Vol. 1, Chapter 4 – Corporate Accounting

Problem 1

The high and low prices for McDonald's stock over the last 52 weeks were $35.91 and $27.36 respectively. The annual cash dividend yield is 1.9% of that day's closing price. McDonald's is selling at a price that is 19 times its annual earnings. On this particular day 6,878,200 shares of McDonald's stock were traded. The stock closed at $35.71 on this day, which represented a 15 cent decrease from the previous day's close.

Problem 2

1. Cash		$ 200,000	
	Common Stock		$ 50,000
	Additional Paid-In Capital in Excess of Par		150,000

2. Stockholders' Equity

Common Stock		$ 250,000
Paid-In Capital in Excess of Par		950,000
Retained Earnings		75,000
	Total Stockholders' Equity	$ 1,275,000

Problem 3

1.

Paid-In Capital	$ 2,186,000
Common Stock	16,600
Retained Earnings	21,755,800
Treasury Stock	(9,756,900)
Total Stockholders' Equity	$14,201,500

2.

Total Stockholders' Equity	$14,201,500
+ Total Liabilities	13,636,000
= Total Assets	$27,837,500

Problem 4

Top Flight Hotels
Statement of Retained Earnings
For Year Ended December 31, 20X1

Retained Earnings, January 1, 20X1	$ 125,000
Add: Error of prior period: $50,000 (net of taxes)	50,000
Adjusted Retained Earnings	175,000
Net Income for 20X1	92,000
Subtotal	267,000
Dividends Declared during 20X1	46,000
Retained Earnings, December 31, 20X1	$ 221,000

Problem 5

	Account	Normal Balance
Common Stock	Equity	Credit
Bonds Payable	Liability	Credit
Accounts Receivable	Asset	Debit
Additional Paid-In Capital—Common Stock	Equity	Credit
Buildings	Asset	Debit
Retained Earnings	Equity	Credit
Wages Payable	Liability	Credit
Land	Asset	Debit
Equipment	Asset	Debit
Treasury Stock	Equity	Debit
Common Stock Subscribed	Equity	Credit
Accounts Payable	Liability	Credit
Stock Dividend to be Distributed	Equity	Credit
Preferred Stock	Equity	Credit

Problem 6

1. Recording this purchase at cost, the journal entry would be as follows:

	Treasury Stock	$ 200,000	
	Cash		$ 200,000
	To record the purchase of 10,000 shares from the treasury at $20 per share		
2.	Cash	$ 120,000	
	Treasury Stock		$ 80,000
	Additional Paid-In Capital (from Treasury Stock)		40,000
	To record a sale of 4,000 shares from treasury at $30 per share, with a cost of $20 per share		
3.	Cash	$ 60,000	
	Additional Paid-In Capital (from Treasury Stock)	20,000	
	Treasury Stock		$ 80,000
	To record a sale of 4,000 shares from treasury at $15 per share, with a cost of $20 per share		

Problem 7

The journal entry to record the declaration of the dividend on April 1, 20X1, would be:

Retained Earnings	$ 8,400	
Dividends Payable		$ 8,400

On May 15, 20X1, the dividend payment date, the following entry would be made:

Dividends Payable	$ 8,400	
Cash		$ 8,400

No accounting entries are made on either the date of record or the ex-dividend date.

Problem 8

1a.	Stock Subscriptions Receivable	$ 150,000	
	Common Stock Subscribed		$ 50,000
	Additional Paid-In Capital in Excess of Par		100,000
b.	Cash	$ 90,000	
	Stock Subscriptions Receivable		$ 90,000
	Common Stock Subscribed	$ 30,000	
	Common Stock		$ 30,000

2. **Stockholders' Equity**

Common Stock	$ 330,000
Common Stock Subscribed	20,000
Paid-In Capital in Excess of Par	750,000
Retained Earnings	95,000
Total Stockholders' Equity	$ 1,195,000

Problem 9

1. $2,500,000 [= $5 × 500,000 shares issued]

2. $22,000,000 [= $10,000,000 + $8,000,000 + $1,500,000 + $2,500,000]

3. $4,000,000 [= 2,500,000 (common stock balance) + 1,500,000 (preferred stock)]

4. $40.70 [= 22,000,000 (total stockholders' equity) – 1,650,000 (callable value of preferred—30,000 shares @ $55/share) = 20,350,000 ÷ 500,000 shares = $40.70]

5. $25 [= 10,000,000 PIC on common + 2,500,000 common stock account = 12,500,000 divided by 500,000 shares = $25.00]

Problem 10

4/01	Cash	$ 25,000	
	Common Stock		$ 20,000
	Additional Paid-In Capital in Excess of Par—Common Stock		5,000
4/05	Cash	$ 52,500	
	Preferred Stock		$ 50,000
	Additional Paid-In Capital in Excess of Par—Preferred Stock		2,500
4/08	Retained Earnings	$ 40,000	
	Common Stock Dividend to be Distributed		$ 20,000
	Additional Paid-In Capital—Stock Dividend		20,000
4/15	Retained Earnings	$ 2,000	
	Dividends Payable		$ 2,000
4/16	Retained Earnings	$ 4,000	
	Dividends Payable		$ 4,000
4/25	Dividends Payable	$ 6,000	
	Cash		$ 6,000
4/27	Common Stock Dividend to be Distributed	$ 20,000	
	Common Stock		$ 20,000
4/30	Income Summary	$200,000	
	Retained Earnings		$200,000

Problem 11

January 15	Cash	$200,000	
	Common Stock		$ 10,000
	Additional Paid-In Capital		190,000
April 15	Income Tax Expense	$ 35,000	
	Income Tax Payable		$ 35,000
May 30	Retained Earnings	$ 10,000	
	Dividends Payable		$ 10,000
June 15	Dividends Payable	$ 10,000	
	Cash		$ 10,000

Problem 12

1.	Retained Earnings	$ 800,000	
	Stock Dividend to Be Distributed		$ 40,000
	Additional Paid-In Capital: Stock Dividend		760,000
	[200,000 shares × 10% = 20,000 shares × $2 = $40,000 20,000 shares × $40 = $800,000 20,000 shares × ($40 – $2) = $760,000]		

Later, when the stock dividend was actually distributed, the journal entry would be:

Stock Dividend to Be Distributed	$ 40,000	
Common Stock		$ 40,000

Notice that in the case of this small stock dividend, Retained Earnings is decreased by the number of shares in the dividend times the current market price of the stock. Common Stock, of course, is eventually increased by the par value of the stock.

2.	Retained Earnings	$ 120,000	
	Stock Dividend to Be Distributed		$ 120,000
	[200,000 shares × 30% = 60,000 shares × $2/share = $120,000]		

Later, when the stock dividend was actually distributed, the journal entry would be:

Stock Dividend to Be Distributed	$ 120,000	
Common Stock		$ 120,000

3. Note that, in the case of the two-for-one stock split, there is no change in Total Assets, no change in Total Liabilities, and no change in Total Stockholders' Equity. Thus, no journal entry is made in the case of a stock split; rather, a memo is made in the general journal.

Problem 13

Sea-Witch Restaurant Co.

Stockholders' Equity Section

8% Preferred Stock, $100 par, callable at $110, cumulative; 10,000 shares authorized, 6,000 shares issued and outstanding	$ 600,000
Common stock, no par, $5 stated value; 500,000 shares authorized, 400,000 shares issued, 390,000 shares outstanding	2,000,000
Common stock subscribed	50,000
Additional Paid-In Capital—Preferred Stock	30,000
Additional Paid-In Capital—Common Stock	860,000
Deficit	(40,000)
Less: Treasury Stock	(80,000)
Total Stockholders' Equity	$3,420,000

Problem 14

Preferred Stock, $100 par, 8%, callable at $106, 1,000 shares outstanding	$ 100,000
Common Stock, $10 par, 25,000 shares outstanding	250,000
Additional Paid in Capital	200,000
Retained Earnings	175,000
Total Stockholders' Equity	$ 725,000
Total Stockholders' Equity	$ 725,000
Less: Call Value of Preferred	(106,000)
Less: Preferred Dividends in arrears	(16,000)
Equity of Common Stockholders	$ 603,000
Dividend by Common Shares outstanding	÷ 25,000
Equals Book Value per Share of Common Stock	= $ 24.12

Problem 15

May 15	Treasury Stock	$125,000	
	Cash		$125,000
June 30	Cash	$70,000	
	Treasury Stock		$50,000
	Paid-In Capital		20,000
July 10	Retained Earnings	$4,500	
	Dividends Payable		$4,500
July 30	Dividends Payable	$4,500	
	Cash		$4,500
Aug. 15	Cash	$200,000	
	Common Stock		$ 10,000
	Paid-In Capital		190,000
Sep. 15	Income Tax Expense	$15,000	
	Income Tax Payable		$15,000
Sep. 30	Income Tax Payable	$15,000	
	Cash		$15,000