FINM2063 Introduction to Finance

Chapter 6 Exercises

1. Jackson Enterprises has the following capital (equity) accounts:

|  |  |
| --- | --- |
| Common stock ($1 par; 100,000 shares outstanding) | $100,000 |
| Additional paid-in capital | 200,000 |
| Retained earnings | 225,000 |

The board of directors has declared a 20% stock dividend on January 1 and a $0.25 cash dividend on March 1. What changes occur in the capital accounts after each transaction if the price of the stock is $4?

1. A firm’s balance sheet has the following entries:

|  |  |
| --- | --- |
| Cash | $10,000,000 |
| Total liabilities | 30,000,000 |
| Common stock ($5 par; 2,000,000 shares outstanding) | 10,000,000 |
| Additional paid-in capital | 3,000,000 |
| Retained earnings | 42,000,000 |

What will be each of these balance sheet entries after:

1. a three-for-one stock split?
2. a $1.25 per share cash dividend?
3. a 10% stock dividend (current price of the stock is $15 per share)?
4. What effect will a two-for-one stock split have on the following items found on a firm’s financial statements?
5. Earnings per share $4.20
6. Total equity $10,000,000
7. Long-term debt $4,300,000
8. Additional paid-in capital $1,534,000
9. Number of shares outstanding 1,000,000
10. Earnings $4,200,000