

Module 9 – Financial Accounting for MBAs, 4th edition by Easton, Halsey, Wild & McAnally

Practice Quiz

1. Following is the 2005 stockholders' equity section from the **Cisco Systems, Inc.**, balance sheet.

Shareholders' Equity (in millions, except par value)	July 30, 2005
Preferred stock, no par value: 5 shares authorized; none issued and outstanding	\$ —
Common stock and additional paid-in capital, \$0.001 par value: 20,000 shares authorized; 6,331 shares issued and outstanding at July 30, 2005	22,394
Retained earnings	506
Accumulated other comprehensive income	274
Total shareholders' equity	<u>\$23,174</u>

For the \$22,394 million reported as “common stock and additional paid-in capital,” what portion is common stock?

- a. \$22,394 million
 - b. \$6 million
 - c. \$22,388 million
 - d. \$12 million
2. Following is the stockholders' equity section from the **Abercrombie & Fitch** balance sheet.

Shareholders' Equity (\$ thousands)	January 28, 2006	January 29, 2005
Class A common stock—\$.01 par value: 150,000,000 shares authorized and 103,300,000 shares issued at January 28, 2006 and January 29, 2005, respectively	\$ 1,033	\$ 1,033
Paid-in capital	161,678	140,251
Retained earnings	1,357,791	1,076,023
Accumulated other comprehensive income	(796)	—
Deferred compensation	26,206	15,048
Treasury stock at average cost: 15,573,789 and 17,262,943 shares at January 28, 2006 and January 29, 2005, respectively	<u>(550,795)</u>	<u>(563,029)</u>
Total shareholders' equity	<u>\$ 995,117</u>	<u>\$ 669,326</u>

How many shares are outstanding at its 2006 fiscal year-end?

- a. 87,726,211
- b. 150,000,000
- c. 103,300,000
- d. 86,037,057

3. Fischer Company has outstanding 8,000 shares of \$100 par value, 5% preferred stock, and 50,000 shares of \$1 par value common stock. The company has \$328,000 of retained earnings. At year-end, the company declares and pays the regular \$5 per share cash dividend on preferred stock and a \$1.80 per share cash dividend on common stock. What is the total dividends paid by Fischer Company?
- \$328,000
 - \$40,000
 - \$90,000
 - \$130,000
4. Following is the stockholders' equity section from **Altria's** 2005 balance sheet.

December 31 (\$ million)	2005
Common stock, par value \$0.33 ¹ / ₃ per share (2,805,961,317 shares issued)	\$ 935
Additional paid-in capital	6,061
Earnings reinvested in the business.	54,666
Accumulated other comprehensive losses (including currency translation of \$1,317 in 2005) . .	(1,853)
Cost of repurchased stock (721,696,918 shares in 2005)	(24,102)
Total stockholders' equity	\$35,707

At what average price has Altria issued its common stock?

- \$2.49
 - \$0.33
 - \$12.73
 - \$33.40
5. Following is the stockholders' equity section of the 2005 **Caterpillar, Inc.**, balance sheet.

Stockholders' Equity (\$ millions)	2005	2004	2003
Common stock of \$1.00 par value; Authorized shares: 900,000,000; issued shares (2005, 2004 and 2003—814,894,624) at paid-in amount	\$1,859	\$1,231	\$1,059
Treasury stock (2005—144,027,405 shares; 2004—129,020,726 shares; 2003—127,370,544 shares) at cost	(4,637)	(3,277)	(2,914)
Profit employed in the business.	11,806	9,937	8,450
Accumulated other comprehensive income.	(598)	(424)	(517)
Total stockholders' equity	\$8,432	\$7,467	\$6,078

At what average cost has Caterpillar repurchased its stock as of year-end 2005?

- \$2.07
- \$2.28
- \$32.20
- \$10.35

6. Following is the stockholders' equity and minority interest sections of the 2005 **Merck & Co., Inc.**, balance sheet.

Stockholders' Equity (\$ millions)	2005
Common stock, one cent par value; Authorized—5,400,000,000 shares; issued—2,976,223,337 shares—2005	\$ 29.8
Other paid-in capital	6,900.0
Retained earnings	37,918.9
Accumulated other comprehensive income	52.3
	44,901.0
Less treasury stock, at cost; 794,299,347 shares—2005	26,984.4
Total stockholders' equity	\$17,916.6

How many common shares are outstanding as of December 31, 2005?

- a. 5,400,000,000
- b. 2,976,223,337
- c. 3,770,552,684
- d. 2,181,923,990

7. Following is the stockholders' equity section of the 2006 balance sheet for **Procter & Gamble Company** and its statement of stockholders' equity.

Amounts in millions; June 30	2006	2005
Shareholders' Equity		
Convertible Class A preferred stock, stated value \$1 per share (600 shares authorized)	\$ 1,451	\$ 1,483
Non-Voting Class B preferred stock, stated value \$1 per share (200 shares authorized)	—	—
Common stock, stated value \$1 per share (10,000 shares authorized; shares outstanding: 2006—3,975.8, 2005—2,978.8)	3,976	2,977
Additional paid-in capital	57,856	3,030
Reserve for ESOP debt retirement	(1,288)	(1,259)
Accumulated other comprehensive income	(518)	(1,568)
Treasury stock, at cost (shares held: 2006—797.0, 2005—503.7)	(34,235)	(17,194)
Retained earnings	35,666	31,004
Total shareholders' equity	\$82,908	\$18,475

Consolidated Statement of Shareholders' Equity										
Dollars in millions/ Shares in thousands	Common Shares Outstanding	Common Stock	Preferred Stock	Additional Paid-in Capital	Reserve for ESOP Debt Retirement	Accumulated Other Compre- hensive Income	Treasury Stock	Retained Earnings	Total	Total Compre- hensive Income
Bal. June 30, 2005	2,472,934	\$2,977	\$1,483	\$3,030	\$(1,259)	\$(1,566)	\$(17,194)	\$31,004	\$18,475	
Net earnings								8,684	8,684	\$8,684
Other comprehensive income:										
Financial statement translation						1,316			1,316	1,316
Net investment hedges, net of \$4.72 tax						(786)			(786)	(786)
Other, net of tax benefits						518			518	518
Total comprehensive income										\$9,732
Dividends to shareholders:										
Common								(3,555)	(3,555)	
Preferred, net of tax benefits								(148)	(148)	
Treasury purchases	(297,132)			(9)			(16,821)		(16,830)	
Employee plan issuances	36,763	16		1,308			887	(319)	1,892	
Preferred stock conversions	3,788		(32)	5			27		—	
Gillette acquisition	962,488	983		53,522			(1,134)		53,371	
Change in ESOP debt reserve					(29)				(29)	
Bal. June 30, 2006	3,178,841	\$3,976	\$1,451	\$57,856	\$(1,288)	\$(518)	\$(34,235)	\$35,666	\$62,908	

How many shares of common stock did Procter & Gamble issue when convertible class A preferred stock was converted during fiscal 2006?

- a. 36,763,000
- b. 3,788,000
- c. 962,488,000
- d. 600,000,000

8. **Lucent Technologies** reports the following footnote to its 2005 10-K related to its convertible debentures.

2.75% series A and B debentures During the third quarter of fiscal 2003, we sold 2.75% Series A Convertible Senior Debentures and 2.75% Series B Convertible Senior Debentures for an aggregate amount of \$1.6 billion, net of the underwriters' discount and related fees and expenses of \$46 million. The debentures were issued at a price of \$1,000 per debenture and were issued under our universal shelf. The debentures rank equal in priority with all of the existing and future unsecured and unsubordinated indebtedness and senior in right of payment to all of the existing and future subordinated indebtedness. The terms governing the debentures limit our ability to create liens, secure certain indebtedness and merge with or sell substantially all of our assets to another entity. The debentures are convertible into shares of common stock only if (1) the average sale price of our common stock is at least equal to 120% of the applicable conversion price, (2) the average trading price of the debentures is less than 97% of the product of the sale price of the common stock and the conversion rate, (3) the debentures have been called for redemption by us or (4) certain specified corporate actions occur.

How will Lucent account for the conversion of the 2.75% debentures, if and when conversion occurs? Specifically, will Lucent recognize any gain or loss related to conversion?

- a. Gain or loss is recorded for unamortized discount or premium at time of conversion
- b. Gain or loss is recorded as difference between market value of stock and book value of debentures at time of conversion
- c. Gain or loss is recorded as difference between market value of stock and market value of debentures at time of conversion
- d. No gain or loss from conversion is reported