

**Financial Accounting for Executives & MBAs**  
5th Edition  
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**PRACTICE QUIZ**

**Chapter 11: Equity Financing and Shareholders' Equity**

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Identify the answer that BEST completes the statement or answers the question.

1. During the year, Smith & Sons issued 1,000 shares of its \$1.00 par value common stock for \$15 per share, and declared and paid cash dividends totaling \$0.50 per share.

By what amount does contributed capital increase as a result of these events?

- a. \$15,000
- b. \$ 500
- c. \$14,500
- d. \$14,750

2. The Claremont Company began the year with a balance in retained earnings of \$60,000 and 40,000 shares of \$1 par common stock outstanding. During the year, the company reported sales of \$240,000, expenses of \$200,000, and declared and paid a \$0.40 per share cash dividend.

How much is the balance in the Retained Earnings account at the end of the year?

- a. \$ 80,000
- b. \$104,000
- c. \$ 84,000
- d. \$ 23,000

3. Keck Enterprises reported the following information at December 31:

Preferred Stock, \$5 par, 10,000 shares authorized	\$ 7,500
Additional paid-in capital – preferred stock	9,900
Common stock, \$1.00 par, 6,000 shares authorized	3,300
Additional paid-in capital – common stock	8,700
Retained earnings	17,000
Treasury stock, at cost of \$4 per share	<u>(2,000)</u>
Total	\$44,400

How many shares of common stock are outstanding?

- a. 2,200
- b. 3,300
- c. 2,800
- d. 5,600

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Additional paid-in capital – common stock	8,700
Retained earnings	17,000
Treasury stock, at cost of \$4 per share	<u>(2,000)</u>
Total	\$44,400

What is the average selling price for each share of preferred stock?

- a. \$5.00
  - b. \$0.75
  - c. \$2,500
  - d. \$11.60
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Treasury stock, at cost of \$4 per share	<u>(2,000)</u>
Total	\$44,400

Keck's stock was selling for \$22 per share at year-end.

If the company declares a 10% common stock dividend, what will be the amount of total shareholders' equity at year-end?

- a. \$44,400
  - b. \$27,400
  - c. \$10,800
  - d. \$28,600
6. Pomona Enterprises has 1,000,000 authorized shares of \$1 par value common stock, with 100,000 shares issued and outstanding with a total current market value of \$150,000. You are the owner of 12% of the stock.

Which statement describes what happens when the company executes a 3-for-1 forward stock split?

- a. You will own 36% of the company's stock after the split
- b. Your ownership is worth \$450,000 after the split
- c. You return your original shares to the company, and receive 36,000 new shares in exchange
- d. You receive 36,000 additional shares of stock

7. Upon submitting its corporate charter to the state, Drucker Corporation was granted permission to issue 5,000 shares of \$1.00 par value common stock. Net income for the year was \$300,000. In addition, the following transactions took place during the year:

January 2: Investors paid the company \$14 each for 2,000 shares of common stock  
March 12: Drucker purchased 300 shares of its own common stock for \$13 per share  
October 31: Drucker declared a 2-for-1 forward stock split

As of December 31, how many shares are issued, and how many shares are outstanding?

- Issued, 4,000; Outstanding, 3,400
- Issued, 3,200; Outstanding, 3,400
- Issued, 3,800; Outstanding, 1,600
- Issued, 3,400; Outstanding, 3,400

**Use the following information to answer Questions 8 and 9:**

Office Supply Corporation purchased 8,000 shares of treasury stock at \$14 per share. The stock had a par value of \$5 and had been issued at an average price of \$8.

8. To record the acquisition of the treasury stock would require:
- An increase to Treasury Stock for \$112,000
  - A decrease to Common Stock for \$40,000
  - A decrease to Additional Paid-In Capital, Common Stock for \$32,000
  - An increase to Treasury Stock for \$64,000
9. A few months later, 3,000 shares of the treasury stock were reissued at \$20 per share. To record this transaction requires an increase to:
- Additional Paid-in Capital, Treasury Stock for \$45,000
  - Common Stock for \$15,000
  - Treasury Stock for \$60,000
  - Additional Paid-in Capital, Treasury Stock for \$18,000
10. Dividends in arrears (unpaid in prior years) on cumulative preferred stock:
- Are considered to be a non-current liability
  - Are considered to be a current liability
  - Only occur when preferred dividends have been declared
  - Should be disclosed in the notes to the financial statements

## SOLUTIONS

### Chapter 11: Equity Financing and Shareholders' Equity

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1. a

Rationale:  $(1,000 \text{ shares} \times \$15.00)$

2. c

Rationale:  $[\$60,000 + (\$240,000 - \$200,000) - (40,000 \text{ shares} \times \$0.40)]$

3. c

Rationale:  $[\$3,300 / \$1 \text{ par value}] - [\$2,000 / \$4 \text{ par value}]$

4. d

Rationale:  $(\$7,500 + \$9,900) / [\$7,500 / \$5]$

5. a

6. c

7. a

Rationale: Issue:  $(2,000 \text{ shares} \times 2)$   
Outstanding:  $(2,000 \text{ shares} - 300 \text{ shares}) \times 2$

8. a

Rationale:  $(8,000 \text{ shares} \times \$14 \text{ per share})$

9. d

Rationale:  $[3,000 \text{ shares} \times (\$20 - \$14)]$

10. d