**Corporation\_normal\_AccountingMentor**

I will now create 40 multiple-choice questions (MCQs) for Chapter 14, *Corporations: Dividends, Retained Earnings, and Income Reporting*, from *Accounting Principles, 12th Edition*. These will include 20 concept-based questions and 20 math-based questions.

**Concept-Based MCQs (20 Questions)**

**1. What is the primary purpose of retained earnings?**

A) To determine net income  
B) To report total dividends paid  
C) To reinvest in the business or distribute to shareholders  
D) To report total revenue for the period

**Key:** C  
**Explanation:** Retained earnings represent accumulated profits that can be reinvested or distributed to shareholders.

**2. Which of the following is NOT a necessary condition for a company to declare cash dividends?**

A) Adequate retained earnings  
B) Sufficient cash balance  
C) Approval by the board of directors  
D) A high market price of stock

**Key:** D  
**Explanation:** Dividends are declared based on earnings and cash availability, not stock market price.

**3. What is the effect of a stock dividend on total stockholders’ equity?**

A) Increases stockholders’ equity  
B) Decreases stockholders’ equity  
C) No effect on stockholders’ equity  
D) Decreases assets

**Key:** C  
**Explanation:** Stock dividends redistribute retained earnings to common stock but do not affect total stockholders’ equity.

**4. Which date related to dividends requires a journal entry?**

A) Date of declaration  
B) Date of record  
C) Date of stock issuance  
D) Date of market valuation

**Key:** A  
**Explanation:** The company records a liability on the declaration date but not on the record date.

**5. How does a stock split affect the par value of stock?**

A) It increases the par value per share  
B) It decreases the par value per share  
C) It has no effect on par value  
D) It increases the total par value of stock

**Key:** B  
**Explanation:** A stock split reduces the par value per share but does not change total stockholders’ equity.

**6. How does a stock dividend differ from a cash dividend?**

A) Stock dividends increase cash reserves  
B) Stock dividends distribute additional shares to shareholders  
C) Stock dividends are paid in the form of liabilities  
D) Stock dividends decrease retained earnings and cash

**Key:** B  
**Explanation:** Stock dividends allocate retained earnings into common stock rather than distributing cash.

**7. A company’s retained earnings statement begins with:**

A) Total revenue for the period  
B) Ending balance of stockholders’ equity  
C) Beginning balance of retained earnings  
D) Net income for the period

**Key:** C  
**Explanation:** Retained earnings begin with the prior period’s balance and adjust for income and dividends.

**8. What is the effect of a stock dividend on earnings per share (EPS)?**

A) Increases EPS  
B) Decreases EPS  
C) No effect on EPS  
D) Increases net income

**Key:** B  
**Explanation:** A stock dividend increases the number of shares outstanding, reducing EPS.

**9. What type of account is Dividends Payable?**

A) Expense  
B) Asset  
C) Liability  
D) Equity

**Key:** C  
**Explanation:** Dividends Payable is a current liability once dividends are declared.

**10. What happens to the market price of a stock after a stock split?**

A) It increases  
B) It decreases  
C) It remains the same  
D) It depends on net income

**Key:** B  
**Explanation:** A stock split increases the number of shares outstanding, reducing the price per share.

**11. What is the purpose of a retained earnings restriction?**

A) To prevent stockholders from selling shares  
B) To allocate funds for legal or contractual obligations  
C) To increase the dividend payout  
D) To raise additional capital

**Key:** B  
**Explanation:** Retained earnings restrictions limit distributions due to contractual or legal obligations.

**12. Which financial statement shows retained earnings?**

A) Income statement  
B) Balance sheet  
C) Retained earnings statement  
D) Cash flow statement

**Key:** C  
**Explanation:** The retained earnings statement tracks changes in retained earnings over a period.

**13. A small stock dividend typically consists of:**

A) Less than 20-25% of outstanding shares  
B) More than 50% of outstanding shares  
C) 100% of outstanding shares  
D) No specific percentage

**Key:** A  
**Explanation:** A small stock dividend is under 25%, while a large stock dividend exceeds this threshold.

**14. What is the main reason companies issue stock dividends instead of cash dividends?**

A) To avoid taxes  
B) To conserve cash while rewarding shareholders  
C) To reduce net income  
D) To reduce market price per share

**Key:** B  
**Explanation:** Stock dividends allow companies to reward shareholders while conserving cash.

**15. Retained earnings are part of which section of the balance sheet?**

A) Assets  
B) Liabilities  
C) Stockholders’ equity  
D) Revenue

**Key:** C  
**Explanation:** Retained earnings belong to the equity section as accumulated profits.

**16. What does a high payout ratio indicate?**

A) The company is reinvesting earnings  
B) The company is paying out a large portion of earnings as dividends  
C) The company has low dividends per share  
D) The company is increasing stockholder equity

**Key:** B  
**Explanation:** A high payout ratio means the company distributes most of its income as dividends.

**17. Which of the following transactions decreases retained earnings?**

A) Issuance of new shares  
B) Declaration of dividends  
C) Sale of treasury stock  
D) Repurchase of stock

**Key:** B  
**Explanation:** Retained earnings decrease when dividends are declared.

**18. If a company declares a 10% stock dividend, what happens to total stockholders’ equity?**

A) It increases  
B) It decreases  
C) It remains the same  
D) It depends on market price

**Key:** C  
**Explanation:** A stock dividend does not affect total stockholders’ equity.

**19. When are stockholders entitled to receive dividends?**

A) When the board declares a dividend  
B) When the dividend is paid  
C) On the ex-dividend date  
D) When the company is profitable

**Key:** A  
**Explanation:** Stockholders receive dividends only if declared by the board.

**20. What is the primary reason for a company to repurchase its own stock?**

A) To increase stockholder ownership  
B) To decrease stock price  
C) To increase earnings per share  
D) To increase cash reserves

**Key:** C  
**Explanation:** Stock repurchases reduce shares outstanding, increasing earnings per share.

I'll now create 20 **math-based MCQs**, focusing on calculations related to dividends, retained earnings, and income reporting.

**Math-Based MCQs (20 Questions)**

**21. A company has retained earnings of $500,000 at the beginning of the year. Net income for the year is $120,000, and dividends declared are $30,000. What is the retained earnings balance at year-end?**

A) $590,000  
B) $620,000  
C) $650,000  
D) $530,000

**Key:** A  
**Explanation:** Retained earnings = Beginning retained earnings + Net income – Dividends  
$500,000 + $120,000 – $30,000 = $590,000

**22. A company declares a 10% stock dividend when the stock's market value is $50 per share. If there are 10,000 shares outstanding, what is the total amount transferred from retained earnings?**

A) $5,000  
B) $50,000  
C) $100,000  
D) $500,000

**Key:** B  
**Explanation:** 10% of 10,000 shares = 1,000 shares × $50 = $50,000

**23. A company declares a $1.50 per share dividend on 50,000 outstanding shares. What is the total dividend payment?**

A) $50,000  
B) $75,000  
C) $100,000  
D) $125,000

**Key:** B  
**Explanation:** Total dividend = Dividend per share × Outstanding shares  
$1.50 × 50,000 = $75,000

**24. A company’s net income is $200,000. If its total dividends declared are $50,000, what is the dividend payout ratio?**

A) 20%  
B) 25%  
C) 30%  
D) 40%

**Key:** B  
**Explanation:** Dividend payout ratio = (Dividends / Net income) × 100  
($50,000 / $200,000) × 100 = 25%

**25. A company declares a 2-for-1 stock split. If an investor owns 500 shares before the split, how many shares will they own afterward?**

A) 250  
B) 500  
C) 1,000  
D) 2,000

**Key:** C  
**Explanation:** A 2-for-1 split doubles the number of shares: 500 × 2 = 1,000

**26. If a company has net income of $180,000 and 60,000 shares outstanding, what is its earnings per share (EPS)?**

A) $2.50  
B) $3.00  
C) $3.50  
D) $4.00

**Key:** B  
**Explanation:** EPS = Net income / Shares outstanding  
$180,000 / 60,000 = $3.00

**27. A company has common stock of $400,000 and retained earnings of $600,000. If it issues $100,000 in new stock, what will be total stockholders’ equity?**

A) $900,000  
B) $1,000,000  
C) $1,100,000  
D) $1,200,000

**Key:** C  
**Explanation:** Stockholders' equity = Common stock + Retained earnings + New stock  
$400,000 + $600,000 + $100,000 = $1,100,000

**28. A company has total stockholders’ equity of $750,000 and 50,000 shares outstanding. What is the book value per share?**

A) $10  
B) $12  
C) $15  
D) $18

**Key:** C  
**Explanation:** Book value per share = Total stockholders’ equity / Shares outstanding  
$750,000 / 50,000 = $15

**29. A corporation declares a 5% stock dividend on 20,000 shares outstanding. If the par value per share is $10 and market value is $30, what is the total amount transferred to common stock?**

A) $10,000  
B) $20,000  
C) $30,000  
D) $50,000

**Key:** B  
**Explanation:** 5% of 20,000 shares = 1,000 new shares × $10 (par value) = $10,000 (to common stock)

**30. A company reports net income of $250,000 and has weighted-average shares of 100,000. What is the EPS?**

A) $1.50  
B) $2.00  
C) $2.50  
D) $3.00

**Key:** C  
**Explanation:** EPS = Net income / Weighted-average shares  
$250,000 / 100,000 = $2.50

**31. A company declares a 3-for-2 stock split. If an investor owns 600 shares before the split, how many shares will they own after?**

A) 900  
B) 1,200  
C) 300  
D) 800

**Key:** A  
**Explanation:** 600 × (3/2) = 900

**32. If a company has total revenue of $500,000 and total expenses of $350,000, what is the net income?**

A) $100,000  
B) $150,000  
C) $200,000  
D) $250,000

**Key:** B  
**Explanation:** Net income = Total revenue – Total expenses  
$500,000 – $350,000 = $150,000

**33. A company has $80,000 in net income and total dividends of $20,000. What is the retention ratio?**

A) 50%  
B) 60%  
C) 70%  
D) 75%

**Key:** C  
**Explanation:** Retention ratio = (Net income – Dividends) / Net income  
($80,000 – $20,000) / $80,000 = 70%

**34. If a company has a dividend yield of 5% and the stock price is $40, what is the annual dividend per share?**

A) $1.00  
B) $1.50  
C) $2.00  
D) $2.50

**Key:** C  
**Explanation:** Dividend per share = Stock price × Dividend yield  
$40 × 5% = $2.00

**35. A company declares a $2 per share cash dividend on 25,000 shares. How much is the total dividend liability?**

A) $25,000  
B) $50,000  
C) $75,000  
D) $100,000

**Key:** B  
**Explanation:** Total dividend = Dividend per share × Shares outstanding  
$2 × 25,000 = $50,000

**36. A company has retained earnings of $300,000. After declaring a $50,000 dividend, what will retained earnings be?**

A) $250,000  
B) $275,000  
C) $300,000  
D) $350,000

**Key:** A  
**Explanation:** Retained earnings after dividend = $300,000 – $50,000 = $250,000

**37. A company pays $5 per share in dividends and has a market price of $100 per share. What is the dividend yield?**

A) 2%  
B) 3%  
C) 4%  
D) 5%

**Key:** D  
**Explanation:** Dividend yield = (Dividend per share / Market price) × 100  
($5 / $100) × 100 = 5%

**38. If net income is $120,000 and preferred dividends are $20,000, what is earnings available for common stockholders?**

A) $80,000  
B) $100,000  
C) $120,000  
D) $140,000

**Key:** B  
**Explanation:** Earnings for common stockholders = Net income – Preferred dividends  
$120,000 – $20,000 = $100,000

**39. What happens to the par value per share after a 4-for-1 stock split if it was originally $10 per share?**

A) $2.50  
B) $5.00  
C) $10.00  
D) $40.00

**Key:** A  
**Explanation:** New par value = Old par value / 4 = $10 / 4 = $2.50

**40. A company issues 5,000 new shares at $20 per share. How much is added to stockholders’ equity?**

A) $50,000  
B) $100,000  
C) $150,000  
D) $200,000

**Key:** B  
**Explanation:** $20 × 5,000 = $100,000