

## Chapter 11– Financial Accounting, 3<sup>rd</sup> Edition by Dyckman, Magee & Pfeiffer

### Practice Quiz

Topic: Stockholders' Equity from the Balance Sheet

LO: 1

1. Tyson Corporation issued 350,000 shares of \$1.50 par value capital stock at its date of incorporation for cash at a price of \$6 per share. During the first year of operations, the company earned \$150,000 and declared a dividend of \$50,000. At the end of this first year of operations, the balance of the Common Stock account is:
  - a. \$ 625,000
  - b. \$2,200,000
  - c. \$ 525,000
  - d. \$1,675,000

Topic: Stock Split

LO: 4

2. In March 2010, Towson Company announced a 4-for-1 stock split. This brought the number of shares outstanding from 88 million shares to \_\_\_\_\_ shares.
  - a. 22 million
  - b. 176 million
  - c. 264 million
  - d. 352 million

Topic: EPS

LO: 6

3. Carlson Company reported net income of \$1,750 million in 2010. The weighted average number of common shares outstanding during 2010 was 525 million shares. Carlson paid \$30 million in dividends on preferred stock, which was convertible into 15 million shares of common stock.

What is the basic earnings per share amount for 2010?

- a. \$3.24
- b. \$3.19
- c. \$3.33
- d. \$3.28

Topic: EPS

LO: 6

4. Evans Company reported net income of \$1,050 million in 2010. The weighted average number of common shares outstanding during 2010 was 480 million shares. Evans paid \$50 million in dividends on preferred stock, which was convertible into 40 million shares of common stock.

What is the diluted earnings per share amount for 2010?

- a. \$2.02
- b. \$2.19
- c. \$1.92
- d. \$2.12

Topic: Accounting for Stock Issuance

LO: 2

5. If a company issues 2,000 shares of common stock at a market price of \$25 per share, which of the following is the correct balance sheet entry?

- a. Increase cash by \$50,000 and increase the contributed capital section by \$50,000
- b. Increase cash by \$50,000 and increase earned capital by \$50,000
- c. Decrease revenues by \$20,000
- d. Stock issuances are not reported on the balance sheet

Topic: Book Value Per Share

LO: 5

6. Shaw Company has total stockholders' equity of \$5,400,000. The company's outstanding capital stock includes 60,000 shares of \$10 par value common stock and 15,000 shares of 6%, \$50 par value preferred stock. There are no dividends in arrears.

Based on this information, the book value per share of common stock is:

- a. \$62.00
- b. \$67.50
- c. \$90.00
- d. \$77.50

Topic: Earned Capital and Dividends

LO: 3, 4, 5

7. Below is the stockholders' equity section of the balance sheet of Craft Corporation (with certain details omitted):

Stockholders' equity:	
6% preferred stock, \$100 par, 10,000 shares authorized and ? shares issued	\$800,000
Common Stock, \$25 par, 50,000 shares authorized, ? shares issued	625,000
Additional paid-in capital:	
Preferred stock	150,000
Common stock	<u>225,000</u>
Total paid-in capital	\$1,800,000
Retained earnings	<u>950,000</u>
Total stockholders' equity	<u>\$2,750,000</u>

The balance in retained earnings at the beginning of the current year was \$675,000, and there were no dividends in arrears. Net income for the current year was \$350,000. Based on this information, what is the amount of the dividends declared on each share of common stock during the current year?

- a. \$1.08
- b. \$3.00
- c. \$4.46
- d. \$2.27

Topic: Treasury Stock

LO: 1, 2

8. Treasury stock that is reissued at a price above its cost results in which of the following?:
- a. Total paid-in capital is increased.
  - b. The corporation recognizes a gain to be recorded on the income statement.
  - c. Retained earnings is increased.
  - d. The reissued price is treated as an extraordinary item in the corporation's income statement.

**Use the following information to answer question 9.**

On January 1, 2010, Morgan Company issued 60,000 shares of its total 200,000 authorized shares of \$4 par value common stock for \$4 per share. On December 31, 2010, Morgan Company's common stock is trading at \$8 per share.

Topic: Accounting for Stock Transactions

LO: 1, 2

9. If Morgan Company does not issue any more common stock in 2010, how does the increase in value of its outstanding stock affect Morgan?
- This increase in market value of outstanding stock is not recorded in the financial statements of Morgan Company.
  - Morgan should recognize additional net income for 2010 of \$4 per share, or \$240,000.
  - Each shareholder must pay an additional \$4 per share to Morgan.
  - Paid-in capital at December 31, 2010, is \$480,000 (or 60,000 shares times \$8 per share).

Topic: Preferred Stock Characteristics

LO: 1, 7

10. Which of the following is not a characteristic of most preferred stocks?
- Preference as to dividends.
  - No voting power.
  - Detachable conversion options are not valued on the balance sheet.
  - Preference as to assets in the event of liquidation of the company.