1. Which of the following is a disadvantage of a corporate form of business?

A. Limited liability

B. Transferability of ownership

D. Lack of regulation

D. Double taxation

2. A corporation may have more shares of stock issued than it has outstanding. This statement is

A. true.

B. false.

3. Which of the following is not a common characteristic associated with preferred stock?

A. Voting rights

B. Cumulative dividends

C. Priority in business liquidations

D. Predetermined dividends

4. Wilson Corporation was established on January 1, 2015 when it issued 20,000 shares of $50 par, 5 percent, ***cumulative*** preferred stock and 30,000 shares of $10 par common stock. The company declared the following dividends in 2015, 2016, and 2017:

|  |  |
| --- | --- |
| 2015 | $0 |
| 2016 | $40,000 |
| 2017 | $90,000 |

The dividend paid to common stockholders at the end of 2017 is

A. zero.

B. $30,000.

C. $40,000.

D. None of the above.

5. Wilson Corporation was established on January 1, 2015 when it issued 20,000 shares of $50 par, 5 percent, ***non-cumulative*** preferred stock and 30,000 shares of $10 par common stock. The company declared the following dividends in 2015, 2016, and 2017:

|  |  |
| --- | --- |
| 2015 | $0 |
| 2016 | $40,000 |
| 2017 | $90,000 |

The dividend paid to common stockholders at the end of 2017 is

A. zero.

B. $30,000.

C. $40,000.

D. None of the above.

6. On January 1, Year 1 Gleason Corporation issued 400 shares of $5 ***par value common stock*** for $40 per share. Which of the following journal entries shows how this event would be recorded on January 1, Year 1?

A.

|  |  |  |
| --- | --- | --- |
| Account Titles | Debit | Credit |
| Common Stock |  2,000 |  |
| Additional Paid-in Capital in Excess of Par Value  |  14,000 |  |
|  Cash |  |  16,000 |

B.

|  |  |  |
| --- | --- | --- |
| Account Titles | Debit | Credit |
| Cash |  18,000 |  |
|  Common Stock |  |  2,000 |
|  Additional Paid-in Capital in Excess of Par Value |  |  16,000 |

C.

|  |  |  |
| --- | --- | --- |
| Account Titles | Debit | Credit |
| Cash |  16,000 |  |
|  Common Stock |  |  2,000 |
|  Additional Paid-in Capital in Excess of Par Value |  |  14,000 |

D.

|  |  |  |
| --- | --- | --- |
| Account Titles | Debit | Credit |
| Cash |  16,000 |  |
|  Common Stock |  |  14,000 |
|  Additional Paid-in Capital in Excess of Par Value |  |  2,000 |

7. On the balance sheet, *paid-in excess* accounts are normally shown after the retained earnings account. This statement is

a. true.

b. false.

8. On November 1, 2015 Duffy Company paid $20 per share to buy back 1,000 shares of its $8 par value common stock. The stock had originally sold for $15. Which of the following shows how the purchase of the treasury stock will affect Duffy’s financial statements on November 1, 2015?

a.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Balance Sheet** |  | **Income Statement** |  | **Statement of** |
| **Assets** | **=** | **Other Equity Accounts** | **-**  | **Treasury Stock** |  | **Rev.** | **-** | **Exp.** | **=** | **Net Inc.** |  | **Cash Flows** |
| (20,000) |  | (20,000) |  | NA |  | NA |  | NA |  | NA |  | (20,000) FA |

b.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Balance Sheet** |  | **Income Statement** |  | **Statement of** |
| **Assets** | **=** | **Other Equity Accounts** | **-**  | **Treasury Stock** |  | **Rev.** | **-** | **Exp.** | **=** | **Net Inc.** |  | **Cash Flows** |
| (20,000) |  | NA |  | 20,000 |  | NA |  | NA |  | NA |  | (20,000) FA |

c.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Balance Sheet** |  | **Income Statement** |  | **Statement of** |
| **Assets** | **=** | **Other Equity Accounts** | **-**  | **Treasury Stock** |  | **Rev.** | **-** | **Exp.** | **=** | **Net Inc.** |  | **Cash Flows** |
| (20,000) |  | NA |  | (20,000) |  | NA |  | NA |  | NA |  | (20,000) FA |

d.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Balance Sheet** |  | **Income Statement** |  | **Statement of** |
| **Assets** | **=** | **Other Equity Accounts** | **-**  | **Treasury Stock** |  | **Rev.** | **-** | **Exp.** | **=** | **Net Inc.** |  | **Cash Flows** |
| (20,000) |  | NA |  | 20,000 |  | 20,000 |  | NA |  | 20,000 |  | (20,000) FA |

9. On November 1, 2015 Duffy Company paid $20 per share to buy back 1,000 shares of its $8 par value common stock. The stock had originally sold for $15. On December 15, Year 1 Duffy sold 400 shares of the treasury stock at $18 per share. Which of the following journal entries is necessary to record the sale of the treasury stock on December 15, 2015?

a.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Balance Sheet** |  | **Income Statement** |  | **Statement of** |
| **Assets** | **=** | **Other Equity Accounts** | **-**  | **Treasury Stock** |  | **Rev.** | **-** | **Exp.** | **=** | **Net Inc.** |  | **Cash Flows** |
| 7,200 |  | NA |  | 7,200 |  | NA |  | NA |  | NA |  | 7,200 FA |

b.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Balance Sheet** |  | **Income Statement** |  | **Statement of** |
| **Assets** | **=** | **Other Equity Accounts** | **-**  | **Treasury Stock** |  | **Rev.** | **-** | **Exp.** | **=** | **Net Inc.** |  | **Cash Flows** |
| 7,200 |  | 1,200 |  | 6,000 |  | NA |  | NA |  | NA |  | 7,200 FA |

c.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Balance Sheet** |  | **Income Statement** |  | **Statement of** |
| **Assets** | **=** | **Other Equity Accounts** | **-**  | **Treasury Stock** |  | **Rev.** | **-** | **Exp.** | **=** | **Net Inc.** |  | **Cash Flows** |
| 7,200 |  | NA |  | (8,000) |  | NA |  | 800 |  | 800 |  | 7,200 FA |

d.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Balance Sheet** |  | **Income Statement** |  | **Statement of** |
| **Assets** | **=** | **Other Equity Accounts** | **-**  | **Treasury Stock** |  | **Rev.** | **-** | **Exp.** | **=** | **Net Inc.** |  | **Cash Flows** |
| 7,200 |  | (800) |  | (8,000) |  | NA |  | NA |  | NA |  | 7,200 FA |

10. On November 1, 2015 Duffy Company paid $20 per share to buy back 1,000 shares of its $8 par value common stock. The stock had originally sold for $15. On December 15, Year 1 Duffy sold 400 shares of the treasury stock at $22 per share. Which of the following journal entries is necessary to record the sale of the treasury stock on December 15, 2015?

a.

|  |  |  |
| --- | --- | --- |
| Account Titles | Debit | Credit |
| Cash |  8,800 |  |
|  Treasury Stock  |   |  800 |
|  Paid-in Capital from Treasury Stock Transactions |  |  8,000 |

b.

|  |  |  |
| --- | --- | --- |
| Account Titles | Debit | Credit |
| Treasury Stock |  8,800 |  |
|  Cash  |   |  8,000 |
|  Paid-in Capital from Treasury Stock Transactions |  |  800 |

c.

|  |  |  |
| --- | --- | --- |
| Account Titles | Debit | Credit |
| Cash |  8,800 |  |
|  Treasury Stock  |   |  8,000 |
|  Paid-in Capital from Treasury Stock Transactions |  |  800 |

d.

|  |  |  |
| --- | --- | --- |
| Account Titles | Debit | Credit |
| Treasury Stock |  8,000 |  |
| Paid-in Capital from Treasury Stock Transactions  |  800 |  |
|  Cash |  |  8,800 |

11. On October 1, Pine Corporation declared a $50,000 cash dividend to be paid on December 15 to shareholders of record on November 1. Which of the following shows how Allison’s financial statements will be affected on October 1?

A.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Balance Sheet** |  | **Income Statement** |  | **Statement of** |
| **Assets** | **=** | **Dividends****Payable** | **+**  | **Common****Stock** |  | **Retained****Earnings** |  | **Rev.** | **-** | **Exp.** | **=** | **Net Inc.** |  | **Cash Flows** |
| NA |  | 50,000 |  | NA |  | (50,000) |  | NA |  | NA |  | NA |  | NA |

B.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Balance Sheet** |  | **Income Statement** |  | **Statement of** |
| **Assets** | **=** | **Dividends****Payable** | **+**  | **Common****Stock** |  | **Retained****Earnings** |  | **Rev.** | **-** | **Exp.** | **=** | **Net Inc.** |  | **Cash Flows** |
| NA |  | NA |  | NA |  | NA |  | NA |  | NA |  | NA |  | NA |

C.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Balance Sheet** |  | **Income Statement** |  | **Statement of** |
| **Assets** | **=** | **Dividends****Payable** | **+**  | **Common****Stock** |  | **Retained****Earnings** |  | **Rev.** | **-** | **Exp.** | **=** | **Net Inc.** |  | **Cash Flows** |
| NA |  | 50,000 |  | NA |  | (50,000) |  | NA |  | NA |  | NA |  | (50,000) FA |

D.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Balance Sheet** |  | **Income Statement** |  | **Statement of** |
| **Assets** | **=** | **Dividends****Payable** | **+**  | **Common****Stock** |  | **Retained****Earnings** |  | **Rev.** | **-** | **Exp.** | **=** | **Net Inc.** |  | **Cash Flows** |
| (50,000) |  | (50,000) |  | NA |  | NA |  | NA |  | NA |  | NA |  | (50,000) FA |

12. Modesto Corporation issued a 5 percent stock dividend on the 30,000 shares of stock outstanding. The par value of the common stock was $10 per share. At the time of the dividend, the market value of the stock was $40 per share. Which of the following shows how the stock dividend will affect Modesto’s financial statements?

a.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Balance Sheet** |  | **Income Statement** |  | **Statement of** |
| **Assets** | **=** | **Common****Stock** | **+**  | **Additional****Paid-in** |  | **Retained****Earnings** |  | **Rev.** | **-** | **Exp.** | **=** | **Net Inc.** |  | **Cash Flows** |
| NA |  | NA |  | 60,000 |  | (60,000) |  | NA |  | NA |  | NA |  | NA |

b.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Balance Sheet** |  | **Income Statement** |  | **Statement of** |
| **Assets** | **=** | **Common****Stock** | **+**  | **Additional****Paid-in** |  | **Retained****Earnings** |  | **Rev.** | **-** | **Exp.** | **=** | **Net Inc.** |  | **Cash Flows** |
| NA |  | 15,000 |  | 45,000 |  | (60,000) |  | NA |  | NA |  | NA |  | NA |

c.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Balance Sheet** |  | **Income Statement** |  | **Statement of** |
| **Assets** | **=** | **Common****Stock** | **+**  | **Additional****Paid-in** |  | **Retained****Earnings** |  | **Rev.** | **-** | **Exp.** | **=** | **Net Inc.** |  | **Cash Flows** |
| (60,000) |  | NA |  | NA |  | (60,000) |  | NA |  | NA |  | NA |  | (60,000) FA |

d.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Balance Sheet** |  | **Income Statement** |  | **Statement of** |
| **Assets** | **=** | **Common****Stock** | **+**  | **Additional****Paid-in** |  | **Retained****Earnings** |  | **Rev.** | **-** | **Exp.** | **=** | **Net Inc.** |  | **Cash Flows** |
| NA |  | (60,000) |  | 45,000 |  | 15,000 |  | NA |  | NA |  | NA |  | NA |

13. A general journal entry is not required to recognize a stock split. This statement is

a. true.

b. false.