EXERCISES: SET B

E14-1B  On January 1, Celine Corporation had 95,000 shares of no-par common stock issued and outstanding. The stock has a stated value of $5 per share. During the year, the following occurred.

Apr. 1 Issued 45,000 additional shares of common stock for $17 per share.
June 15 Declared a cash dividend of $1 per share to stockholders of record on June 30.
July 10 Paid the $1 cash dividend.
Dec. 1 Issued 2,000 additional shares of common stock for $19 per share.
15 Declared a cash dividend on outstanding shares of $1.20 per share to stockholders of record on December 31.

Instructions
(a) Prepare the entries, if any, on each of the three dividend dates.
(b) How are dividends and dividends payable reported in the financial statements prepared at December 31?

E14-2B  Ortiz Corporation was organized on January 1, 2009. During its first year, the corporation issued 2,000 shares of $50 par value preferred stock and 100,000 shares of $10 par value common stock. At December 31, the company declared the following cash dividends: 2009, $5,000, 2010, $12,000, and 2011, $28,000.

Instructions
(a) Show the allocation of dividends to each class of stock, assuming the preferred stock dividend is 6% and not cumulative.
(b) Show the allocation of dividends to each class of stock, assuming the preferred stock dividend is 7% and cumulative.
(c) Journalize the declaration of the cash dividend at December 31, 2011, under part (b).

E14-3B  On January 1, 2010, Iona Corporation had $1,200,000 of common stock outstanding that was issued at par. It also had retained earnings of $750,000. The company issued 40,000 shares of common stock at par on July 1 and earned net income of $400,000 for the year.

Instructions
Journalize the declaration of a 15% stock dividend on December 10, 2010, for the following independent assumptions.
1. Par value is $10, and market value is $18.
2. Par value is $5, and market value is $20.

E14-4B  On October 31, the stockholders’ equity section of Staar Company consists of common stock $500,000 and retained earnings $900,000. Staar is considering the following two courses of action: (1) declaring a 5% stock dividend on the 50,000, $10 par value shares outstanding, or (2) effecting a 2-for-1 stock split that will reduce par value to $5 per share. The current market price is $14 per share.

Instructions
Prepare a tabular summary of the effects of the alternative actions on the components of stockholders’ equity, outstanding shares, and book value per share. Use the following column headings: Before Action, After Stock Dividend, and After Stock Split.

E14-5B  On October 1, Janine Corporation’s stockholders’ equity is as follows.

<table>
<thead>
<tr>
<th>Component</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock, $10 par value</td>
<td>$400,000</td>
</tr>
<tr>
<td>Paid-in capital in excess of par value</td>
<td>25,000</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>155,000</td>
</tr>
<tr>
<td>Total stockholders’ equity</td>
<td>$580,000</td>
</tr>
</tbody>
</table>

On October 1, Janine declares and distributes a 10% stock dividend when the market value of the stock is $15 per share.

Instructions
(a) Compute the book value per share (1) before the stock dividend and (2) after the stock dividend. (Round to two decimals.)
(b) Indicate the balances in the three stockholders’ equity accounts after the stock dividend shares have been distributed.
During 2010, Klooster Corporation had the following transactions and events.

1. Declared a cash dividend.
2. Issued par value common stock for cash below par value.
3. Completed a 2-for-1 stock split in which $10 par value stock was changed to $5 par value stock.
4. Declared a small stock dividend when the market value was higher than par value.
5. Made a prior period adjustment for understatement of net income.
6. Issued the shares of common stock required by the stock dividend declaration in item no. 4 above.
7. Paid the cash dividend in item no. 1 above.
8. Issued par value common stock for cash above par value.

Instructions
Indicate the effect(s) of each of the foregoing items on the subdivisions of stockholders’ equity. Present your answer in tabular form with the following columns. Use (I) for increase, (D) for decrease, and (NE) for no effect. Item no. 1 is given as an example.

<table>
<thead>
<tr>
<th>Item</th>
<th>Paid-in Capital</th>
<th>Retained Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Stock</td>
<td>Additional</td>
</tr>
<tr>
<td>1</td>
<td>NE</td>
<td>NE</td>
</tr>
</tbody>
</table>

Prepare correcting entries for dividends and a stock split.

Before preparing financial statements for the current year, the chief accountant for Eino Company discovered the following errors in the accounts.

1. The declaration and payment of $50,000 cash dividend was recorded as a debit to Interest Expense $50,000 and a credit to Cash $50,000.
2. A 10% stock dividend (1,000 shares) was declared on the $5 par value stock when the market value per share was $18. The only entry made was: Retained Earnings (Dr.) $5,000 and Dividend Payable (Cr.) $5,000. The shares have not been issued.
3. A 2-for-1 stock split involving the issue of 200,000 shares of $5 par value common stock for 100,000 shares of $20 par value common stock was recorded as a debit to Retained Earnings $1,000,000 and a credit to Common Stock $1,000,000.

Instructions
Prepare the correcting entries at December 31.

On January 1, 2010, Exeter Corporation had retained earnings of $550,000. During the year, Dexter had the following selected transactions.

1. Declared cash dividends $140,000.
2. Corrected overstatement of 2009 net income because of depreciation error $50,000.
3. Earned net income $350,000.
4. Declared stock dividends $60,000.

Instructions
Prepare a retained earnings statement for the year.

Sasone Company reported retained earnings at December 31, 2009, of $310,000. Sasone had 200,000 shares of common stock outstanding throughout 2010.

The following transactions occurred during 2010.

1. An error was discovered: in 2009, depreciation expense was recorded at $70,000, but the correct amount was $60,000.
2. A cash dividend of $0.50 per share was declared and paid.
3. A 5% stock dividend was declared and distributed when the market price per share was $18 per share.
4. Net income was $285,000.

Instructions
Prepare a retained earnings statement for 2010.

Xavier Company reported the following balances at December 31, 2009: common stock $400,000; paid-in capital in excess of par value $100,000; retained earnings $250,000. During 2010, the following transactions affected stockholder’s equity.
1. Issued preferred stock with a par value of $125,000 for $180,000.
2. Purchased treasury stock (common) for $40,000.
3. Earned net income of $140,000.
4. Declared and paid cash dividends of $76,000.

**Instructions**

Prepare the stockholders’ equity section of Xavier Company’s December 31, 2010, balance sheet.

E14-11B 

The following accounts appear in the ledger of Quinonez Inc. after the books are closed at December 31.

- Common Stock, no par, $1 stated value, 400,000 shares authorized; 300,000 shares issued $300,000
- Common Stock Dividends Distributable 50,000
- Paid-in Capital in Excess of Stated Value—Common Stock 1,200,000
- Preferred Stock, $5 par value, 8%, 40,000 shares authorized; 30,000 shares issued 150,000
- Retained Earnings 850,000
- Treasury Stock (10,000 common shares) 74,000
- Paid-in Capital in Excess of Par Value—Preferred Stock 344,000

**Instructions**

Prepare the stockholders’ equity section at December 31, assuming retained earnings is restricted for plant expansion in the amount of $100,000.

E14-12B 

The following information is available for Iona Corporation for the year ended December 31, 2010: Sales $800,000; Other revenues and gains $92,000; Operating expenses $110,000; Cost of goods sold $495,000; Other expenses and losses $32,000; Preferred stock dividends $30,000. The company’s tax rate was 20%, and it had 50,000 shares outstanding during the entire year.

**Instructions**

(a) Prepare a corporate income statement.
(b) Calculate earnings per share.

E14-13B 

In 2010, Corvallis Corporation had net sales of $600,000 and cost of goods sold of $390,000. Operating expenses were $153,000, and interest expense was $7,500. The corporation’s tax rate is 30%. The corporation declared preferred dividends of $15,000 in 2008, and its average common stockholders’ equity during the year was $200,000.

**Instructions**

(a) Prepare an income statement for Corvallis Corporation.
(b) Compute Corvallis Corporation’s return on common stockholders’ equity for 2010.

E14-14B 

Trevor Corporation has outstanding at December 31, 2010, 50,000 shares of $20 par value, cumulative, 8% preferred stock and 200,000 shares of $5 par value common stock. All shares were outstanding the entire year. During 2010, Trevor earned total revenues of $2,000,000 and incurred total expenses (except income taxes) of $1,400,000. Trevor’s income tax rate is 30%.

**Instructions**

Compute Trevor’s 2010 earnings per share.

E14-15B 

The following financial information is available for Feldman Corporation.

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average common stockholders’ equity</td>
<td>$1,200,000</td>
<td>$900,000</td>
</tr>
<tr>
<td>Dividends paid to common stockholders</td>
<td>50,000</td>
<td>30,000</td>
</tr>
<tr>
<td>Dividends paid to preferred stockholders</td>
<td>20,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Net income</td>
<td>320,000</td>
<td>220,000</td>
</tr>
<tr>
<td>Market price of common stock</td>
<td>20</td>
<td>15</td>
</tr>
</tbody>
</table>

The weighted average number of shares of common stock outstanding was 80,000 for 2009 and 100,000 for 2010.

**Instructions**

Calculate earnings per share and return on common stockholders’ equity for 2010 and 2009.
This financial information is available for Hudson Corporation.

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average common stockholders’ equity</td>
<td>$1,800,000</td>
<td>$1,900,000</td>
</tr>
<tr>
<td>Dividends paid to common stockholders</td>
<td>90,000</td>
<td>70,000</td>
</tr>
<tr>
<td>Dividends paid to preferred stockholders</td>
<td>20,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Net income</td>
<td>335,000</td>
<td>324,000</td>
</tr>
<tr>
<td>Market price of common stock</td>
<td>20</td>
<td>25</td>
</tr>
</tbody>
</table>

The weighted-average number of shares of common stock outstanding was 180,000 for 2009 and 150,000 for 2010.

Compute earnings per share under different assumptions.

At December 31, 2010, Ceban Corporation has 2,000 shares of $100 par value, 8%, preferred stock outstanding and 100,000 shares of $10 par value common stock issued. Ceban’s net income for the year is $286,000.

Compute the earnings per share of common stock under the following independent situations.

(a) The dividend to preferred stockholders was declared. There has been no change in the number of shares of common stock outstanding during the year.

(b) The dividend to preferred stockholders was not declared. The preferred stock is cumulative. Ceban held 10,000 shares of common treasury stock throughout the year.