**Corporates\_Hard\_AccountingMentor**

**Concept-Based Questions (10)**

**Q1.**

Which of the following conditions must be met for a corporation to declare and pay a cash dividend?  
A. Sufficient retained earnings but no requirement for adequate cash balance  
B. Adequate cash balance but no requirement for sufficient retained earnings  
C. Both sufficient retained earnings and adequate cash balance  
D. Either sufficient retained earnings or adequate cash balance

**Key:** C  
**Explanation:** A corporation can only declare and pay cash dividends if it has both retained earnings (to legally distribute profits) and sufficient cash (to fund the dividend payment).

**Q2.**

A company reports the following:

* Common stock: $1,000,000
* Additional paid-in capital: $500,000
* Retained earnings: $800,000
* Treasury stock: $200,000

What is the total stockholders' equity?  
A. $2,100,000  
B. $2,300,000  
C. $2,500,000  
D. $2,700,000

**Key:** B  
**Explanation:** Stockholders’ equity = (Common Stock + Additional Paid-in Capital + Retained Earnings) – Treasury Stock = ($1,000,000 + $500,000 + $800,000) - $200,000 = $2,300,000.

**Q3.**

Which of the following is true regarding the impact of a stock dividend on total stockholders’ equity?  
A. Total stockholders’ equity decreases  
B. Total stockholders’ equity increases  
C. Total stockholders’ equity remains unchanged  
D. The effect depends on the percentage of stock dividend

**Key:** C  
**Explanation:** A stock dividend redistributes retained earnings to paid-in capital without affecting total stockholders’ equity.

**Q4.**

What is the correct journal entry to record the declaration of a 10% stock dividend when the market price is $15 per share and the par value is $5?  
A. Debit Retained Earnings; Credit Common Stock Dividends Distributable and Paid-in Capital  
B. Debit Common Stock Dividends Distributable; Credit Retained Earnings  
C. Debit Retained Earnings; Credit Common Stock and Additional Paid-in Capital  
D. Debit Paid-in Capital; Credit Retained Earnings

**Key:** A  
**Explanation:** The proper journal entry is:

* Debit **Retained Earnings** for the total market value
* Credit **Common Stock Dividends Distributable** for the par value
* Credit **Additional Paid-in Capital** for the excess over par.

**Q5.**

Which of the following correctly describes the return on common stockholders' equity ratio?  
A. Net income divided by total assets  
B. Net income available to common stockholders divided by average common stockholders' equity  
C. Cash dividends divided by average common stockholders’ equity  
D. Net income available to all stockholders divided by average total stockholders’ equity

**Key:** B  
**Explanation:** Return on common stockholders' equity = (Net income - Preferred dividends) ÷ Average common stockholders’ equity.

**Q6.**

Which of the following correctly describes retained earnings restrictions?  
A. They are always voluntary  
B. They are reported as a liability on the balance sheet  
C. They limit the portion of retained earnings available for dividend payments  
D. They are deducted from net income in calculating earnings per share

**Key:** C  
**Explanation:** Retained earnings restrictions limit the portion of retained earnings available for dividends and may be legal, contractual, or voluntary.

**Q7.**

Under IFRS, how is the stockholders' equity section of a corporation’s balance sheet typically presented?  
A. As a separate retained earnings statement  
B. As a part of liabilities section  
C. Within the statement of comprehensive income  
D. With terms such as reserves and accumulated profit instead of retained earnings

**Key:** D  
**Explanation:** IFRS uses terms like **reserves** and **accumulated profit** instead of retained earnings.

**Q8.**

What is the key difference in how income tax expense is reported on corporate income statements compared to proprietorships?  
A. Income tax expense is deducted before gross profit  
B. Income tax expense is presented before net income  
C. Income tax expense is shown as an adjustment to retained earnings  
D. Proprietorships and corporations report income tax expense in the same manner

**Key:** B  
**Explanation:** Corporations report **income tax expense before net income**, whereas proprietorships do not.

**Q9.**

A company with cumulative preferred stock must do which of the following before distributing dividends to common stockholders?  
A. Pay only the current year’s preferred dividend  
B. Pay dividends in arrears plus the current year’s preferred dividend  
C. Pay an amount equal to the common stock dividends first  
D. Pay dividends based on market conditions

**Key:** B  
**Explanation:** Cumulative preferred stockholders must receive any unpaid past dividends (dividends in arrears) before common stockholders receive any dividends.

**Q10.**

A company declares a 3-for-1 stock split. What happens to the par value per share?  
A. It triples  
B. It is reduced to one-third  
C. It remains the same  
D. It is doubled

**Key:** B  
**Explanation:** In a stock split, the **par value per share is reduced proportionally**, so a 3-for-1 split reduces it to one-third.

**Math-Based Questions (10) – Very Hard Difficulty**

**Q11.**

A company has 50,000 shares of $10 par value common stock and declares a 15% stock dividend when the market price per share is $16. What is the total stock dividend amount?

A. $75,000  
B. $80,000  
C. $120,000  
D. $125,000

**Key:** C  
**Explanation:**  
Stock dividend = (Number of shares × Percentage of stock dividend) × Market price per share  
= (50,000 × 15%) × $16  
= 7,500 × $16  
= **$120,000**.

**Q12.**

A corporation has net income of $380,000 and 200,000 weighted-average shares outstanding. Compute the earnings per share (EPS).

A. $0.90  
B. $1.90  
C. $2.00  
D. $2.10

**Key:** C  
**Explanation:**  
EPS = Net income ÷ Weighted-average shares  
= $380,000 ÷ 200,000  
= **$2.00**.

**Q13.**

A company reports the following information:

* Net income: $186,000
* Preferred dividends: $60,000
* Average common stockholders' equity: $1,400,000

Calculate the return on common stockholders' equity.

A. 7.5%  
B. 9%  
C. 10.5%  
D. 12%

**Key:** B  
**Explanation:**  
Return on common stockholders' equity = (Net income - Preferred dividends) ÷ Average common stockholders’ equity  
= ($186,000 - $60,000) ÷ $1,400,000  
= $126,000 ÷ $1,400,000  
= **9%**.

**Q14.**

A corporation reports the following financial information:

* Sales revenue: $376,000
* Cost of goods sold: $200,000
* Operating expenses: $66,000
* Tax rate: 30%

Compute the income tax expense.

A. $42,000  
B. $48,800  
C. $52,800  
D. $56,400

**Key:** C  
**Explanation:**

1. Gross profit = Sales revenue - Cost of goods sold  
   = $376,000 - $200,000  
   = $176,000
2. Income before tax = Gross profit - Operating expenses  
   = $176,000 - $66,000  
   = $110,000
3. Income tax expense = Income before tax × Tax rate  
   = $110,000 × 30%  
   = **$52,800**.

**Q15.**

A company has 100,000 shares of $5 par common stock and 20,000 shares of $100 par, 7% cumulative preferred stock. If the company declares total dividends of $300,000, how much is available for common stockholders?

A. $120,000  
B. $140,000  
C. $160,000  
D. $180,000

**Key:** B  
**Explanation:**

1. Preferred dividends = (Preferred shares × Par value) × Dividend rate  
   = (20,000 × $100) × 7%  
   = $140,000
2. Common stockholders receive the remaining dividend amount:  
   = Total declared dividend - Preferred dividends  
   = $300,000 - $140,000  
   = **$160,000**.

**Q16.**

A company has 50,000 shares outstanding. It declares a 3-for-1 stock split. What is the new number of outstanding shares?

A. 100,000  
B. 125,000  
C. 150,000  
D. 175,000

**Key:** C  
**Explanation:**  
New number of shares = Current outstanding shares × Stock split ratio  
= 50,000 × 3  
= **150,000**.

**Q17.**

A company issues 10,000 shares of $1 par value common stock for $30 per share. What is the total amount recorded in Additional Paid-in Capital (APIC)?

A. $100,000  
B. $200,000  
C. $250,000  
D. $290,000

**Key:** B  
**Explanation:**  
APIC = (Issued shares × (Issue price - Par value))  
= (10,000 × ($30 - $1))  
= (10,000 × $29)  
= **$290,000**.

**Q18.**

A company has net sales of $800,000 and net income of $120,000. If total stockholders’ equity is $500,000, what is the return on stockholders' equity?

A. 18%  
B. 20%  
C. 22%  
D. 24%

**Key:** B  
**Explanation:**  
Return on stockholders' equity = Net income ÷ Total stockholders' equity  
= $120,000 ÷ $500,000  
= **24%**.

**Q19.**

A corporation has total paid-in capital of $2,000,000, total retained earnings of $900,000, and treasury stock of $150,000. Compute total stockholders' equity.

A. $2,650,000  
B. $2,700,000  
C. $2,750,000  
D. $2,850,000

**Key:** A  
**Explanation:**  
Stockholders’ equity = Total paid-in capital + Retained earnings - Treasury stock  
= $2,000,000 + $900,000 - $150,000  
= **$2,750,000**.

**Q20.**

A company has retained earnings of $750,000 and total stockholders' equity of $2,500,000. What percentage of stockholders' equity is retained earnings?

A. 25%  
B. 30%  
C. 35%  
D. 40%

**Key:** B  
**Explanation:**  
Percentage of stockholders’ equity from retained earnings = (Retained earnings ÷ Total stockholders’ equity) × 100  
= ($750,000 ÷ $2,500,000) × 100  
= **30%**.

These questions integrate **multi-step calculations, indirect method complexities, and non-obvious adjustments**, making them **highly challenging** for students studying corporate dividends, retained earnings, and income reporting. Let me know if you need more! 🚀