Problem 1  (7 points)

The stockholders’ equity section of Abbie Corporation at December 31, 2008, included the following:

<table>
<thead>
<tr>
<th>Stock Type</th>
<th>Shares Authorized</th>
<th>Shares Issued</th>
<th>Par Value</th>
<th>Total Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>11% preferred stock</td>
<td>10,000</td>
<td>9,000</td>
<td>$100</td>
<td>$900,000</td>
</tr>
<tr>
<td>Common stock</td>
<td>250,000</td>
<td>200,000</td>
<td>$10</td>
<td>$2,000,000</td>
</tr>
</tbody>
</table>

On September 15, 2009, the board of directors of Abbie Corporation declared cash dividends on the preferred stock for the year 2009, to stockholders of record on October 1, 2009, payable on October 15, 2009.

Instructions
Prepare the journal entries that should be made by Abbie Corporation on the dates indicated below: Make sure to date your transaction.

<table>
<thead>
<tr>
<th>Date</th>
<th>Entry</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 15, 2009</td>
<td>-no entry required-</td>
</tr>
<tr>
<td>October 1, 2009</td>
<td>Dividends Payable</td>
</tr>
<tr>
<td>October 15, 2009</td>
<td>Date: October 15, 2009, Cash</td>
</tr>
</tbody>
</table>

* What is the effect of the correct above entries on Abbie Corporation’s net income for 2009? Circle one:

Increase  Decrease  No Effect
Problem 2 - Each requirement worth one point Show your work! (5 points)

Allie Corporation, whose year end is December 31, lost some of its accounting records in a recent fire on June 25, 2008. The following information has been salvaged from the rubble.

The preferred stock account has a balance of $300,000 and the par value of each share is $50. The common stock has a par value of $8 per share and the average issue price of a share of common stock was $26.25. The paid-in capital in excess of par value - preferred account has a $3,000 balance. There are 80,000 shares of common stock issued. The retained earnings account had a balance of $152,600 at January 1, 2009, and a balance of $138,100 at June 25, 2009. Net Income was computed to be $8,000 for the period January 1, 2008 to June 25, 2009. Net Income has not been closed out to the appropriate account yet. There is no treasury stock.

Required:
1. Determine the number of shares of preferred stock issued. 
2. What is the balance in the common stock account? $640,000
3. What was the average issue price of a share of preferred stock? $50.50
4. Determine the balance in the paid-in capital in excess of par value - common account. $1,460,000
5. What effect does the issuance of preferred stock or common stock by the corporation to its shareholders have on the total stockholder's equity of the corporation? Circle one! (I am not referring to a stock dividend or a stock split)
   Increase  Decrease  No effect
**Problem 3- Miscellaneous Issues of Stock (9 1/2 points)**

The following transactions occurred during the year for the Coteau Corporation:

- **January 1, 2009**
  Coteau Corporation issued 2,500 shares of 8%, $40 par value preferred stock for cash at $68.40 per share.

- **July 2, 2009**
  Coteau Corporation received land valued at $105,000 and a building with a market value at $44,000 in exchange for 8,250 shares of no par value common stock. The land and the building were originally bought for $25,000 and $75,000 respectively by the incoming shareholders. The book value of the building to the incoming shareholders was $60,000.

- **November 1, 2009**
  Coteau Corporation issued 6,200 shares of no par value common stock for cash at $26.25 per share.

**Required:** Prepare the journal entries necessary to record the above transactions by Coteau Corporation. **Identify each transaction by date.**

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/1</td>
<td>Cash</td>
<td>$171,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Preferred Stock</td>
<td></td>
<td>$100,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7/2</td>
<td>Land</td>
<td>$105,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Building</td>
<td>$44,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Common Stock</td>
<td></td>
<td>$149,000</td>
</tr>
<tr>
<td>11/1</td>
<td>Cash</td>
<td>$162,750</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Common Stock</td>
<td></td>
<td>$162,750</td>
</tr>
</tbody>
</table>
Multiple Choice: Indicate the best answer for each of the following by blackening the appropriate letter on your Scantron sheet (3 points each).

1. Which of the following factors does not affect the market price of a stock?
   a. The company’s anticipated future earnings
   b. The par value of the stock
   c. The current state of the economy
   d. The expected dividend rate per share

2. Under the corporate form of business organization
   a. a stockholder is personally liable for the debts of the corporation.
   b. stockholders’ acts can bind the corporation even though the stockholders have not been appointed as agents of the corporation.
   c. the organization is subject to numerous regulations.
   d. stockholders wishing to sell their corporation shares must get the approval of other stockholders.
   e. both b and c are correct

3. The ability of a corporation to obtain owners capital is
   a. enhanced because of limited liability and ease of share transferability.
   b. less than a partnership
   c. restricted because of the limited life of the corporation
   d. about the same as a partnership
   e. restricted because generally a shareholder has unlimited liability

4. If the Jaden Corporation has 200,000 shares of common stock authorized, 120,000 shares of common stock issued, and holds 10,000 shares of common stock as treasury stock, the total number of outstanding shares of Jaden Corporation amounts to
   a. 80,000.
   b. 90,000.
   c. 110,000.
   d. 130,000.
   e. 190,000

5. Treasury stock is stock that:
   a. Has never been issued.
   b. Must be offered to existing stockholders first in amounts proportional to their holdings of the issuer’s stock.
   c. Is apportioned to cover special projects such as the construction of a new building.
   d. Has been issued but was reacquired by the corporation

6. A stockholders’ ownership percentage in the corporation ____ upon the distribution of an ordinary stock dividend.
   a. increases
   b. decreases
   c. can increase or decrease
   d. will stay the same
7. The balance of the Retained Earnings account generally represents
   a. cash set aside for specific future uses.
   b. cash available for daily operations.
   c. an excess of revenues over expenses for the most current operating period.
   d. profits of a company since the date of its beginning less any losses and dividends to stockholders.

8. The acquisition (purchase) of treasury stock by a corporation
   a. increases its total assets and total stockholders’ equity.
   b. decreases its total assets and total stockholders’ equity.
   c. has no effect on total assets and total stockholders’ equity.
   d. requires that a gain or loss be recognized on the income statement.
   e. decreases its total assets and has no effect on total stockholders’ equity.

9. A retained earnings restriction:
   a. makes a portion of the balance of retained earnings unavailable for dividends.
   b. may arise from legal, contractual, or voluntary causes.
   c. generally is disclosed in the notes to the financial statements.
   d. all of the above are correct.
   e. only b and c are correct.

10. The document used by a state to grant permission to form a corporation is called a:
    a. stock certificate
    b. proxy
    c. charter
    d. bylaw agreement

11. The two main subdivisions of stockholders’ equity on the balance sheet are:
    a. Capital stock and paid-in capital.
    b. Capital stock and retained earnings.
    c. Paid-in capital and retained earnings.
    d. Paid-in capital and dividends.

12. A common stockholder generally possesses which of the following rights?
    a. The right to declare dividends.
    b. The right to direct ownership of the corporation’s assets.
    c. The right to vote in the election of the board of directors of the corporation.
    d. The right to receive assets before creditors in the case of liquidation.

13. Which of the following statements is incorrect?
    a. Dividends cannot be paid on common stock while any dividend on preferred stock is in arrears.
    b. Dividends in arrears on preferred stock are not considered a liability.
    c. Preferred stock will have a higher market value than common stock.
    d. When preferred stock is noncumulative, any dividend passed in a year is lost if the company is unable to, or
       decides not to, pay it.
    e. All of the above are correct.

14. The value at which one share of stock can be bought or sold by the shareholder is called:
    a. market value.
    b. book value.
    c. call value.
    d. par or stated value.
15. All of the following require payments of assets by the corporation to its stockholders except:
   a. stock dividends
   b. cash dividends
   c. treasury stock purchases
   d. stock retirements by calling in stock

16. The Jessie Corporation had the following shares of stock outstanding at December 31, 2009:

   Common stock, $50 par value, 40,000 shares outstanding
   Preferred stock, 4%, $75 par value, cumulative, 10,000 shares outstanding

   Dividends were not declared for the year 2007 and the year 2008. On December 31, 2009, total cash dividends of $250,000 were declared. The total amounts payable to preferred stockholders and common stockholders, respectively, are
   a. $30,000 and $220,000.
   b. $90,000 and $160,000.
   c. $125,000 and $125,000.
   d. $40,000 and $210,000.
   e. none of the above are correct.

17. The cumulative (end) effect of the declaration and payment of a cash dividend on a company's balance sheet is to
   a. decrease current liabilities and stockholders' equity.
   b. increase total assets and stockholders' equity.
   c. increase current liabilities and stockholders' equity.
   d. decrease stockholders’ equity and total assets.
18. How will the declaration and distribution of a 10% stock dividend affect the balance of retained earnings and total stockholders equity, respectively, of the issuing corporation?

<table>
<thead>
<tr>
<th>Retained Earnings</th>
<th>Total Stockholders' Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. No effect</td>
<td>No effect</td>
</tr>
<tr>
<td>b. No effect</td>
<td>Decrease</td>
</tr>
<tr>
<td>c. Decrease</td>
<td>No effect</td>
</tr>
<tr>
<td>d. Decrease</td>
<td>Decrease</td>
</tr>
<tr>
<td>e. Decrease</td>
<td>Increase</td>
</tr>
</tbody>
</table>

Use the following information to answer questions 19 and 20.

The following are some of the accounts that can be found in the general ledger of the Maple Corporation as of December 31, 2009:

- Cash $20,000
- Dividends Payable 20,000
- Preferred stock 50,000
- Common stock 100,000
- Paid-in Capital in Excess of Par Value, Preferred 12,000
- Paid-in Capital in Excess of Stated Value, Common 40,000
- Retained Earnings 67,000

19. A balance sheet prepared at December 31, 2009, would report total stockholders' equity of

a. $150,000.
b. $202,000.
c. $192,000.d. $259,000.e. none of the above.

20. A balance sheet prepared at December 31, 2009, would report total paid-in-capital of

a. $150,000.b. $202,000.c. $192,000.d. $269,000.e. $222,000.

21. Three thousand shares of treasury stock of Meyer, Inc., with a par value of $6 which was originally issued at $9, and previously acquired at $15 per share, are resold at $24 per share. The entry to record the sale of the treasury stock will include a (Use the cost method) (Hint: Try to put entire journal entry together).

a. credit to Treasury Stock for $72,000.
b. debit to Paid-In Capital from Treasury Stock for $27,000.
c. debit to Treasury Stock for $45,000.d. credit to Paid-In Capital from Treasury Stock for $27,000.e. both answers a & d are correct.
True (A) or False (B) (1 point each)

22. A preferred stockholder who holds participating preferred stock may receive current year dividends that are greater than the basic dividend rate on the preferred stock.

23. As a general rule the federal income tax rates for individuals on regular cash dividends received by shareholders is lower than the regular federal income tax rates.

24. A possible motive for a stock dividend or a stock split (split-up) is a desire to lower the market price per share of the stock.

25. A corporation is not an entity which is legally separate and distinct from its owners.

26. The retained earnings account cannot have a debit balance.

27. In a 2-for-1 stock split the number of issued shares is doubled and the par value of the stock is doubled.

28. Both a stock dividend and a stock split increase the number of shares of stock owned per stockholder. (Not a reverse stock split)

29. A corporation can be organized for the purpose of making a profit or it may be a nonprofit organization.

30. Callable preferred stock gives the stockholder the right to sell the stock to the issuing corporation at specified future dates and prices.

31. The preemptive right refers to a stockholder’s right to receive dividends when they are declared by the board of directors.

32. A shareholder of a corporation may earn interest on his or her shares of stock in the corporation.

33. A major difference among corporations, proprietorships, and partnerships is that a corporation’s income statement reports income tax expense.

34. As soon as a corporation is authorized to sell stock, an accounting journal entry should be made recording the total value of the shares authorized.

35. The word preferred in the phrase preferred stock means that an owner of preferred stock has some advantages over a stockholder who owns common stock.

36. A liability arises for the corporation when the board of directors declares a stock dividend.

37. A corporation’s net loss for a specific year will reduce the corporation’s paid-in capital.