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1

Corporation

A: By purpose:

1. For profit
2. For non-profit.

B: By ownership.

1. Publicly held corporation.
2. Privately held corporation.

Characteristics of a corporation

- Separate legal existence.
- Limited liability of shareholders.
- Transferable ownership rights.
- Ability to acquire capital.
- Continuous life.
- Corporation management.
- Separation of ownership and management.
- Government regulation.
- Additional taxes.

1-The dominant form of business organization in the United States in terms of dollar sales volume, earnings, and employees is

a. the sole proprietorship.
b. the partnership.
c. the corporation.
d. not known.

2-Under the corporate form of business organization

a. a shareholder is personally liable for the debts of the corporation.
b. shareholders' acts can bind the corporation even though the shareholders have not been appointed as agents of the corporation.
c. the corporation's life is stipulated in its charter.
d. shareholders wishing to sell their corporation shares must get the approval of other shareholders.

3-A factor which distinguishes the corporate form of organization from a sole proprietorship or partnership is that a

a. corporation is organized for the purpose of making a profit.
b. corporation is subject to government taxes.
c. corporation is an accounting economic entity.
d. corporation’s temporary accounts are closed at the end of the accounting period.

4-Which one of the following would **not** be considered an advantage of the corporate form of organization?

a. Limited liability of owners
b. Separate legal existence
c. Continuous life
d. Government regulations

5-The concept of an "artificial being" refers to which form of business organization?

a. Partnership
b. Sole proprietorship
c. Corporation
d. Limited partnership

6-The two ways that a corporation can be classified by purpose are

a. general and limited.
b. profit and not-for-profit.
c. local and national
d. publicly held and privately held.

7-The two ways that a corporation can be classified by ownership are

a. publicly held and privately held.
b. share and non-share.
c. inside and outside.
d. majority and minority.

2

E12-1

Victoria has prepared the following list of statements about corporations.

1. A corporation is an entity separate and distinct from its owners.
2. As a legal entity, a corporation has most of the rights and privileges of a person.
3. Most of the largest corporations are privately held corporations.
4. Corporations may buy, own, and sell property; borrow money; enter into legally binding contracts; and sue and be sued.
5. The net income of a corporation is not taxed as a separate entity.
6. Creditors have a legal claim on the personal assets of the owners of a corporation if the corporation does not pay its debts.
7. The transfer of shares from one owner to another requires the approval of either the corporation or other shareholders.
8. The board of directors of a corporation legally owns the corporation.
9. The chief accounting officer of a corporation is the controller.
10. Corporations are subject to fewer regulations than partnerships or proprietorships.

Instructions

Identify each statement as true or false. If false, indicate how to correct the statement.

1-Which of the following would **not** be true of a privately held corporation?

a. It is sometimes called a closely held corporation.
b. Its shares are regularly traded on a National securities exchange.
c. It does not offer its shares for sale to the general public.
d. It is usually smaller than a publicly held company.

2-Which of the following is **not** true of a corporation?

a. It may buy, own, and sell property.
b. It may sue and be sued.
c. The acts of its owners bind the corporation.
d. It may enter into binding legal contracts in its own name.

3-Ed Tresh has invested $400,000 in a privately held family corporation. The corporation does not do well and must declare bankruptcy. What amount does Tresh stand to lose?

a. Up to his total investment of $400,000.
b. Zero.
c. The $400,000 plus any personal assets the creditors demand.
d. $200,000.

4-Which of the following statements is **not** considered a disadvantage of the corporate form of organization?

a. Additional taxes
b. Government regulations
c. Limited liability of shareholders
d. Separation of ownership and management

5-Shareholders of a corporation directly elect

a. the president of the corporation.
b. the board of directors.
c. the treasurer of the corporation.
d. all of the employees of the corporation.

6-The chief accounting officer in a company is known as the

a. controller.
b. treasurer.
c. vice-president.
d. president.

7-A corporate board of directors does **not** generally

a. select officers.
b. formulate operating policies.
c. declare dividends.
d. execute policy.

8-Which of the following is an **incorrect** statement about a corporation

a. A corporation is an entity separate and distinct from its owners.
b. Creditors ordinarily have recourse only to corporate assets in satisfaction of their claims.
c. A corporation may be formed in writing, orally, or implied.
d. A corporation is subject to numerous government regulations.

9-Capital shares to which the charter has assigned a value per share is called

a. par value shares.
b. no-par value shares.
c. stated value shares.
d. assigned value shares.

10-Legal capital per share cannot be equal to the

a. par value per share of par value shares.
b. total proceeds from the sale of par value shares above par value.
c. stated value per share of no-par value shares.
d. total proceeds from the sale of no-par value shares.

3

FORMING A CORPORATION:

1. the name and the purpose of the proposed corporation.
2. The amount, kinds and numbers of shares to be authorized.
3. the name of the incorporators
4. the shares to which each subscribed.

WRITE YOUR NOTE:

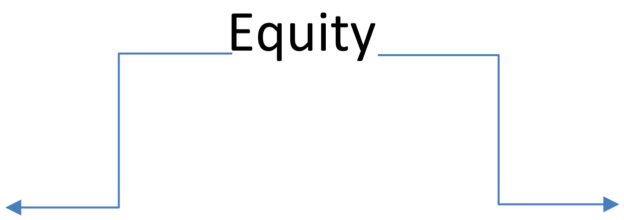
- Authorized shares

- Issuance of shares

- Share certificate

- Market value of shares

- Par and no-par value shares



1-Which of the following statements reflects the transferability of ownership rights in a corporation?

a. If a shareholder decides to transfer ownership, he must transfer all of his shares.
b. A shareholder may dispose of part or all of his shares.
c. A shareholder must obtain permission from the board of directors before selling shares.
d. A shareholder must obtain permission from at least three other shareholders before selling shares.

2-A typical organization chart showing delegation of authority would show

a. shareholders delegating to the board of directors.
b. the board of directors delegating to shareholders.
c. the chief executive officer delegating to the board of directors.
d. the controller delegating to the chief executive officer.

3-The officer who is generally responsible for maintaining the cash position of the corporation is the

a. controller.
b. treasurer.
c. cashier.
d. internal auditor.

4-The ability of a corporation to obtain 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.

5-What is ordinarily the first step in the formation of a corporation in the United States?

a. Development of by-laws for the corporation
b. Issuance of the corporate charter
c. Application for incorporation to the appropriate Secretary of State
d. Registration with a government agency

6-Which one of the following is **not** an ownership right of a shareholder in a corporation?

a. To vote in the election of directors
b. To declare dividends on the ordinary shares
c. To share in assets upon liquidation
d. To share in corporate earnings

7-If a corporation has only one class of shares, it is referred to as

a. classless shares.
b. preference shares.
c. solitary shares.
d. ordinary shares.

8-The term *residual claim* refers to a shareholders' right to

a. receive dividends.
b. share in assets upon liquidation.
c. acquire additional shares when offered.
d. exercise a proxy vote.

9-Which of the following factors does **not** affect the initial market price of shares?

a. The company's anticipated future earnings
b. The par value of the shares
c. The current state of the economy
d. The expected dividend rate per share

10-If an investment banking firm underwrites a share issue, the

a. risk of being unable to sell the shares stays with the issuing corporation.
b. corporation obtains cash immediately from the investment firm.
c. investment firm has guaranteed profits on the sale of the shares.
d. issuance of shares is likely to be directly to creditors.

11-The par value of shares

a. is legally significant.
b. reflects the most recent market price.
c. is selected by the IASB.
d. is indicative of the worth of the shares.

12-The authorized shares of a corporation

a. only reflects the initial capital needs of the company.
b. is indicated in its by-laws.
c. is indicated in its charter.
d. must be recorded in a formal accounting entry.

13-Limited liability of shareholders means that

a. the corporation is subject to strict government regulations.
b. the entity is separate and distinct from its owners.
c. creditors have no legal claim to the assets of the owners unless fraud has occurred.
d. they are taxed as a separate legal entity.

14-Double taxation means that

a. **the earnings of the corporation are taxed once to the corporation and a second time when distributed to the shareholders.**
b. corporate profits are taxed by more than one government entity.
c. the corporation is taxed as a separate legal entity.
d. the corporation's profits are taxed as personal income to the shareholders.

15-The face of a share certificate shows all of the following **except**

a. the class of the share.
b. the shareholder's name.
c. the number of shares owned.
d. **the market value of the share.**

16-Which of the following is **not** a right of an ordinary shareholder?

a. Right to vote and elect the board of directors.
b. **Right to receive dividends.**
c. Pre-emptive right.
d. Share in assets at liquidation.

17-Which of the following rights of an ordinary shareholder is being eliminated by many companies?

a. Right to vote and elect the board of directors.
b. Right to receive a pro rata share of dividends paid.
c. **Pre-emptive right.**
d. Share in assets at liquidation.

18-If a company issues par-value ordinary shares, the balance in Share Capital - Ordinary will be the

a. market value of all shares issued.
b. **par value of all shares issued.**
c. market value of all shares authorized.
d. par value of all shares outstanding.

4

ISSUING PAR VALUE ORDINARY SHARES FOR CASH.

Example. Assume ABC company issues 1000 shares of 2$ par value ordinary shares at par for cash. Journalize:

ABC issues an additional 1000 shares of the 2$ par value ordinary share for cash at 5$ per share.

ABC issues an additional 1000 shares of the 2$ par value ordinary share for cash at 1$ per share.

Make a partial financial statement || equity section ||:

ISSUING NO PAR VALUE ORDINARY SHARES FOR CASH

Example. Assume ABC co. has a 5$ stated value no par shares and the company issues 5000 shares at 8 per share for cash.

Assume ABC co. issues 5000 shares at 8 per share for cash.

ISSUING ORDINARY SHARES FOR SERVICE OR NON-CASH ASSETS

Example. Assume that the attorneys have helped ABC company incorporate. They have billed the company 5000$ for their services. They agree to accept 4000 shares of 1$ par value ordinary share on payment of their bill. At the time of the exchange there is no established market price for the shares. In this case the market value of the consideration received, 5000$, is more clearly evident.

Example. Assume ABC company is an existing publicly held corporation. Its 5$ par value shares are actively traded at 8$ per share. The company issues 10,000 shares to acquire land recently advertised for sale at 90,000$.

1-Voltaire Corporation issued 5,000 ordinary shares of CHF5 par value for CHF20 per share.

The entry to record this transaction includes a credit to Share Premium–Ordinary for

a. CHF100,000.
b. CHF75,000.
c. CHF25,000.
d. CHF50,000.

This transaction will increase

a. Share Premium–Ordinary by CHF100,000.
b. total equity by CHF25,000.
c. Retained Earnings by CHF75,000.
d. Share Capital–Ordinary by CHF25,000.

2-Jahnke Corporation issued 8,000 shares of €2 par value ordinary shares for €11 per share. The journal entry to record the sale will include

a. a debit to Cash for €16,000.
b. a credit to Share Premium–Ordinary for €72,000.
c. a credit to Share Capital–Ordinary for €88,000.
d. a debit to Retained Earnings for €22,000.

3-La Vida Corporation issued 24,000 shares of no-par value ordinary shares for €29.50 per share. Which of the following statements is true?

a. Share Premium–Ordinary account will increase by €276,000.
b. The Cash account will increase by €24,000.
c. Retained Earnings account will increase by €684,000.
d. Share Capital–Ordinary account will increase by €708,000.

4-When shares are issued for legal services, the transaction is recorded by debiting Organization Expense for the

a. stated value of the shares.
b. par value of the shares.
c. market value of the shares.
d. book value of the shares.

5-If Vickers Company issues 5,000 ordinary shares with a $5 par value for $175,000,

a. Share Capital–Ordinary will be credited for $175,000.
b. Share Premium–Ordinary will be credited for $25,000.
c. Share Premium–Ordinary will be credited for $150,000.
d. Cash will be debited for $150,000.

6-If ordinary shares are issued for an amount greater than par value, the excess should be credited to

a. Cash.
b. Retained Earnings.
c. Share Premium–Ordinary.
d. Legal Capital.

5

E12-3

During its first year of operations, Punjab Limited had the following transactions pertaining to its ordinary shares.

Jan. 10 Issued 70,000 shares for cash at $5 per share.
July 1 Issued 30,000 shares for cash at $7 per share.

Instructions

1. Journalize the transactions, assuming that the ordinary shares have a par value of 5 $ per share.
2. Journalize the transactions, assuming that the ordinary shares are no-par with a stated value of 1 $ per share.

1-If shares are issued for a non-cash asset, the asset should be recorded on the books of the corporation at

a. **fair value.**
b. cost.
c. zero.
d. a nominal amount.

2-If shares are issued for less than par value, the account

a. Share Premium–Ordinary is credited.
b. Share Premium–Ordinary is debited if a debit balance exists in the account.
c. **Share Premium–Ordinary is debited if a credit balance exists in the account.**
d. Retained Earnings is credited.

3-The sale of ordinary shares below par

a. is a common occurrence in most jurisdictions.
b. **is not permitted in most jurisdictions.**
c. is a practice that most shareholders encourage.
d. requires that a liability be recorded for the difference between the sales price and the par value of the shares.

4-Share Premium–Ordinary

a. is credited when no-par share does not have a stated value.
b. **is reported as part of equity on the statement of financial position.**
c. represents the amount of legal capital.
d. normally has a debit balance.

5-Dailey Company is a publicly held corporation whose $1 par value ordinary shares are actively traded at $22 per share. The company issued 3,000 shares to acquire land recently advertised at $82,000. When recording this transaction, Dailey Company will

a. debit Land for $82,000.
b. credit Share Capital–Ordinary for $66,000.
c. **debit Land for $66,000.**
d. credit Share Premium–Ordinary for $79,000.

6-Simon Company issued 2,000 ordinary shares with a $5 par value in payment of its attorney's bill of $40,000. The bill was for services performed in helping the company incorporate. Simon should record this transaction by debiting

a. Legal Expense for $10,000.
b. Legal Expense for $40,000.
c. Organization Expense for $10,000.
d. **Organization Expense for $40,000.**

6

E12-4

Luis SLU issued 1,000 ordinary shares.

Instructions

Prepare the entry for the issuance under the following assumptions.

1. The shares had a par value of €5 per share and were issued for a total of €48,000.

2. The shares had a stated value of €5 per share and were issued for a total of €48,000.

3. The shares had no par or stated value and were issued for a total of €48,000.

4. The shares had a par value of €5 per share and were issued to attorneys for services during incorporation valued at €48,000.

5. The shares had a par value of €5 per share and were issued for land worth €48,000.

7

E12-8

As an auditor for the firm of Gratis and Goode, you encounter the following situations in auditing different clients.

1. JR SpA is a closely held corporation whose shares are not publicly traded. On December 5, the corporation acquired land by issuing 5,000 €10 par value ordinary shares. The owners' asking price for the land was €138,000, and the fair value of the land was €124,000.
2. Novak A/S is a publicly held corporation whose ordinary shares are traded on the securities markets. On June 1, it acquired land by issuing 20,000 €10 par value ordinary shares. At the time of the exchange, the land was advertised for sale at €250,000. The shares were selling at €11 per share.

Instructions

Prepare the journal entries for each of the situations above.

1-In the financial statements, organization costs appears

a. immediately below Retained Earnings in the equity section.
b. in the income statement.
c. as part of share premium in the equity section.
d. as an intangible asset.

2-New Corp. issues 2,000 ordinary shares with a $10 par value at $16 per share. When the transaction is recorded, credits are made to

a. Share Capital–Ordinary $12,000 and Share Premium–Ordinary $20,000.
b. Share Capital–Ordinary $32,000.
c. Share Capital–Ordinary $20,000 and Share Premium–Ordinary $12,000.
d. Share Capital–Ordinary $20,000 and Retained Earnings $12,000.

3-If Kiner Company issues 4,500 ordinary shares with a $5 par value for $80,000, the account

a. Share Capital–Ordinary will be credited for $22,500.
b. Share Premium–Ordinary will be credited for $22,500.
c. Share Premium–Ordinary will be credited for $80,000.
d. Cash will be debited for $57,500.

3-Kerwin Packaging Corporation began business in 2013 by issuing 40,000 ordinary shares with a $5 par for $8 per share and 10,000 preference shares of 6%, $10 par at par. At year end, the common share had a market value of $10. On its December 31, 2014, statement of financial position, Kerwin Packaging would report

a. Share Capital–Ordinary of $400,000.
b. Share Capital–Ordinary of $200,000.
c. Share Capital–Ordinary of $320,000.
d. Share Premium–Ordinary of $200,000.

4-Kim, Inc. issued 10,000 ordinary shares with a stated value of ¥100/share. The total issue of shares sold for ¥150 per share. The journal entry to record this transaction would include a

a. debit to Cash for ¥1,000,000.
b. credit to Share Capital–Ordinary for ¥1,000,000.
c. debit to Share Premium–Ordinary for ¥500,000.
d. credit to Share Capital–Ordinary for ¥1,500,000.

5-S. Lawyer performed legal services for E. Corp. Due to a cash shortage, an agreement was reached whereby E. Corp. would pay S. Lawyer a legal fee of approximately $15,000 by issuing 5,000 ordinary shares (par $1). The shares trade on a daily basis and the market price of the shares on the day the debt was settled is $2.20 per share. Given this information, the journal entry for E. Corp. to record this transaction is:

a.	Legal Expense	11,000	
	Share Capital–Ordinary		11,000
b.	Legal Expense	15,000	
	Share Capital–Ordinary		15,000
c.	Legal Expense	15,000	
	Share Capital–Ordinary		5,000
	Share Premium–Ordinary		10,000
d.	**Legal Expense**	**11,000**	
	Share Capital–Ordinary		**5,000**
	Share Premium–Ordinary		**6,000**

6-Dawson Company issued 500 no-par ordinary shares for $6,500. Which of the following journal entries would be made if the shares have a stated value of $2 per share?

a.	Cash	6,500	
	Share Capital–Ordinary		6,500
b.	Cash	6,500	
	Share Capital–Ordinary		5,500
	Share Premium–Ordinary		1,000
c.	**Cash**	**6,500**	
	Share Capital–Ordinary		**1,000**
	Share Premium–Ordinary		**5,500**
d.	Share Capital–Ordinary	6,500	
	Cash		6,500

8

ACCOUNTING FOR TREASURY SHARES

The purpose of treasury shares:

1-To reissue the shares to officers and employees under bonus and share compensation plans.

2-The shares are underpriced and the management hopes to enhance the market value of the company.

3-To have additional shares available for use in the acquisition of other companies.

4-To reduce the number of shares outstanding and thereby increase earnings per share.

5-To rid the company of disgruntles investors, perhaps to avoid take over.

Example. Assume on January,1,2017 the equity section of ABC company has 100000 shares of 5$ par value ordinary shares outstanding (all issued at par) and retained earnings of 200000$. On February1,2017 ABC company acquired 4000 of its shares at 8$ per share.

Present it on the financial statement.

DISPOSAL OF TREASURY SHARES

Sale of treasury shares above the cost

Example. Assume that ABC company sells for 10$ the 1000 treasury shares it previously acquired at 8$ per share.

Assume that ABC company sells an additional 800 treasury shares on October 1 at 7$ per share.

The sale of treasury shares increases both total assets and total equity.

Assume that ABC company sells its remaining 2200 shares at 7 per share on December 1 the excess of cost over selling price.

1-The following data is available for BOX Corporation at December 31, 2014:

Ordinary shares, par €10 (authorized 25,000 shares}	€200,000
Treasury shares (at cost €15 per share)	900

Based on the data, how many ordinary shares are outstanding?

a. 25,000
b. 20,000
c. 24,940
d. 19,940

Based on the data, how many ordinary shares have been issued?

a. 25,000
b. 20,000
c. 24,940
d. 19,940

2-Andrews, Inc. paid $45,000 to buy back 9,000 shares of its $1 par value ordinary shares. These shares were sold later at a selling price of $7 per share. The entry to record the sale includes a

a. credit to Share Premium–Treasury for $18,000.
b. credit to Retained Earnings for $18,000.
c. debit to Share Premium–Treasury for $45,000.
d. debit to Retained Earnings for $45,000.

9

E12-9

On January 1, 2017, the equity section of Bergin ASA shows share capital—ordinary (£5 par value) £1,500,000; share premium—ordinary £1,000,000; and retained earnings £1,200,000. During the year, the following treasury share transactions occurred.

Mar. 1 Purchased 50,000 shares for cash at £12 per share.
July 1 Sold 10,000 treasury shares for cash at £14 per share.
Sept. 1 Sold 8,000 treasury shares for cash at £10 per share.

Instructions

1. Journalize the treasury share transactions.
2. Restate the entry for September 1, assuming the treasury shares were sold at £9 per share.

1-Kendrick Corporation was organized on January 2, 2014. During 2014, Kendrick issued 20,000 shares at $32 per share, purchased 4,000 treasury shares at $26 per share, and had net income of $400,000. What is the total amount of equity at December 31, 2014?

a. $640,000
b. $936,000
c. $944,000
d. $960,000

2-Elton Manufacturing Corporation purchased 4,000 shares of its own previously issued $10 par ordinary shares for $115,000. As a result of this event,

a. Elton's Share Capital–Ordinary account decreased $40,000.
b. Elton's total equity decreased $115,000.
c. Elton's Share Premium–Ordinary account decreased $75,000.
d. All of these answer choices are correct.

3-Rebel Inc. issued 5,000 no-par ordinary shares with a stated value of $3 per share. The market price of the shares on the date of issuance was $12 per share. The entry to record this transaction includes a

a. debit to Cash for $15,000.
b. credit to Share Capital–Ordinary for $60,000.
c. credit to Share Capital–Ordinary for $15,000.
d. debit to Share Premium–Ordinary for $60,000.

4-Rancho Corporation sold 300 treasury shares for $40 per share. The cost for the shares was $30. The entry to record the sale will include a

a. credit to Gain on Sale of Treasury Shares for $9,000.
b. credit to Share Premium–Treasury for $3,000.
c. debit to Share Premium–Ordinary for $3,000.
d. credit to Treasury Shares for $12,000.

5-Each of the following is correct regarding treasury shares **except** that it has been

a. issued.
b. fully paid for.
c. reacquired.
d. retired.

6-Treasury shares are generally accounted for by the

a. cost method.
b. market value method.
c. par value method.
d. stated value method.

7-Treasury shares are

a. shares issued by the U.S. Treasury Department.
b. shares purchased by a corporation and held as an investment in its treasury.
c. corporate shares issued by the treasurer of a company.
d. a corporation's own shares which have been reacquired but not retired.

8-Treasury Shares are a(n)

a. contra asset account.
b. retained earnings account.
c. asset account.
d. contra equity account.

9-The acquisition of treasury shares by a corporation

a. increases its total assets and total equity.
b. decreases its total assets and total equity.
c. has no effect on total assets and total equity.
d. requires that a gain or loss be recognized on the income statement.

10-Treasury shares should be reported in the equity section immediately after

a. share capital–ordinary.
b. share capital–preference.
c. share premium–ordinary.
d. retained earnings.

11-A company would **not** acquire treasury shares

a. in order to reissue shares to officers.
b. as an asset investment.
c. in order to increase trading of the company's shares.
d. to have additional shares available to use in acquisitions of other companies.

12-A corporation purchases 20,000 shares of its own $20 par ordinary shares for $35 per share, recording it at cost. What will be the effect on total equity?

a. Increase by $700,000
b. Decrease by $400,000
c. Decrease by $700,000
d. Increase by $400,000

13-Salton company originally issued 4,000 ordinary shares with a $10 par value for $90,000 ($30 per share). Slaton subsequently purchases 400 treasury shares for $27 per share and resells the 400 treasury shares for $29 per share. In the entry to record the sale of the treasury shares, there will be a

a. credit to Share Capital–Ordinary for $10,800.
b. credit to Treasury Shares for $4,000.
c. debit to Share Premium–Ordinary of $12,000.
d. credit to Share Premium–Treasury Shares for $800.

14-Oxford Inc. was authorized to issue 100,000 £10 par value ordinary shares. As of December 31, 2014, the company had issued 44,000 shares at an average price of £22 per share. During 2014, the company felt that the shares were undervalued so it purchased 10,000 treasury shares at £18 per share. When the share price rebounded later in the year, the company sold 4,000 of the treasury for £25. Retained earnings was £829,000 at December 31, 2014.

As of December 31, 2014, the number of outstanding ordinary shares is

a. 34,000.
b. 38,000.
c. 44,000.
d. 100,000.

The balance in Treasury Shares at December 31, 2014 is

a. £90,000.
b. £40,000.
c. £108,000.
d. £180,000.

15-King George Company was authorized to issue 50,000 ordinary shares. The company issued 27,000 shares and later purchased 5,000 shares of treasury shares. The number of outstanding ordinary shares is:

a. 45,000.
b. 23,000.
c. 27,000.
d. 22,000.

16-Four thousand treasury shares of Meyer, Inc., previously acquired at $12 per share, are sold at $18 per share. The entry to record this transaction will include a

a. credit to Treasury Shares for $72,000.
b. debit to Share Premium–Treasury for $24,000.
c. debit to Treasury Shares for $48,000.
d. credit to Share Premium–Treasury for $24,000.

17-Peebles Company purchased 2,000 shares of its own £5 par value ordinary shares, paying £14 per share. The shares were originally sold for £9 each. The journal entry to record the purchase of treasury shares includes a debit to

a. Share Capital–Ordinary for £10,000.
b. Treasury Shares for £28,000.
c. Share Premium–Ordinary for £8,000.
d. Retained Earnings for £10,000.

18-Richard Company paid £23,000 to buy 4,000 shares of its £6 par value ordinary shares for distribution in an executive compensation plan. The stock was originally sold for £25,000. The entry to record purchase includes a

a. debit to Treasury Shares for £23,000.
b. credit to Retained Earnings for £3,000.
c. debit to Share Premium–Ordinary for £2,000.
d. credit to Share Capital–Ordinary for £24,000.

10

PREFERENCE SHARES

Example. Assume that ABC company has 5000 shares of 7%, 100$ par value, cumulative preference shares outstanding. The annual dividends is 35000$ (5000*7) but dividends are 2 years in arrears.

How much preference shareholders will receive in the current year?

11

E12-7

Sorocaba Co. had the following transactions during the current period.

Mar.	2	Issued 5,000 $1 par value ordinary shares to attorneys in payment of a bill for $44,000 for services performed in helping the company to incorporate.
June	12	Issued 60,000 $1 par value ordinary shares for cash of $468,000.
July	11	Issued 1,000 $100 par value preference shares for cash at $110 per share.
Nov.	28	Purchased 2,000 treasury shares for $18,000.

Instructions

Journalize the transactions.

1-James Corporation issued 3,000 preference shares with a par value of CHF100 for CHF205 per share.

The entry to record this transaction includes a credit to Share Premium–Preference for

a. CHF150,000.
b. CHF300,000.
c. CHF315,000.
d. CHF615,000.

2-This transaction will

a. increase total equity by CHF615,000.
b. increase Share Premium–Preference by CHF615,000.
c. decrease Retained Earnings by CHF315,000.
d. increase Share Capital–Ordinary by CHF315,000.

3-Le Bateau Company issued 35,000 shares of 5%, €100 par value preference shares for €114 per share. This transaction will

a. increase the Share Premium–Preference account by €490,000.
b. increase the Cash account by €3,500,000.
c. increase the Retained Earnings account by €490,000.
d. increase the Share Capital–Preference account by €490,000.

4-Freidrichs Company has issued and outstanding 11,000 shares of cumulative, 6%, €50 par value preference shares which it sold for €54 per share at the beginning of 2012. The company has never paid preference dividends. As of December 31, 2014, dividends in arrears are

a. €66,000.
b. €99,000.
c. €121,500.
d. €106,920.

5-Looper, Inc. has 25,000 shares of 6%, £100 par value, noncumulative preference shares and 50,000 ordinary shares with a £1 par value outstanding at December 31, 2014. There were no dividends declared in 2013. The board of directors declares and pays a £350,000 dividend in 2014. What is the amount of dividends received by the common shareholders in 2014?

a. £0
b. £150,000
c. £350,000
d. £200,000

6-When preference shares are cumulative, preference dividends **not** declared in a period are

a. considered a liability.
b. called dividends in arrears.
c. distributions of earnings.
d. never paid.

7-Which of the following is **not** a right or preference associated with preference stock?

a. The right to vote
b. First claim to dividends
c. Preference to corporate assets in case of liquidation
d. To receive dividends in arrears before ordinary shareholders receive dividends

8-Cole Corporation issues 12,000 preference shares with a $50 par value for cash at $60 per share. The entry to record the transaction will consist of a debit to Cash for $720,000 and a credit or credits to

a. Share Capital—Preference for $720,000.
b. Share Capital—Preference for $600,000 and Share Premium—Preference for $120,000.
c. Share Capital—Preference for $600,000 and Retained Earnings for $120,000.
d. Share Premium for $720,000.

9-Dividends in arrears on cumulative preference shares

a. are shown in equity in the statement of financial position.
b. must be paid before ordinary shareholders can receive a dividend.
c. should be recorded as a current liability until they are paid.
d. enable the preference shareholders to share equally in corporate earnings with the ordinary shareholders.

10-Dividends in arrears on cumulative preference shares

a. are considered to be a non-current liability.
b. are considered to be a current liability.
c. only occur when preference dividends have been declared.
d. should be disclosed in the notes to the financial statements.

11-If preference shares are cumulative, the

a. preference dividends not declared in a given year are called dividends in arrears.
b. preference shareholders and the ordinary shareholders receive equal dividends.
c. preference shareholders and the ordinary shareholders receive the same total dollar amount of dividends.
d. ordinary shareholders will share in the preference dividends.

12-Ephram Company has 3,000 shares of 6%, $100 par non-cumulative preference shares outstanding at December 31, 2014. No dividends have been paid on these shares for 2013 or 2014. Dividends in arrears at December 31, 2014 total

a. $0.
b. $1,800.
c. $18,000.
d. $36,000.

13-The Nice Corporation issues 10,000 preference shares with a $100 par value for cash at $110 per share. The entry to record the transaction will consist of a debit to Cash for $1,100,000 and a credit or credits to

a. Share Capital—Preference for $1,100,000.
b. Share Premium–Preference for $1,000,000.
c. Share Capital—Preference for $1,000,000 and Retained Earnings for $100,000.
d. Share Capital—Preference for $1,000,000 and Share Premium—Preference for $100,000.

14-Venco Corporation's December 31, 2014 statement of financial position showed the following:

Share capital—preference 8%, €20 par value, cumulative,	
10,000 shares authorized; 7,500 shares issued	€ 150,000
Share capital–ordinary, €10 par value, 1,000,000 shares authorized;	
975,000 shares issued, 960,000 shares outstanding	9,750,000
Share premium—preference	30,000
Share premium—ordinary	13,500,000
Retained earnings	3,750,000
Treasury shares (15,000 shares)	315,000

Venco declared and paid a €45,000 cash dividend on December 15, 2014. If the company's dividends in arrears prior to that date were €9,000, Venco's ordinary shareholders received

a. €36,000.
b. €21,000.
c. €24,000.
d. no dividend.

15-Beckham Company has 1,000 shares of 5%, $100 par cumulative preference shares outstanding at December 31, 2014. No dividends have been paid on these shares for 2013 or 2014. Dividends in arrears at December 31, 2014 total

a. $0.
b. $500.
c. $5,000.
d. $10,000.

12

DIVIDENDS

Is a corporation's distribution of cash or shares to its shareholders on a pro rate (proportional)

1-cash dividends.

2-shares dividends.

3-property dividends.

4-scrip a promissory note to pay cash.

When the company want to distribute cash dividends, must have:

1-Retained earnings

2-Adequate cash

3-A declaration of dividends

- Dividends is not an obligation but once the company declare it, it will be obligation.

Example. Assume on December 1 2017 the directors of ABC company declare a 50c per share cash dividends on 10,000, 10$ par value ordinary shares.

The payment of dividends.

Example. Assume that at December 31,2017 X company has 1000 shares of 8% 100$ par value cumulative preference shares.

It also has 50,000 shares of 20$ par value ordinary shares outstanding. The dividends per share for preference shares is 8$ (100$*8%) the required annual dividends for preference shares is therefore 8000 (1000*8$). At December 31 2017, the director declares 6000$ cash dividends.

on December 31,2018, the board of director declares 50,000$ cash dividends.

1-Which one of the following is **not** necessary in order for a corporation to pay a cash dividend?

a. Adequate cash
b. Approval of shareholders
c. Declaration of dividends by the board of directors
d. Retained earnings

2-The date on which a cash dividend becomes a binding legal obligation is on the

a. declaration date.
b. date of record.
c. payment date.
d. last day of the fiscal year-end.

3-The effect of the declaration of a cash dividend by the board of directors is to

increase	decrease
a.Equity	Assets
b.Assets	Liabilities
c.Liabilities	**Equity**
d.Liabilities	Assets

4-The cumulative effect of the declaration and payment of a cash dividend on a company's financial statements is to

a. decrease total liabilities and equity.
b. increase total expenses and total liabilities.
c. increase total assets and equity.
d. decrease total assets and equity.

5-Regular dividends are declared out of

a. Share Premium–Ordinary.
b. Treasury Shares.
c. Share Capital–Ordinary.
d. Retained Earnings.

6-Which of the following is **not** a significant date with respect to dividends?

a. The declaration date
b. The incorporation date
c. The record date
d. The payment date

7-On the dividend record date,

a. a dividend becomes a current obligation.
b. no entry is required.
c. an entry may be required if it is a share dividend.
d. Dividends Payable is debited.

8-Which of the following statements regarding the date of a cash dividend declaration is **not** accurate?

a. The dividend can be rescinded once it has been declared.
b. The corporation is committed to a legal, binding obligation.
c. The board of directors formally authorizes the cash dividend.
d. A liability account must be increased.

9-Indicate the respective effects of the declaration of a cash dividend on the following statement of financial position sections:

Total Equity	Total Liabilities	Total Assets	
No change	Decrease	Increase	a.
Decrease	**Increase**	**No change**	**b.**
Decrease	Increase	Decrease	c.
Increase	No change	Decrease	d.

10-ABC, Inc. has 1,000 shares of 4%, $100 par value, cumulative preference shares and 50,000 ordinary shares with a $1 par value outstanding at December 31, 2014. What is the annual dividend on the preference shares?

a. $40 per share
b. $4,000 in total
c. $400 in total
d. $.40 per share

11-Agler, Inc. has 10,000 shares of 6%, $100 par value, cumulative preference shares and 100,000 ordinary shares with a $1 par value outstanding at December 31, 2014. If the board of directors declares a $50,000 dividend, the

a. preference shareholders will receive 1/10th of what the ordinary shareholders will receive.
b. preference shareholders will receive the entire $50,000.
c. $50,000 will be held as restricted retained earnings and paid out at some future date.
d. preference shareholders will receive $25,000 and the ordinary shareholders will receive $25,000.

12-Manner, Inc. has 5,000 shares of 6%, £100 par value, noncumulative preference shares and 20,000 ordinary shares with a £1 par value outstanding at December 31, 2014. There were no dividends declared in 2013. The board of directors declares and pays a £55,000 dividend in 2014. What is the amount of dividends received by the ordinary shareholders in 2014?

a. £0
b. £30,000
c. £55,000
d. £25,000

13

SHARE DIVIDENDS

The purpose of share dividends:

1-To satisfy shareholder's dividends expectation without spending cash.

2-To increase the marketability of the corporation shares.

3-To emphasize that a portion of equity has been permanently reinvested.

Example. Assume D company has a balance of 300,000$ in retained earnings. It declares 10% share dividends on its 50,000 shares of 10$ par value ordinary shares. The current fair value of its shares is 15$ per share.

	Cash dividends	Share dividends
Dividends		
Retained earnings		
Liabilities		
Cash		
Share capital		
Share premium		
Outstanding shares		

1-Each of the following decreases total equity **except** a

a. cash dividend.
b. liquidating dividend.
c. share dividend.
d. All of these decrease total equity.

2-Ordinary Share Dividends Distributable is classified as a(n)

a. asset account.
b. equity account.
c. expense account.
d. liability account.

3-The effect of a share dividend is to

a. decrease total assets and equity.
b. change the composition of equity.
c. decrease total assets and total liabilities.
d. increase the par value per share.

4-If a corporation declares a 10% ordinary share dividend, the account to be debited on the date of declaration is

a. Ordinary Share Dividends Distributable.
b. Share Capital–Ordinary.
c. Share Premium–Ordinary.
d. Retained Earnings.

5-Dividends are predominantly paid in

a. earnings.
b. property.
c. cash.
d. shares.

6-If a shareholder receives a dividend that reduces retained earnings by the fair value of the shares, the shareholder has received a

a. large share dividend.
b. cash dividend.
c. contingent dividend.
d. small share dividend.

7-Of the various dividends types, the two most common types in practice are

a. cash and large share.
b. cash and property.
c. cash and small share.
d. property and small share.

8-The cumulative effect of the declaration and payment of a cash dividend on a company's statement of financial position is to

a. decrease current liabilities and equity.
b. increase total assets and equity.
c. increase current liabilities and equity.
d. decrease equity and total assets.

9-The declaration and distribution of a share dividend will

a. increase total equity.
b. increase total assets.
c. decrease total assets.
d. have no effect on total assets.

10-A corporation is not committed to a legal obligation when it declares

a. a cash dividend.
b. either a cash dividend or a share dividend.
c. a share dividend.
d. a distribution date.

14

SHARE SPLITS

Example. The company splits its 50,000 ordinary shares on 2-for-1 basis, the par value is 10$. What will be the effect after the spilt?

	Before split	After split
Share capital ordinary		
Share premium ordinary		
Retained earnings		
Total equity		
Outstanding shares		
Par value		

1-Which one of the following events would **not** require a formal journal entry on a corporation's books?

a. 2 for 1 share split
b. 100% share dividend
c. 2% share dividend
d. $1 per share cash dividend

2-Share dividends and share splits have the following effects on retained earnings:.

	Share dividends	Share split
a.	Increase	No change
b.	**Decrease**	**No change**
c.	Decrease	Decrease
d.	No change	No change

3-Which of the following show the proper effect of a share split and a share dividend?

	Item	Share Split	Share Dividend
a.	Total equity	Increase	Increase
b.	Total retained earnings	Decrease	Decrease
c.	Total par value (ordinary)	Decrease	Increase
d.	**Par value per share**	**Decrease**	**No change**

4-A share split

a. may occur in the absence of retained earnings.
b. will increase total equity.
c. will increase the total par value of the shares.
d. will have no effect on the par value per share of shares.

5-Irwin, Inc. had 200,000 ordinary shares outstanding before a share split occurred, and 400,000 shares outstanding after the share split. The share split was

a. 2-for-4.
b. 1-for-2.
c. 1-for-4.
d. 2-for-1.

15

E12-6

Robydek Limited issued 100,000 £20 par value, cumulative, 9% preference shares on January 1, 2015, for £2,080,000. In December 2017, Robydek declared its first dividend of £550,000.

Instructions

1. Prepare Robydek's journal entry to record the issuance of the preference shares.

2. If the preference shares are **not** cumulative, how much of the £550,000 would be paid to **ordinary** shareholders?

3. If the preference shares are cumulative, how much of the £550,000 would be paid to **ordinary** shareholders?

1-Lopez, Inc. has 2,500 shares of 4%, $50 par value, cumulative preference shares and 50,000 ordinary shares with a $1 par value outstanding at December 31, 2013, and December 31, 2014. The board of directors declared and paid a $3,000 dividend in 2013. In 2014, $15,000 of dividends are declared and paid. What are the dividends received by the preference and ordinary shareholders in 2014?

Ordinary	Preference	
$7,000	$8,000	a.
$7,500	$7,500	b.
$8,000	**$7,000**	**c.**
$10,000	$5,000	d.

2-Norton, Inc. has 10,000 shares of 5%, $100 par value, noncumulative preference shares and 100,000 ordinary shares with a $1 par value outstanding at December 31, 2013, and December 31, 2014. The board of directors declared and paid a $40,000 dividend in 2013. In 2014, $110,000 of dividends are declared and paid. What are the dividends received by the preference and ordinary shareholders in 2014?

Ordinary	Preference	
$110,000	$0	a.
$60,000	**$50,000**	**b.**
$55,000	$55,000	c.
$50,000	$60,000	d.

3-Outstanding shares of the Colt Corporation included 20,000 ordinary shares with a $5 par and 5,000 shares of 4%, $10 par noncumulative preference shares. In 2013, Colt declared and paid dividends of $2,000. In 2014, Colt declared and paid dividends of $6,000. How much of the 2014 dividend was distributed to preference shareholders?

a. $3,000
b. $4,000
c. $2,000
d. None of these answer choices are correct.

4-Sun Inc. has 5,000 shares of 6%, ¥1,000 par value, cumulative preference shares and 50,000 ordinary shares with a ¥10 par value outstanding at December 31, 2014. What is the annual dividend on the preference shares?

a. ¥600 per share
b. ¥300,000 in total
c. ¥60,000 in total
d. ¥6.00 per share

5-Allstate, Inc., has 10,000 shares of 6%, $100 par value, noncumulative preference shares and 100,000 ordinary shares with a $1 par value outstanding at December 31, 2014. If the board of directors declares a $150,000 dividend, the

a. preference shareholders will receive 1/10th of what the ordinary shareholders will receive.
b. preference shareholders will receive the entire $150,000.
c. $60,000 will be held as restricted retained earnings and paid out at some future date.
d. preference shareholders will receive $60,000 and the ordinary shareholders will receive $90,000.

6-Archer, Inc has 10,000 shares of 5%, $100 par value, noncumulative preference shares and 40,000 ordinary shares with a $1 par value outstanding at December 31, 2014. There were no dividends declared in 2013. The board of directors declares and pays a $140,000 dividend in 2014. What is the amount of dividends received by the ordinary shareholders in 2014?

a. $0
b. $50,000
c. $40,000
d. $90,000

7-Luther Inc has 2,000 shares of 5%, $50 par value, cumulative preference shares and 100,000 ordinary shares with a $1 par value outstanding at December 31, 2013, and December 31, 2014. The board of directors declared and paid a $4,000 dividend in 2013. In 2014, $24,000 of dividends are declared and paid. What are the dividends received by the preference shareholders in 2014?

a. $18,000
b. $12,000
c. $6,000
d. $5,000

8-Cuther Inc has 1,000 shares of 5%, $50 par value, cumulative preference shares and 50,000 ordinary shares with a $1 par value outstanding at December 31, 2013, and December 31, 2014. The board of directors declared and paid a $1,000 dividend in 2013. In 2014, $10,000 of dividends are declared and paid. What are the dividends received by the ordinary shareholders in 2014?

a. $6,000
b. $5,000
c. $4,000
d. $2,500

9-The shares were distributed on March 30. The entry to record the transaction of March 30 would include a

a. credit to Cash for €120,000.
b. debit to Ordinary Share Dividends Distributable for €120,000.
c. credit to Share Premium–Ordinary for €36,000.
d. debit to Cash Dividends for €36,000.

10-On January 1, Swanson Corporation had 80,000 ordinary shares with a €10 par value outstanding. On March 17, the company declared a 15% share dividend to shareholders of record on March20. Market value of the shares was €13 on March17.

The entry to record the transaction of March 17 would include a

a. credit to Cash Dividends for €36,000.
b. credit to Cash for €156,000.
c. credit to Ordinary Share Dividends Distributable for €120,000.
d. debit to Ordinary Share Dividends Distributable for €120,000.

11-Colson Inc. declared a $160,000 cash dividend. It currently has 6,000 shares of 6%, $100 par value cumulative preference share outstanding. It is one year in arrears on its preference stock. How much cash will Colson distribute to the ordinary shareholders?

a. $88,000.
b. $72,000.
c. $124,000.
d. None.

12-Ludwick Inc. has retained earnings of $800,000 and total equity of $2,000,000. It has 200,000 ordinary shares with a $5 par value outstanding, which is currently selling for $30 per share. If Ludwick declares a 15% share dividend on its ordinary shares

a. net income will decrease by $150,000.
b. retained earnings will decrease by $150,000 and total equity will increase by $150,000.
c. retained earnings will decrease by $900,000 and total equity will increase by $900,000.
d. retained earnings will decrease by $900,000 and share capital and share premium will increase by $900,000.

13-On December 31, 2014, Springer, Inc. has 3,000 shares of 5% $100 par value cumulative preference shares and 45,000 ordinary shares with a $10 par value outstanding. On December 31, 2014, the directors declare a $15,000 cash dividend. The entry to record the declaration of the dividend would include

a. a credit of $5,000 to Retained Earnings.
b. a note in the financial statements that dividends of $5 per share are in arrears on preference shares for 2014.
c. a debit of $15,000 to Share Capital–Ordinary.
d. a credit of $15,000 to Dividends Payable.

14-Shannon Manufacturing declared a 10% share dividend when it had 300,000 ordinary shares with a $3 par value outstanding. The market price per share was $12 per share when the dividend was declared. The entry to record this dividend declaration includes a credit to

a. Retained Earnings for $90,000.
b. Share Premium–Ordinary for $270,000.
c. Share Capital–Ordinary for $360,000.
d. Ordinary Share Dividends Distributable for $360,000.

15-On December 1, 2013, the Board of directors of Dew Laurintis Company declared a €.60 per share dividend payable on January 3, 2014 to shareholders of record on December 16. The company had 500,000 shares authorized and 225,000 shares issued and outstanding.

The journal entry made on December 1, 2013 will

a. reduce assets by €135,000.
b. reduce equity by €135,000.
c. increase expenses by €300,000.
d. increase liabilities by €300,000.

The journal entry made on declaration date will include

a. a debit to Cash Dividends of €135,000.
b. a credit to Cash of €135,000.
c. a credit to Ordinary Share Dividends Distributable by €300,000.
d. No entry is made on the declaration date.

The journal entry made on January 3, 2014 will

a. decrease assets and liabilities by €300,000.
b. increase assets and decrease equity by €135,000.
c. decrease assets and liabilities by €135,000.
d. decrease assets and increase equity by €135,000.

16-Jacquet Wholesale Merchandise Inc. had 40,000 shares of 6%, CHF20 par value preference shares and 30,000 shares of CHF25 Par value ordinary shares outstanding throughout 2014.

Assuming that total dividends declared in 2014 were $70,000 and that preference shares are not cumulative, ordinary shareholders should receive total 2014 dividends of

a. CHF22,000.
b. CHF46,000.
c. CHF48,000.
d. CHF70,000.

Assuming that total dividends declared in 2014 were $184,000 and that the preference shares are cumulative with two years' dividends in arrears on December 31, 2014, the preference shareholders should receive total 2014 dividends totaling

a. CHF40,000.
b. CHF96,000.
c. CHF144,000.
d. CHF184,000.

17-Franklin, Inc. declares a 10% ordinary share dividend when it has 40,000 ordinary shares with a $10 par value outstanding. If the market value of $24 per share is used, the amounts debited to Retained Earnings and credited to Share Premium–Ordinary are

	share premium- Ordinary	Retained Earnings
a.	$40,000	$0
b.	**$96,000**	**$56,000**
c.	$96,000	$40,000
d.	$40,000	$56,000

18-Total dividends declared in 2014 were $70,000. The preference shares are cumulative. No dividends were paid in 2013. The ordinary shareholders should receive total 2014 dividends of

a. CHF0.
b. CHF22,000.
c. CHF48,000.
d. CHF96,000.

19-Total dividends declared in 2014 were $30,000. The preference shares are cumulative and no dividends were paid in 2012 or 2013. The amount of dividends in arrears at December 31, 2014 is

a. CHF18,000.
b. CHF96,000.
c. **CHF114**,000.
d. CHF144,000.

20-Assuming that there are no dividends in arrears, how are total dividends allocated between ordinary shares and preference shares?

a. Preference shareholders are paid their required annual dividend with the balance going to ordinary shareholders.
b. On the basis of their relative par values.
c. On the basis of their relative market values.
d. Cannot be determined with the information given.

21-If a corporation declares a dividend out of share capital or share premium, it is known as a

a. scrip dividend.
b. property dividend.
c. paid dividend.
d. liquidating dividend.

22-Each of the following decreases retained earnings **except** a

a. cash dividend.
b. liquidating dividend.
c. share dividend.
d. All of these decrease retained earnings.

23-El Toro Manufacturing Inc. declared a 20% share dividend when it had 150,000 ordinary shares (€5 par value) outstanding. The market price per share was €8 on the declaration date. The entry to record the dividend declaration included a credit to

a. Share Dividends of €240,000.
b. Share Premium–Ordinary for €210,000.
c. Share Capital–Ordinary for €240,000.
d. Ordinary Share Dividends Distributable €150,000.

24-The board of directors must assign a per share value to a share dividend declared that is

a. greater than the par or stated value.
b. less than the par or stated value.
c. equal to the par or stated value.
d. at least equal to the par or stated value.

25-Corporations generally issue share dividends in order to

a. increase the market price per share.
b. exceed shareholders' dividend expectations.
c. increase the marketability of the shares.
d. decrease the amount of capital in the corporation.

26-A shareholder who receives a share dividend would

a. expect the market price per share to increase.
b. own more shares.
c. expect retained earnings to increase.
d. expect the par value of the shares to change.

27-When share dividends are distributed,

a. Ordinary Share Dividends Distributable is decreased.
b. Retained Earnings is decreased.
c. Share Premium-Ordinary is debited if it is a small share dividend.
d. no entry is necessary if it is a large share dividend.

28-A small share dividend is defined as

a. less than 30% but greater than 25% of the corporation's issued shares.
b. between 50% and 100% of the corporation's issued shares.
c. more than 30% of the corporation's issued shares.
d. less than 20–25% of the corporation's issued shares.

29-The per share amount normally assigned by the board of directors to a large share dividend is

a. the market value of the shares on the date of declaration.
b. the average price paid by shareholders on outstanding shares.
c. the par or stated value of the shares.
d. zero.

30-The per share amount normally assigned by the board of directors to a small share dividend is

a. the market value of the shares on the date of declaration.
b. the average price paid by shareholders on outstanding shares.
c. the par or stated value of the shares.
d. zero.

31-The effect a declaration and distribution of a share dividend has on the par value per share is a(an)

a. increase.

b. decrease.

c. increase or decrease.

d. no effect.

32-The declaration of a small share dividend will

a. increase share premium.
b. change total equity.
c. increase total liabilities.
d. increase total assets.

33-On January 1, Castagno Corporation had 1,200,000 ordinary shares with a $10 par value outstanding. On March 31, the company declared a 15% share dividend. Market value was $15/share. As a result of this event,

a. Castagno's Share Premium–Ordinary account increased $900,000.
b. Castagno's total equity was unaffected.
c. Castagno's Share Dividends account increased $2,700,000.
d. All of these answer choices are correct.

34-On January 1, Edmiston Corporation had 1,000,000 ordinary shares with a $10 par value outstanding. On March 31, the company declared a 20% share dividend. Market value was $15/share. As a result of this event,

a. Edmiston's Share Premium–Ordinary account increased $1,000,000.
b. Edmiston's total equity was unaffected.
c. Edmiston's Share Dividends account increased $3,000,000.
d All of these answer choices are correct.

16

RETAINED EARNINGS

Is net income that a company retains in the business

Retained earnings restrictions:

1-legal restrictions.

2-contractual restrictions.

3-Voluntary restrictions

PRIOR PERIOD ADJUSTMENTS

Example. Assume that ABC company discovers in 2017 that it understated depreciation expense in 2016 by 300000$ due to a computational errors. These errors overstated both net income in 2016 and the current balance of retained earnings.

RETAINED EARNINGS FORM.

Name of the company Retained earnings statement Date		
Begging balance		xx
Correction for understatement of net income in prior period		xx
Correction for overstatement of net income in prior period		(xx)
Adjusted begging balance		xx
Less: cash dividends		(xx)
Less: share dividends		(xx)
Ending balance		xx

EQUITY SECTION FORM IN THE STATEMENT OF FINANCIAL POSITION.

Name of the company Statement of financial position Date		
Equity		
Share capital - ordinary		xx
Share capital - preference		xx
Share premium - ordinary		xx
Share premium - preference		xx
Ordinary share dividends distributable		xx
Retained earnings		xx
Less: treasury shares		(xx)
Total equity		xx

1-If preference shares are non-cumulative,

a. preference shareholders will not receive dividends.
b. unpaid dividends become dividends in arrears.
c. unpaid dividends will never be paid.
d. the corporation has a liability for any unpaid dividends.

2-All of the following may decrease the retained earnings balance **except**

a. net losses.
b. sale of treasury shares at less than cost.
c. cash dividends.
d. prior period adjustment for understatement of net income.

3-Which of the following items would increase the retained earnings balance?

a. Prior period adjustment for understatement of net income.
b. Sale of treasury shares at more than cost.
c. Share dividends.
d. Net losses.

4-Bellingham Inc. discovered in early 2014 that it had overstated depreciation expense reported on its 2013 income statement. How would this correction of an error be handled?

a. Adjust depreciation expense for the error in 2014.
b. No adjustment needed.
c. Deduct the amount from 2014 net income.
d. Adjust the beginning of the year balance in the December 31, 2014 retained earnings statement.

The following selected amounts are available for Sanders Company.

$950	Retained earnings (beginning)
100	Net loss
100	Cash dividends declared
50	Share dividends declared

What is its ending retained earnings balance?

a. $800
b. $850
c. $700
d. $750

5-Restricting retained earnings for the cost of treasury shares purchased is a

a. contractual restriction.
b. legal restriction.
c. share restriction.
d. voluntary restriction.

6-Turquoise and Topaz Sisters had retained earnings of $20,000 on the statement of financial position but disclosed in the footnotes that $2,000 of retained earnings was restricted for plant expansion and $1,000 was restricted for bond repayments. Cash of $2,000 had been set aside for the plant expansion. How much of retained earnings is available for dividends?

a. $17,000
b. $18,000
c. $20,000
d. $15,000

7-A prior period adjustment that corrects income of a prior period requires that an entry be made to

a. an income statement account.
b. a current year revenue or expense account.
c. the retained earnings account.
d. an asset account.

8-The retained earnings statement

a. is the equity statement for a corporation.
b. will show an addition to the beginning retained earnings balance for an understatement of net income in a prior year.
c. will not reflect net losses.
d. will, in some cases, fail to reconcile the beginning and ending retained earnings balances.

9-If the board of directors authorizes a $100,000 restriction of retained earnings for a future plant expansion, the effect of this action is to

a. decrease total assets and total equity.
b. increase equity and decrease total liabilities.
c. decrease total retained earnings and increase total liabilities.
d. reduce the amount of retained earnings available for dividend declarations.

10-A credit balance in retained earnings represents

a. the amount of cash retained in the business.
b. a claim on specific assets of the corporation.
c. a claim on the aggregate assets of the corporation.
d. the amount of equity exempted from the shareholders' claim on total assets.

11-A net loss

a. occurs if operating expenses exceed cost of goods sold.
b. is not closed to Retained Earnings if it would result in a debit balance.
c. is closed to Retained Earnings even if it would result in a debit balance.
d. is closed to the share premium account of the equity section of the statement of financial position.

12-Prior period adjustments are reported

a. in the footnotes of the current year's financial statements.
b. on the current year's statement of financial position.
c. on the current year's income statement.
d. on the current year's retained earnings statement.

13-Retained earnings are occasionally restricted

a. to set aside cash for dividends.
b. to keep the legal capital associated with share premium intact.
c. due to contractual loan restrictions.
d. if preference dividends are in arrears.

14-Retained earnings is increased by each of the following **except**

a. net income.
b. prior period adjustments.
c. some disposals of treasury shares.
d. All of these answer choices are correct.

15-A prior period adjustment for understatement of net income will

a. be credited to the Retained Earnings account.
b. be debited to the Retained Earnings account.
c. show as a gain on the current year's income statement.
d. show as an asset on the current year's Statement of Financial Position.

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ANALYSIS

Return on ordinary shareholder's equity =

Example: Assume ABC company begging of the year and ending of the year ordinary shareholder's equity were 10663$ and 10161$ million, respectively. Its net income was 1271.8 million and no preference shares were outstanding.

Calculate return on ordinary shareholder's equity.

1-Lang Inc. reported net income of €235,000 during 2014 and paid dividends of €26,000 on ordinary shares. It also has 10,000 shares of 6%, €100 par value preference share outstanding. Ordinary shareholders' equity was €1,200,000 on January 1, 2014, and €1,600,000 on December 31, 2014. The company's return on ordinary shareholders' equity for 2014 is:

a. 14.9%
b. 12.5%
c. 10.6%
d. 16.8%

2-Harris Corporation had net income of $180,000 and paid dividends of $50,000 to ordinary shareholders and $20,000 to preference shareholders in 2014. Harris Corporation's ordinary shareholders' equity at the beginning and end of 2014 was $870,000 and $1,130,000, respectively. There are 100,000 weighted-average ordinary shares outstanding.

Harris Corporation's return on ordinary shareholders' equity was

a. 18%.
b. 16%.
c. 13%.
d. 11%.

3-Assume that all statement of financial position amounts for Remington Company represent average balance figures.

$150,000	Shareholders' equity—ordinary
200,000	Total equity
100,000	Sales revenue
31,000	Net income
10,000	Number of ordinary shares
10,000	Ordinary share dividends
4,000	Preference share dividends

What is the return on ordinary shareholders' equity ratio for Remington?

a. 20.7%
b. 18.0%
c. 14.0%
d. 11.3%

4-Van Luther Company had total equity of £8,650,000 at January 1, 2014 and £9,807,000 at December 31, 2014. The Company had net income for 2014 of £2,335,500 and paid total dividends of £600,000, including the annual preference dividend of £480,000.
Van Luther's return on equity for 2014 is

a. 18.8%.
b. 20.1%.
c. 23.8%.
d. 25.4%.

5-Wheeler Company reports the following amounts for 2014.

$ 150,000	Net income
1,000,000	Average shareholders' equity
26,000	Preference dividends
200,000	Par value preference shares

The 2014 rate of return on ordinary shareholders' equity is

a. 18.8%
b. 15.5%
c. 15.0%
d. 12.4%

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P12-4B

On January 1, 2017, Belgium Industries SA had the following equity accounts.

Share Capital—Ordinary (€4 par value, 250,000 shares issued and outstanding)	€1,000,000
Share Premium—Ordinary	200,000
Retained Earnings	840,000

During the year, the following transactions occurred.

Jan.	15	Declared a €1 cash dividend per share to shareholders of record on January 31, payable February 15.
Feb.	15	Paid the dividend declared in January.
Apr.	15	Declared a 10% share dividend to shareholders of record on April 30, distributable May 15. On April 15, the market price was €11 per share.
May	15	Issued the shares for the share dividend.
July	1	Announced a 2-for-1 share split. The market price per share prior to the announcement was €12. (The new par value is €2.)
Dec.	1	Declared a €0.50 per share cash dividend to shareholders of record on December 15, payable January 10, 2018.
	31	Determined that net income for the year was €264,000.

Instructions

1. Journalize the transactions and the closing entries for net income and dividends.
2. Enter the beginning balances, and post the entries to the equity accounts.
3. Prepare an equity section at December 31.

1-The return on ordinary shareholders' equity is computed by dividing net income available to ordinary shareholders by

a. ending total shareholders' equity.
b. ending ordinary shareholders' equity.
c. average total shareholders' equity.
d. average ordinary shareholders' equity.

2-The return on ordinary shareholders' equity is computed by dividing average ordinary shareholders' equity into

a. net income.
b. net income less ordinary and preference dividends.
c. net income less ordinary dividends.
d. net income less preference dividends.

3-The governments of many countries require corporations to restrict retained earnings for

a. the cost of treasury shares purchased.
b. dividends in arrears.
c. future plant expansion.
d. loan payments due within the next 12 months.

4-Ordinary share dividends distributable

a. is a contra equity account.
b. is a current liability.
c. is reported as an addition to equity under Share capital–ordinary.
d. reduces total equity.

5-Oxford Inc. was authorized to issue 100,000 £10 par value ordinary shares. As of December 31, 2014, the company had issued 44,000 shares at an average price of £22 per share. During 2014, the company felt that the shares were undervalued so it purchased 10,000 treasury shares at £18 per share. When the share price rebounded later in the year, the company sold 4,000 of the treasury for £25. Retained earnings was £1,658,000 at December 31, 2014.

The amount of Share Premium reported on the December 31, 2014 statement of financial position is

a. £280,000.
b. £528,000.
c. £556,000.
d. £968,000.

Total equity at December 31, 2014 is

a. £2,446,000.
b. £2,518,000.
c. £2,546,000.
d. £2,762,000.

6-Tang Inc. was authorized to issue 500,000 ¥1,000 par value ordinary shares. As of December 31, 2014, the company had issued 80,000 shares for proceeds of ¥198,000,000. During 2014, the company purchased 10,000 treasury shares at a total cost of ¥22,000,000. Later in the year, the company sold half of the treasury shares for ¥14,300,000. The balance in retained earnings at December 31, 2014 was ¥324,000,000.

The amount of Share Premium reported on the December 31, 2014 statement of financial position is

a. ¥3,300,000.
b. ¥7,700,000.
c. ¥118,000,000.
d. ¥121,300,000.

Total equity at December 31, 2014 is

a. ¥96,800,000.
b. ¥514,300,000.
c. ¥522,000,000.
d. ¥533,000,000.

The balance in the Treasury Shares account reported on the December 31, 2014 statement of financial position is

a. ¥3,300,000.
b. ¥11,000,000.
c. ¥14,300,000.
d. ¥22,000,000.

7-El Greco Corporation's January 1, 2014 retained earnings balance was €1,850,000. El Greco earned net income for the year €510,000 and paid total dividends of €210,000. The company discovered in early 2014 that depreciation expense had been understated by €50,000 in 2013 financial statements. The December 31, 2014 retained earnings balance is

a. €1,640,000.
b. €2,100,000.
c. €2,150,000.
d. €2,200,000.

8-When ordinary shares are issued for services or non-cash assets, cost should be

a. only the fair value of the consideration given up.
b. only the fair value of the consideration received.
c. the book value of the ordinary shares issued.
d. either the fair value of the consideration given up or the consideration received, whichever is more clearly evident.

9-When the selling price of treasury shares is greater than its cost, the company credits the difference to

a. Gain on Sale of Treasury Shares.
b. Share Premium–Treasury.
c. Share Premium–Ordinary.
d. Treasury Shares.

10-Sandwick Corporation was organized on January 1, 2014, with authorized capital of 750,000 ordinary shares with a $10 par value. During 2014, Sandwick issued 30,000 shares at $12 per share, purchased 3,000 treasury shares at $13 per share, and sold 3,000 treasury shares at $14 per share. What is the amount of total share premium at December 31, 2014?

a. $0
b. $3,000
c. $60,000
d. $63,000

11-The purchase of treasury shares

a. decreases ordinary shares authorized.
b. decreases ordinary shares issued.
c. decreases ordinary shares outstanding.
d. has no effect on ordinary shares outstanding.

12-Preference shareholders have a priority over ordinary shareholders as to

a. dividends only.
b. assets in the event of liquidation only.
c. voting rights.
d. both dividends and assets in the event of liquidation.

13-On January 2, 2011, Pacer Corporation issued 30,000 shares of 5% cumulative preference shares at $100 par value. On December 31, 2014, Pacer Corporation declared and paid its first dividend. What dividends are the preference shareholders entitled to receive in the current year before any distribution is made to ordinary shareholders?

a. $0
b. $150,000
c. $450,000
d. $600,000

14-Which of the following statements about a cash dividend is **incorrect**?

a. The legality of a cash dividend depends on government laws.
b. The legality of a dividend does not indicate a company's ability to pay a dividend.
c. Dividends are not a liability until declared.
d. Shareholders usually vote to determine the amount of income to be distributed in the form of a dividend.

15-The date a cash dividend becomes a binding legal obligation to a corporation is the

a. **declaration date.**
b. earnings date.
c. payment date.
d. record date.

16-Dillon Corporation splits its ordinary shares 2 for 1, when the market value is $40 per share. Prior to the split, Dillon had 50,000 ordinary shares with a $20 par value issued and outstanding. After the split, the par value of the shares

a. remains the same.
b. is reduced to $2 per share.
c. **is reduced to $10 per share.**
d. is reduced to $20 per share.

17-Which of the following statements about retained earnings restrictions is **incorrect**?

a. Many jurisdictions require a corporation to restrict retained earnings for the cost of treasury shares purchased.
b. Long-term debt contracts may impose a restriction on retained earnings as a condition for the loan.
c. The board of directors of a corporation may voluntarily create retained earnings restrictions for specific purposes.
d. **Retained earnings restrictions are generally disclosed through a journal entry on the books of a company.**

18-Prior period adjustments

a. may only increase retained earnings.
b. may only decrease retained earnings.
c. **may either increase or decrease retained earnings.**
d. do not affect retained earnings.

Issuing ordinary shares for cash		
Cash Share capital – ordinary Share premium- ordinary	XX XX	# * per share # * par value or stated value الفرق يا دبت يا كردت حسب
Issuing preference shares for cash		
Cash Share capital – preference Share premium- preference	XX XX	# * per share # * par value or stated value الفرق يا دبت يا كردت حسب
اذا بس معطيني per share الكاش و الشير كابيتال بكونون نفس الشي و ماراح يكون في بريميم		

Issuing ordinary shares for non-cash		
Attorney fees		
Organization expense Share capital – ordinary Share premium- ordinary	XX XX	the market value of consideration received # * par value or stated value الفرق يا دبت يا كردت حسب
Land		
Land Share capital – ordinary Share premium- ordinary	XX XX	# * per share # * par value or stated value الفرق يا دبت يا كردت حسب

Treasury shares		
Acquired # of its shares at X$		
Treasury shares cash	XX XX	# * x$ # * x$
Disposal of treasury shares Sells # shares for y$		
Cash Treasury shares Share premium treasury Retained earnings	XX XX	# * y$ بالسعر الي انا الحين بعتهم فيه # * x$ بالسعر الي انا أول شي شريتهم فيه الفرق يا دبت يا كردت حسب أحطه اذا الشير بريميم ما كفى عندي

Cash dividends		
Declaration		
Cash dividends Dividends payable	XX XX	
Payment of cash dividends		
Dividends payable cash	XX XX	
اذا عندنا برفرس شيرس هم نسوي نفس القيود, بس الفرق ان هالمبلغ بيتقسم اول شي يروح حق البرفرنس و الباجي يروح للاورديناري بس ما نذكر هالشي بالقيود, بس ممكن يسألنا جم من هالمبلغ حق البرفرنس و جم للاورديناري		
مبلغ البرفرنس عدد الأسهم * % * par اذا مبلغ الدفدنس اقل و البرفرنس cumulative فالناقص يروح للمرة الياية اذا مو cumulative فما يروح للمرة الياية		

share dividends		
Declaration		
share dividends ordinary share dividends Distributable share premium ordinary	XX XX	# * % * Per share (fair value) # * % * par value الفرق دبت او كردت حسب
Issuance		
ordinary share dividends distributable share capital ordinary	XX XX	

Prior period adjustment		
Understated of depreciation		
Retained earnings Accumulated depreciation	XX XX	

THE END

Good luck