp. owned 20,000 shares of Eaton Corp. purchased in 2007 for $240,000. On December 15, 2010, Farmer declared a property dividend of all of its Eaton Corp. shares on the basis of one share of Eaton for every 10 ordinary shares of Farmer held by its shareholders. The property dividend was distributed on January 15, 2011. On the declaration date, the aggregate market price of the Eaton shares held by Farmer was $400,000. The entry to record the declaration of the dividend would include a debit to Retained Earnings of

a. $0.
b. $160,000.
c. $240,000.
d. $400,000.

146. A corporation declared a dividend, a portion of which was liquidating. How would this distribution affect each of the following?

	Share Premium	Retained Earnings
a.	Decrease	No effect
b.	Decrease	Decrease
c.	No effect	Decrease
d.	No effect	No effect

147. On May 1, 2012, Ziek Corp. declared and issued a 10% ordinary shares dividend. Prior to this dividend, Ziek had 100,000 ordinary shares of $1 par value issued and outstanding. The fair value of Ziek 's ordinary shares was $20 per share on May 1, 2012. As a result of this share dividend, Ziek's total equity
a. increased by $200,000.
b. decreased by $200,000.
c. decreased by $10,000.
d. did *not* change.

148. How would the declaration and subsequent issuance of a 10% share dividend by the issuer affect each of the following when the fair value of the shares exceeds the par value of the shares?

	Share Capital	Share Premium
a.	No effect	No effect
b.	No effect	Increase
c.	Increase	No effect
d.	Increase	Increase

149. On December 31, 2010, the equity section of Arndt, Inc., was as follows:

Share capital—ordinary, par value $10; authorized 30,000 shares; issued and outstanding 9,000 shares	$ 90,000
Share premium—ordinary	116,000
Retained earnings	174,000
Total equity	$380,000

On March 31, 2011, Arndt declared a 10% share dividend, and accordingly 900 additional shares were issued, when the fair value was $18 per share. For the three months ended March 31, 2011, Arndt sustained a net loss of $32,000. The balance of Arndt's retained earnings as of March 31, 2011, should be
a. $125,800.
b. $133,000.
c. $134,800.
d. $142,000.

*150. At December 31, 2010 and 2011, Plank Corp. had outstanding 2,000 shares of $100 par value 8% cumulative preference shares and 10,000 shares of $10 par value ordinary shares. At December 31, 2010, dividends in arrears on the preference shares were $8,000. Cash dividends declared in 2011 totaled $30,000. What amounts were payable on each class of stock?

	Preference Shares	Ordinary Shares
a.	$16,000	$14,000
b.	$22,000	$8,000
c.	$24,000	$6,000
d.	$30,000	$0

Multiple Choice Answers—CPA Adapted

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
140.	d	142.	c	144.	c	146.	b	148.	d	*150.	c
141.	b	143.	b	145.	d	147.	d	149.	a		

DERIVATIONS — Computational

No.	Answer	Derivation
80.	a	$4,300,000 + $400,000 + $550,000 + $2,000,000 + $1,500,000 – $150,000 = $8,600,000.
81.	b	$4,300,000 + $550,000 = $4,850,000.
82.	b	(10,000 × $25) + (15,000 × $20) = $550,000 ($250,000 ÷ $550,000) × $480,000 = $218,182.
83.	c	(4,000 × $25) + (6,000 × $20) = $220,000 ($120,000 ÷ $220,000) × $192,000 = $104,727.
84.	d	(5,000 × $18) + $100,000 = $190,000.
85.	b	[(6,000 × $25) ÷ [(6,000 × $25) + (9,000 × $20)]] × $288,000 = $130,909.
86.	c	[(7,500 × $20) ÷ [(5,000 × $25) + (7,500 × $20)]] × $240,000 = $130,909.
87.	d	(1,000 × €36) + (1,000 × €28) = €64,000 [(€36,000 ÷ €64,000) × €60,000] – €5,000 = €28,750.
88.	c	(1,000 × €36) + (1,000 × €28) = €64,000 (€28,000 ÷ €64,000) × €60,000 = €26,250.
89.	d	(€15 – €5) × 1,000 = €10,000.
90.	b	(£28 – £24) × 500 = £2,000.
91.	d	($60 – $52) × 20,000 = $160,000.
92.	d	12,000 × $15 = $180,000.
93.	b	3,000 × $20 = $60,000; 3,000 × $7 = $21,000.
94.	c	4,000 × $15 = $60,000; 4,000 × $4 = $16,000.
95.	c	$900,000 + (2,000 × $5) – (500 × $10) = $905,000.
96.	d	(675,000 × $4) + (90,000 × $7) = $3,330,000.
97.	c	$900,000 + (3,600 × $5) – (2,400 × $4) = $908,400.
98.	a	$1,650,000 – (3,000 × $28) – (3,000 × $35) + (1,800 × $30) + $450,000 = $1,965,000.
99.	c	20,000 × $55 = $1,100,000.

100.	c	2,000 × \$50 × .06 = \$6,000 (\$6,000 – \$5,000) + \$6,000 = \$7,000.
101.	a	5,000 × \$100 × .05 = \$25,000 (\$45,000 × 2) – (\$25,000 × 3) = \$15,000.
102.	a	6,000 × \$100 × .07 = \$42,000 \$160,000 – (\$42,000 × 2) = \$76,000.
103.	c	10,000 × £10 = £100,000.
104.	b	(10,000 × £12) – (10,000 × 4 × £1) = £80,000.
105.	c	(\$90,000 ÷ \$10) × \$14 = \$126,000 [\$14 – (\$90,000 ÷ 10,000)] × 9,000 = \$45,000 \$126,000 – \$45,000 = \$81,000.
106.	d	(\$270,000 ÷ \$10) × \$14 = \$378,000 [\$14 – (\$270,000 ÷ 30,000)] × 27,000 = \$135,000 \$378,000 – \$135,000 = \$243,000.
107.	b	(900,000 × \$7) – [(\$7 – \$5) × 900,000] = \$4,500,000.
108.	d	(180,000 ÷ 10) × \$14 = \$252,000 \$252,000 – [\$252,000 – (180,000 × 18/20)] = \$162,000.
109.	d	(5,000 × \$63) = \$315,000 \$315,000 – (\$315,000 – \$218,000) = \$218,000.
110.	a	350,000 × .10 × \$30 = \$1,050,000 \$1,050,000 + (350,000 × 1.10 × \$.50) = \$1,242,500.
111.	c	(60,000 × \$50) + \$3,000,000 = \$6,000,000.
112.	a	\$75,000 – \$10,000 – (1,500 × \$6) = \$56,000.
113.	b	160,000 × .15 × \$35 = \$840,000.
114.	b	120,000 × .10 × \$20 = \$240,000.
115.	b	100,000 × .10 × \$8 = \$80,000.
116.	a	\$200,000 + \$100,000 – \$60,000 – (3,000 × \$20) = \$180,000.
117.	a	(\$420,000 × .05 × \$36) + (\$420,000 × 1.05 × \$.60) = \$1,020,600.
118.	d	\$150,000 + \$75,000 – \$45,000 – (1,500 × \$30) = \$135,000.

119.	d	(560,000 × .05 × $48) + (560,000 × 1.05 × $.60) = $1,696,800.
120.	b	(£85 – £10) × (10,000 × .10) = £75,000.
121.	d	No entry required.
122.	a	€2,000,000 ÷ 200,000 = €10/share.
123.	b	(€620,000 – €210,000) ÷ €200,000 = 21%.
124.	a	€210,000 ÷ (€620,000 – €100,000) = 40%.
125.	c	$8,000 ÷ ($93,000 – $15,000) = 10.3%.
126.	a	$1,800,000 ÷ 150,000 = $12.00.
127.	c	($72,000 – $10,000) ÷ [($1,000,000 + $1,200,000)] = 5.6%.
128.	c	($72,000 – $10,000) ÷ 100,000 = $.62. $12 ÷ .62 = 19.4.
129.	a	$\frac{X}{(\$2,120,000 - \$400,000)} = .25,\ X = \$430,000.$
130.	b	$\frac{\$30,000 - (.04 \times \$350,000)}{[(\$60,000 + \$75,000) + (\$75,000 + \$90,000)] \div 2} = .107 = 10.7\%.$
131.	c	$\frac{\$90,000 - (\$100,000 \times .10)}{[(\$120,000 + \$80,000 + \$240,000 - \$10,000) + (\$90,000 + \$65,000 + \$215,000)] \div 2}$ = $80 ÷ 400.
132.	a	$\frac{\$120,000 + \$80,000 + (240,000 - \$10,000)}{12,000} = \$430 \div 12.$
133.	b	$15,000 ÷ ($124,000 – $30,000) = 16.0%.
134.	b	$2,400,000 ÷ 120,000 = $20.00.
*135.	b	$150,000 – (60,000 × $5 × .08 × 3) = $78,000.
*136.	d	60,000 × $5 × .08 × 3 = $72,000 > $63,000.
*137.	b	8% × $600,000 = $48,000 (current year) 7%* × $600,000 = 42,000 (participating) $90,000

*$300,000 × 8% × 3 =	$ 72,000	(preference dividends)
$600,000 × 8% =	48,000	(ordinary current dividends)
	$120,000	

$$\frac{\$183,000 - \$120,000}{\$600,000 + \$300,000} = 7\%.$$

*138. c

		Ordinary Shares	
$500,000 × 6%	=	$30,000	(current year)
$500,000 × 10%*	=	50,000	(participating)
		$80,000	

*$135,000 – $30,000 – ($250,000 × 6% × 2) = $75,000

$$\frac{\$75,000}{\$750,000} = 10\%.$$

*139. b $250,000 – ($500,000 × 8% × 2) = $170,000.

DERIVATIONS — CPA Adapted

No.	Answer	Derivation
140.	d	Conceptual.
141.	b	($24 × 2,500) + ($18 × 5,000) = $150,000. $\frac{\$90,000}{\$150,000} \times \$125,000 = \$75,000.$
142.	c	15,000 × $2 = $30,000.
143.	b	(4,000 × $18) = $72,000; (4,000 × $7) = $28,000.
144.	c	Conceptual.
145.	d	$400,000 (fair value).
146.	b	Conceptual.
147.	d	Conceptual.
148.	d	Conceptual.
149.	a	$174,000 – $32,000 – (900 × $18) = $125,800.
*150.	c	($200,000 × .08) + $8,000 = $24,000 $30,000 – $24,000 = $6,000.

EXERCISES

Ex. 15-151—Lump sum issuance of shares.

Parker Corporation has issued 2,000 ordinary shares and 400 preference shares for a lump sum of $72,000 cash.

Instructions

(a) Give the entry for the issuance assuming the par value of the ordinary shares was $5 and the fair value $30, and the par value of the preference shares was $40 and the fair value $50. (Each valuation is on a per share basis and there are ready markets for each class of shares.)

(b) Give the entry for the issuance assuming the same facts as (a) above except the preference shares have no ready market and the ordinary shares have a fair value of $25 per share.

Solution 15-151

(a)	Cash	72,000	
	Share Capital—Ordinary		10,000
	Share Premium—Ordinary		44,000
	Share Capital—Preference		16,000
	Share Premium—Preference		2,000

(ordinary $30 × 2,000	$60,000	
preference $50 × 400	20,000	
	$80,000	fair value
60/80 × $72,000 =	$54,000	ordinary
20/80 × $72,000 =	18,000	preference
	$72,000)	

(b)	Cash	72,000	
	Share Capital—Ordinary		10,000
	Share Premium—Ordinary		40,000
	Share Capital—Preference		16,000
	Share Premium—Preference		6,000

Ex. 15-152—Treasury shares.

For numerous reasons, a corporation may reacquire shares of its own shares. When a company purchases treasury shares, it usually accounts for the shares using the cost method.

Instructions
Explain how a company would account for each of the following:
1. Purchase of shares at a price less than par value.
2. Subsequent resale of treasury shares at a price less than purchase price, but more than par value.
3. Subsequent resale of treasury shares at a price greater than both purchase price and par value.
4. Effect on net income.

Solution 15-152

1. Treasury Shares is debited for the purchase price of the shares even though the purchase price is less than par value.

2. Treasury Shares is credited for the original cost (purchase price) of the shares, and the excess of the original cost (purchase price) over the sales price first is debited to Share Premium—Treasury from earlier sales of treasury shares and any remainder then is debited to Retained Earnings.

3. Treasury shares is credited for the original cost (purchase price) of the shares, and the excess of the sales price over the original cost (purchase price) is credited to Share Premium—Treasury.

4. There is no effect on net income as a result of treasury share transactions.

Ex. 15-153—Treasury shares.

Agler Corporation's statement of financial position reported the following:

Share capital—ordinary outstanding, 5,000 shares, par $30 per share	$150,000
share premium—ordinary	80,000
Retained earnings	100,000

The following transactions occurred this year:
(a) Purchased 120 ordinary shares of to be held as treasury shares, paying $60 per share.
(b) Sold 90 of the treasury shares at $65 per share.
(c) Sold the remaining treasury shares at $50 per share.

Instructions
Prepare the journal entry for these transactions under the cost method of accounting for treasury shares.

Solution 15-153

(a) Treasury Shares	7,200	
Cash		7,200
(b) Cash	5,850	
Treasury Shares		5,400
Share Premium—Treasury		450
(c) Cash	1,500	
Share Premium—Treasury	300	
Treasury Shares		1,800

Ex. 15-154—Treasury shares.

Ellison Company's statement of financial position shows:

Share capital—ordinary, $20 par	$3,000,000
Share premium—ordinary	1,050,000
Retained earnings	750,000

Instructions
Record the following transactions by the cost method.
(a) Bought 5,000 ordinary shares at $29 a share.
(b) Sold 2,500 treasury shares at $30 a share.
(c) Sold 1,000 shares of treasury shares at $26 a share.

Solution 15-154

(a) Treasury Shares	145,000	
Cash		145,000
(b) Cash	75,000	
Treasury Shares		72,500
Share Premium—Treasury		2,500
(c) Cash	26,000	
Share Premium—Treasury	2,500	
Retained Earnings	500	
Treasury Shares		29,000

Ex. 15-155—Treasury shares.

In 2010, Mordica Co. issued 200,000 of its 500,000 authorized shares of $10 par value ordinary shares at $35 per share. In January, 2011, Mordica repurchased 15,000 shares at $30 per share. Assume these are the only share transactions the company has ever had.

Instructions

(a) What are the two methods of accounting for treasury shares?
(b) Prepare the journal entry to record the purchase of treasury shares by the cost method.
(c) 5,000 treasury shares are reissued at $33 per share. Prepare the journal entry to record the reissuance by the cost method.

Solution 15-155

(a) The two methods of accounting for treasury shares are the cost method and the par value method.

(b)	Treasury Shares	450,000	
	Cash		450,000
(c)	Cash	165,000	
	Share Premium—Treasury		15,000
	Treasury Shares		150,000

Ex. 15-156—Equity transactions.

Indicate the effect of each of the following transactions on *total* equity by placing an "X" in the appropriate column.

	Increase	Decrease	No Effect
1. Treasury shares are resold at more than cost.	________	________	________
2. Operating loss for the period.	________	________	________
3. Retirement of bonds payable at more than book value.	________	________	________
4. Declaration of a share dividend.	________	________	________
5. Acquisition of machinery for ordinary shares.	________	________	________
6. Conversion of bonds payable into ordinary shares.	________	________	________
7. Not declaring a dividend on cumulative preference shares.	________	________	________
8. Declaration of cash dividend.	________	________	________
9. Payment of cash dividend.	________	________	________

Solution 15-156

	Increase	Decrease	No Effect
1. Treasury shares are resold at more than cost.	X		
2. Operating loss for the period.		X	
3. Retirement of bonds payable at more than book value.		X	
4. Declaration of a share dividend.			X
5. Acquisition of machinery for ordinary shares.	X		
6. Conversion of bonds payable into ordinary shares.	X		
7. Not declaring a dividend on cumulative preference shares.			X
8. Declaration of cash dividend.		X	
9. Payment of cash dividend.			X

Ex. 15-157—Share dividends.

Describe the journal entry for a share dividend on ordinary shares (which has a par value).

Solution 15-157

A share dividend results in the transfer from retained earnings to contributed capital of an amount equal to the fair value of each share, if the dividend is less than 20-25%, or par value of each share, if the dividend is greater than 20-25%. Retained Earnings is debited for the total amount transferred, Ordinary Share Dividend Distributable is credited for the total par value of the shares, and, for a small share dividend, the excess of fair value over par value is credited to Share Premium—Ordinary.

Ex. 15-158—Share dividends and share splits.

Indicate the principal effects of a share dividend versus a share split as they affect the issuing corporation. Respond in the spaces as follows: "C" for change; "NC" for no change.

	Share Dividend	Share Split
Number of Shares Outstanding	________	________
Par Value per Share	________	________
Total Par Outstanding	________	________
Retained Earnings	________	________
Total Equity	________	________
Composition of Equity	________	________

Solution 15-158

	Share Dividend	Share Split
Number of Shares Outstanding	C	C
Par Value per Share	NC	C
Total Par Outstanding	C	NC
Retained Earnings	C	NC
Total Equity	NC	NC
Composition of Equity	C	NC

Ex. 15-159—Computation of selected financial ratios.

The following information pertains to Parsons Co.:

Preference shares, cumulative:	
Par per share	$100
Dividend rate	8%
Shares outstanding	5,000
Dividends in arrears	none
Ordinary shares:	
Par per share	$10
Shares issued	60,000
Dividends paid per share	$2.70
Market price per share	$48.00
Share premium—ordinary	$200,000
Unappropriated retained earnings (after closing)	$135,000
Retained earnings appropriated for contingencies	$150,000
Ordinary treasury shares:	
Number of shares	5,000
Total cost	$125,000
Net income	$370,000

Instructions
Compute (assume no changes in balances during the past year):
(a) Total amount of equity in the statement of financial position
(b) Earnings per share
(c) Book value per ordinary share
(d) Payout ratio
(e) Return on ordinary share equity

Solution 15-159

(a) (5,000 × $100) + (60,000 × $10) + $200,000 + $135,000 + $150,000 – $125,000 = $1,460,000.

(b) [$370,000 – (5,000 × $100 × 8%)] ÷ (60,000 – 5,000) = 330,000 ÷ 55,000 = $6.00 per share.

(c) ($1,460,000 – $500,000) ÷ (60,000 – 5,000) = $960,000 ÷ 55,000 = $17.45 per share.

(d) $2.70 ÷ $6 = 45% or [($2.70 × 55,000) ÷ ($370,000 – $40,000)].

(e) ($370,000 – $40,000) ÷ ($1,460,000 – $500,000) = 34.4%.

***Ex. 15-160**—Dividends on preference shares.

The equity section of Lemay Corporation shows the following on December 31, 2011:

Share capital—preference—6%, $100 par, 4,000 shares outstanding	$ 400,000
Share capital—ordinary—$10 par, 60,000 shares outstanding	600,000
Share premium—ordinary	200,000
Retained earnings	114,000
Total equity	$1,314,000

Instructions
Assuming that all of the company's retained earnings are to be paid out in dividends on 12/31/11 and that preference dividends were last paid on 12/31/09, show how much the preference and ordinary shareholders should receive if the preference share are cumulative and fully participating.

***Solution 15-160**

	Preference	Ordinary	Total
Dividends in arrears (6% of $400,000)	$24,000	$ —	$ 24,000
Current year's dividends	24,000	36,000	60,000
Participating dividend (3%)			
[($30,000 ÷ $1,000,000) x $400,000]	12,000	18,000	30,000
	$60,000	$54,000	$114,000

***Ex. 15-161**—Dividends on preference shares.

In each of the following independent cases, it is assumed that the corporation has $400,000 of 6% preference shares and $1,600,000 of ordinary shares outstanding, each having a par value of $10. No dividends have been declared for 2009 and 2010.

(a) As of 12/31/11, it is desired to distribute $250,000 in dividends. How much will the preference shareholders receive if their shares are cumulative and nonparticipating?

(b) As of 12/31/11, it is desired to distribute $400,000 in dividends. How much will the preference shareholders receive if their shares are cumulative and participating up to 11% in total?

(c) On 12/31/11, the preference shareholders received a $120,000 dividend on their shares which are cumulative and fully participating. How much money was distributed in total for dividends during 2011?

***Solution 15-161**

(a) $72,000 ($400,000 x .06 x 3 yrs.).
(b) $92,000 ($400,000 x .06 x 3 yrs.) + [$400,000 x (.11 -.06)].
(c) $408,000 ($288,000* to ordinary and $120,000 to preference).

* ($1,600,000 x .06) + [($120,000 - $72,000) ÷ $400,000) x $1,600,000].

PROBLEMS

Pr. 15-162—Equity transactions.

Presented below is information related to Wyrick Company:

1. The company is granted a charter that authorizes issuance of 15,000 shares of $100 par value preference shares and 40,000 shares of no-par ordinary shares.
2. 8,000 ordinary shares are issued to the founders of the corporation for land valued by the board of directors at $300,000. The board establishes a stated value of $5 a share for the ordinary shares.
3. 5,000 preference shares are sold for cash at $120 per share.
4. The company issues 100 ordinary shares to its attorneys for costs associated with starting the company. At that time, the ordinary shares were selling at $60 per share.

Instructions
Prepare the general journal entries necessary to record these transactions.

Solution 15-162

1. No entry necessary.

2. Land	300,000	
Share Capital—Ordinary		40,000
Share Premium—Ordinary		260,000

3. Cash	600,000	
Share Capital—Preference		500,000
Share premium—Preference		100,000
4. Organization Expense	6,000	
Share Capital—Ordinary		500
Share Premium—Ordinary		5,500

Pr. 15-163—Treasury share transactions.

The original sale of the $50 par value ordinary shares of Gray Company was recorded as follows:

Cash	290,000	
Share Capital—Ordinary		250,000
Share Premium—Ordinary		40,000

Instructions

Record the treasury share transactions (given below) under the cost method:

Transactions:

(a) Bought 300 ordinary shares as treasury shares at $62.
(b) Sold 80 shares of treasury shares at $60.
(c) Sold 40 treasury shares at $68.

Solution 15-163

(a) Treasury Shares	18,600	
Cash		18,600
(b) Cash	4,800	
Retained Earnings	160	
Treasury Shares		4,960
(c) Cash	2,720	
Share Premium—Treasury		240
Treasury Shares		2,480

Pr. 15-164—Share dividends.

The equity section of Benton Corporation's statement of financial position as of December 31, 2010 is as follows:

Equity

Share capital—ordinary, $5 par value; authorized, 2,000,000 shares; issued, 400,000 shares	$2,000,000
Share premium—ordinary	850,000
Retained earnings	3,000,000
	$5,850,000

The following events occurred during 2011:

1. Jan. 5 10,000 shares of authorized and unissued ordinary shares were sold for $8 per share.

2. Jan. 16 Declared a cash dividend of 20 cents per share, payable February 15 to shareholders of record on February 5.

3. Feb. 10 20,000 shares of authorized and unissued ordinary shares were sold for $12 per share.

4. March 1 A 30% share dividend was declared and issued. Fair value per share is currently $15.

5. April 1 A two-for-one split was carried out. The par value of the shares was to be reduced to $2.50 per share. Fair value on March 31 was $18 per share.

6. July 1 A 15% share dividend was declared and issued. Fair value is currently $10 per share.

7. Aug. 1 A cash dividend of 20 cents per share was declared, payable September 1 to stockholders of record on August 21.

Instructions

Enter the above events into the following work sheet showing how each event affects the column. Event No. 1 will serve as an example.

	Share Capital—Ordinary			
Item	No. of Shares Issued	Total Par Value	Share Premium—Ordinary	Retained Earnings
Beginning Balance—1/1/11	400,000	$2,000,000	$850,000	$3,000,000
Event #1—Jan. 5	10,000	50,000	30,000	-0-
Balance	410,000	$2,050,000	$880,000	$3,000,000

Event # 2—Jan. 16 (and events 3 through 7)

Solution 15-164

Event #2—Jan. 16	-0-	-0-	-0-	(82,000)
Balance	410,000	$2,050,000	$880,000	$2,918,000
#3—Feb. 10	20,000	100,000	140,000	-0-
Balance	430,000	$2,150,000	$1,020,000	$2,918,000
#4—March 1	129,000	645,000	-0-	(645,000)
Balance	559,000	$2,795,000	$1,020,000	$2,273,000
#5—April 1	559,000	-0-	-0-	-0-
Balance	1,118,000	$2,795,000	$1,020,000	$2,273,000
#6—July 1	167,700	419,250	1,257,750	(1,677,000)
Balance	1,285,700	$3,214,250	$2,277,750	$596,000
#7—Aug. 1	-0-	-0-	-0-	(257,140)
Balance	1,285,700	$3,214,250	$2,277,750	$338,860

Pr. 15-165—Equity transactions.

Foley Corporation has the following capital structure at the beginning of the year:

Share capital—preference 6%, $50 par value, 20,000 shares authorized, 6,000 shares issued and outstanding	$ 300,000
Share capital—ordinary, $10 par value, 60,000 shares authorized, 40,000 shares issued and outstanding	400,000
Share premium—ordinary	110,000
Retained earnings	440,000
Total equity	$1,250,000

Instructions

(a) Record the following transactions which occurred consecutively (show all calculations).

1. A total cash dividend of $90,000 was declared and payable to shareholders of record. Record dividends payable on ordinary and preference shares in separate accounts.
2. A 10% ordinary share dividend was declared. The average fair value of the ordinary shares is $18 a share.
3. Assume that net income for the year was $150,000 (record the closing entry) and the board of directors appropriated $70,000 of retained earnings for plant expansion.

(b) Construct the equity section incorporating all the above information.

Solution 15-165

(a) 1.	Retained Earnings	90,000	
	Dividends Payable—Preference ($300,000 × .06)		18,000
	Dividends Payable—Ordinary		72,000

2.

40,000	shares
10%	
4,000	shares as share dividend
$18	
$72,000	total dividend

2.	Retained Earnings	72,000	
	Ordinary Share Dividend Distributable		40,000
	Share Premium—Ordinary		32,000
3.	Income Summary	150,000	
	Retained Earnings		150,000
	Retained Earnings	70,000	
	Retained Earnings Appropriated for Plant Expansion		70,000

Solution 15-165 (cont.)

(b) Equity

6% Preference shares, $50 par value, 20,000 shares authorized, 6,000 shares issued and outstanding		$ 300,000
Share capital—ordinary, $10 par value, 60,000 shares authorized, 40,000 shares issued and outstanding		400,000
Ordinary share dividend distributable		40,000
Share premium—ordinary		142,000
Retained earnings—unappropriated*	$358,000	
Appropriated for plant expansion	70,000	
Total retained earnings		428,000
Total equity		$1,310,000

*$440,000 – $90,000 – $72,000 + $150,000 – $70,000 = $358,000

***Pr. 15-166**—Dividends on preference and ordinary shares.

Rensing, Inc., has $800,000 of 8% preference shares and $1,200,000 of ordinary shares outstanding, each having a par value of $10 per share. No dividends have been paid or declared during 2009 and 2010. As of December 31, 2011, it is desired to distribute $488,000 in dividends.

Instructions

How much will the preference and ordinary shareholders receive under each of the following assumptions:

(a) The preference is noncumulative and nonparticipating.

(b) The preference is cumulative and nonparticipating.

(c) The preference is cumulative and fully participating.

(d) The preference is cumulative and participating to 12% total.

***Solution 15-166**

(a)

	Preference	Ordinary	Total
Current year's dividend (8% of $800,000)	$ 64,000	$ —	$ 64,000
Remainder to ordinary		424,000	424,000
	$ 64,000	$424,000	$488,000

(b)

	Preference	Ordinary	Total
Dividends in arrears, 8% of $800,000 for two years	$128,000	$ —	$128,000
Current year's dividend	64,000	—	64,000
Remainder to ordinary		296,000	296,000
	$192,000	$296,000	$488,000

(c)

	Preference	Ordinary	Total
Dividends in arrears, 8% of $800,000 for two years	$128,000	$ —	$128,000
Current year's dividend	64,000	96,000	160,000
Participating dividend 10% ($200,000 ÷ $2,000,000)	80,000	120,000	200,000
	$272,000	$216,000	$488,000

***Solution 15-166** (cont.)

(d)

	Preference	Ordinary	Total
Dividends in arrears, 8% of $800,000 for two years	$128,000	$ —	$128,000
Current year's dividend	64,000	96,000	160,000
Participating dividend (4%)	32,000	48,000	80,000
Remainder to ordinary	—	120,000	120,000
	$224,000	$264,000	$488,000

Short Answer

1. Briefly describe some of the similarities and differences between U.S. GAAP and IFRS with respect to the accounting for stockholders' equity.

   1**. Key similarities** between IFRS and U.S. GAAP for transactions related to stockholders' equity pertain to (1) issuance of shares, (2) purchase of treasury shares, (3) declaration and payment of dividends, (4) the accounting for start up costs—that is, they should be expensed as incurred, (5) the costs associated with issuing shares reduce the proceeds from the issuance and reduce contributed capital, and (6) the accounting for par, no par and no par shares with a stated value.

   Major differences relate to terminology used, introduction of items such as revaluation surplus, and presentation of equity information. In addition, the accounting for treasury share retirements differs between IFRS and U.S. GAAP. Under U.S. GAAP a company has the option of charging the excess of the cost of treasury shares over par value to (1) retained earnings, (2) allocate the difference between contributed capital and retained earnings, or (3) charge the entire amount to contributed capital. Under IFRS, the excess may have to be charged to contributed capital, depending on the original transaction related to the issuance of the stock. An IFRS/U.S. GAAP difference relates to the account Revaluation Surplus. Revaluation surplus arises under IFRS because companies are permitted to revalue their property, plant and equipment to fair value under certain circumstances. This account is part of general reserves under IFRS and is not considered contributed capital. While both IFRS and U.S. GAAP consider the statement of stockholders' equity a primary financial statement, under IFRS, a company has the option of preparing a statement of stockholders' equity similar to U.S. GAAP or preparing a statement of recognized income and expense (SoRIE). The statement of SoRIE reports the items that were charged directly to equity such as revaluation surplus and then adds the net income for the period to arrive at total recognized income and expense. In this situation, additional note disclosure is required to provide reconciliations of other equity items.

2. Briefly discuss the implications of the financial statement presentation project for the reporting of stockholders' equity.

   2. It is likely that the statement of stockholders' equity and its presentation will be examined closely in the financial statement presentation project. The statement of recognized income and expense now permitted under IFRS will probably be eliminated. In addition the options of how to present other comprehensive income under U.S. GAAP will change in any converged standard in this area. Also, the FASB has been working on a standard that will likely converge to IFRS in the area of hybrid financial instruments.