**Concept Based**

Here are 10 very hard concept-based MCQs for Chapter 14, *Corporations: Dividends, Retained Earnings, and Income Reporting*, designed to test theoretical understanding, critical thinking, and real-world application:

**Question 1**

**Stem:**  
A corporation declares a 10% stock dividend when its market price per share is 50andparvalueis50*andparvalueis*5. How does this transaction affect total stockholders' equity?

**Choices:**  
A) Increases due to the additional shares issued.  
B) Decreases because retained earnings are reduced.  
C) Remains unchanged; only the composition of equity changes.  
D) Decreases due to the dilution of existing shares.

**Key:** C  
**Distractors:** A (misinterprets economic impact), B (confuses with cash dividends), D (incorrectly assumes dilution affects total equity).

**Question 2**

**Stem:**  
Under IFRS, how is a gain from the revaluation of a previously impaired asset reported in the financial statements?

**Choices:**  
A) As part of retained earnings.  
B) As other comprehensive income.  
C) As an extraordinary item on the income statement.  
D) Directly to paid-in capital.

**Key:** B  
**Distractors:** A (applies to U.S. GAAP retained earnings adjustments), C (IFRS prohibits extraordinary items), D (incorrect treatment).

**Question 3**

**Stem:**  
A company with cumulative preferred stock (dividends in arrears for 2 years) declares a cash dividend. How is the dividend allocation prioritized?

**Choices:**  
A) First to common shareholders, then to preferred.  
B) First to preferred for current year only.  
C) First to preferred for all arrears plus current year, then to common.  
D) Pro rata between preferred and common.

**Key:** C  
**Distractors:** A (violates cumulative terms), B (ignores arrears), D (misapplies pro rata rules).

**Question 4**

**Stem:**  
A corporation reports net income of 1millionbuthasa1*millionbuthasa*200,000 unrealized loss on available-for-sale securities. What is comprehensive income?

**Choices:**  
A) 1,000,000B)1,000,000*B*)800,000  
C) 1,200,000D)1,200,000*D*)200,000

**Key:** B  
**Distractors:** A (ignores OCI), C (adds instead of subtracts), D (only shows the loss).

**Question 5**

**Stem:**  
How does a stock split differ from a large stock dividend in terms of accounting treatment?

**Choices:**  
A) A stock split increases retained earnings.  
B) A large stock dividend reclassifies equity but does not change total equity.  
C) A stock split requires debiting retained earnings.  
D) Both are recorded at market value.

**Key:** B  
**Distractors:** A/C (stock splits do not affect retained earnings), D (only stock dividends use market value if small).

**Question 6**

**Stem:**  
A company reacquires its own shares at a price above par value but below original issue price. How is the excess of cost over par recorded?

**Choices:**  
A) Debited to Retained Earnings.  
B) Credited to Additional Paid-in Capital.  
C) Debited to Treasury Stock.  
D) Debited to Loss on Repurchase.

**Key:** A  
**Distractors:** B (only if cost < issue price), C (records full cost, not excess), D (not a GAAP treatment).

**Question 7**

**Stem:**  
Which scenario would *not* require a prior-period adjustment to retained earnings?

**Choices:**  
A) Correction of a mathematical error in depreciation.  
B) Change from FIFO to LIFO inventory valuation.  
C) Settlement of a lawsuit related to a prior year.  
D) Discovery of fraud in a previous fiscal year.

**Key:** B  
**Distractors:** A/C/D (all require restatements under GAAP).

**Question 8**

**Stem:**  
What is the impact of declaring a property dividend (non-cash asset) on the accounting equation?

**Choices:**  
A) No effect until distribution.  
B) Decreases assets and retained earnings.  
C) Increases liabilities and decreases equity.  
D) Requires revaluation of the asset at historical cost.

**Key:** B  
**Distractors:** A (property dividends are recognized at declaration), C (misclassifies as liability), D (uses fair value, not historical cost).

**Question 9**

**Stem:**  
Under U.S. GAAP, where is the appropriation of retained earnings for bond sinking funds reported?

**Choices:**  
A) As a contra-equity account.  
B) As a footnote disclosure only.  
C) As a reduction to paid-in capital.  
D) As a current liability.

**Key:** B  
**Distractors:** A (no separate contra-equity account), C/D (incorrect classifications).

**Question 10**

**Stem:**  
A firm has 100,000 shares outstanding and declares a 2-for-1 stock split. How does this affect the book value per share?

**Choices:**  
A) Doubles.  
B) Halves.  
C) Remains unchanged.  
D) Depends on retained earnings.

**Key:** B  
**Distractors:** A (inverse relationship), C (ignores share count change), D (irrelevant to calculation).

These questions test nuanced applications of dividends, retained earnings adjustments, and reporting standards while avoiding ambiguity. Let me know if you'd like further refinements!

**Math Based**

Here are \*\*10 very hard math-based MCQs\*\* for \*\*Chapter 14: Corporations: Dividends, Retained Earnings, and Income Reporting\*\*, incorporating \*\*multi-step calculations, indirect method complexities, and real-world applications\*\*.

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### \*\*Question 1\*\*

\*\*Stem:\*\*

A company has 200,000 shares of common stock outstanding (par value $1). It declares a \*\*15% stock dividend\*\* when the market price is \*\*$25 per share\*\*. What is the total reduction in retained earnings due to this dividend?

\*\*Choices:\*\*

A) $30,000

B) $750,000

C) $300,000

D) $500,000

\*\*Key:\*\* B

\*\*Distractors:\*\*

- A) Incorrectly calculates 15% of par value (200,000 × $1 × 15%).

- C) Uses 15% of market cap (200,000 × $25 × 15%).

- D) Arbitrary miscalculation.

\*\*Explanation:\*\*

- \*\*Shares issued\*\* = 200,000 × 15% = \*\*30,000 shares\*\*.

- \*\*Retained earnings reduction\*\* = 30,000 × $25 = \*\*$750,000\*\*.

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### \*\*Question 2\*\*

\*\*Stem:\*\*

A corporation has \*\*$500,000 in retained earnings\*\* and declares a \*\*2-for-1 stock split\*\* (par value $2 → $1). After the split, what is the new balance in retained earnings?

\*\*Choices:\*\*

A) $250,000

B) $500,000

C) $1,000,000

D) $0

\*\*Key:\*\* B

\*\*Distractors:\*\*

- A) Incorrectly halves retained earnings.

- C) Incorrectly doubles retained earnings.

- D) Misunderstands stock splits.

\*\*Explanation:\*\*

- \*\*Stock splits do not affect retained earnings\*\*; only share count and par value change.

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### \*\*Question 3\*\*

\*\*Stem:\*\*

A company reports \*\*net income of $1,200,000\*\*, pays \*\*$200,000 in preferred dividends\*\*, and has \*\*500,000 common shares outstanding\*\*. If it declares a \*\*$0.50 per share cash dividend\*\*, what is the \*\*total reduction in retained earnings\*\*?

\*\*Choices:\*\*

A) $200,000

B) $450,000

C) $650,000

D) $1,000,000

\*\*Key:\*\* B

\*\*Distractors:\*\*

- A) Only accounts for preferred dividends.

- C) Incorrectly adds net income.

- D) Miscalculates total dividends.

\*\*Explanation:\*\*

- \*\*Common dividends\*\* = 500,000 × $0.50 = \*\*$250,000\*\*.

- \*\*Total reduction\*\* = Preferred ($200,000) + Common ($250,000) = \*\*$450,000\*\*.

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### \*\*Question 4\*\*

\*\*Stem:\*\*

A firm has \*\*$800,000 in retained earnings\*\* and \*\*100,000 shares outstanding (par $5)\*\*. It declares a \*\*40% stock dividend\*\* when the market price is \*\*$20\*\*. What is the \*\*new par value per share\*\* after the dividend?

\*\*Choices:\*\*

A) $3.57

B) $5.00

C) $2.50

D) $4.00

\*\*Key:\*\* B

\*\*Distractors:\*\*

- A) Incorrectly adjusts par value.

- C) Misapplies stock split logic.

- D) Arbitrary calculation.

\*\*Explanation:\*\*

- \*\*Stock dividends do not change par value\*\* (only stock splits do).

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### \*\*Question 5\*\*

\*\*Stem:\*\*

A company has \*\*$2,000,000 in net income\*\*, \*\*$300,000 in unrealized losses (OCI)\*\*, and \*\*$100,000 in foreign currency translation gains\*\*. What is \*\*comprehensive income\*\*?

\*\*Choices:\*\*

A) $1,600,000

B) $1,800,000

C) $2,200,000

D) $2,400,000

\*\*Key:\*\* B

\*\*Distractors:\*\*

- A) Incorrectly subtracts OCI twice.

- C) Adds instead of subtracts OCI.

- D) Misinterprets comprehensive income.

\*\*Explanation:\*\*

- \*\*Comprehensive income\*\* = Net income ($2,000,000) – OCI ($300,000) + Translation gain ($100,000) = \*\*$1,800,000\*\*.

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### \*\*Question 6\*\*

\*\*Stem:\*\*

A firm repurchases \*\*10,000 treasury shares at $30\*\* (original issue price was $25). Later, it reissues \*\*5,000 shares at $35\*\*. What is the \*\*impact on additional paid-in capital (APIC)\*\*?

\*\*Choices:\*\*

A) $25,000 increase

B) $50,000 increase

C) $75,000 increase

D) No effect

\*\*Key:\*\* A

\*\*Distractors:\*\*

- B) Incorrectly calculates full reissue profit.

- C) Misapplies treasury stock rules.

- D) Ignores APIC adjustment.

\*\*Explanation:\*\*

- \*\*Gain per share\*\* = $35 – $30 = \*\*$5\*\*.

- \*\*APIC increase\*\* = 5,000 × $5 = \*\*$25,000\*\*.

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### \*\*Question 7\*\*

\*\*Stem:\*\*

A corporation has \*\*$1,500,000 in retained earnings\*\* and \*\*$200,000 in cash dividends declared but not yet paid\*\*. What is the \*\*maximum legal dividend\*\* it can declare if state law requires a \*\*capital impairment restriction\*\*?

\*\*Choices:\*\*

A) $1,300,000

B) $1,500,000

C) $1,700,000

D) $200,000

\*\*Key:\*\* A

\*\*Distractors:\*\*

- B) Ignores unpaid dividends.

- C) Incorrectly adds back dividends.

- D) Only considers declared dividends.

\*\*Explanation:\*\*

- \*\*Maximum dividend\*\* = Retained earnings ($1,500,000) – Unpaid dividends ($200,000) = \*\*$1,300,000\*\*.

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### \*\*Question 8\*\*

\*\*Stem:\*\*

A company reports \*\*net income of $800,000\*\*, \*\*depreciation of $100,000\*\*, and a \*\*$50,000 increase in accounts receivable\*\*. What is its \*\*cash flow from operations (indirect method)\*\*?

\*\*Choices:\*\*

A) $750,000

B) $850,000

C) $950,000

D) $650,000

\*\*Key:\*\* B

\*\*Distractors:\*\*

- A) Incorrectly subtracts depreciation.

- C) Ignores receivables adjustment.

- D) Misapplies cash flow rules.

\*\*Explanation:\*\*

- \*\*CFO\*\* = Net income ($800,000) + Depreciation ($100,000) – Increase in AR ($50,000) = \*\*$850,000\*\*.

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### \*\*Question 9\*\*

\*\*Stem:\*\*

A firm has \*\*$10,000,000 in assets\*\*, \*\*$6,000,000 in liabilities\*\*, and \*\*500,000 shares outstanding\*\*. If it declares a \*\*$1.00 per share dividend\*\*, what is the \*\*new debt-to-equity ratio\*\*?

\*\*Choices:\*\*

A) 1.25

B) 1.50

C) 1.75

D) 2.00

\*\*Key:\*\* B

\*\*Distractors:\*\*

- A) Incorrectly reduces equity by only $250,000.

- C) Miscalculates post-dividend equity.

- D) Misinterprets ratio impact.

\*\*Explanation:\*\*

- \*\*Equity before dividend\*\* = $10,000,000 – $6,000,000 = \*\*$4,000,000\*\*.

- \*\*Dividend paid\*\* = 500,000 × $1 = \*\*$500,000\*\*.

- \*\*New equity\*\* = $4,000,000 – $500,000 = \*\*$3,500,000\*\*.

- \*\*New D/E ratio\*\* = $6,000,000 / $3,500,000 ≈ \*\*1.50\*\*.

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### \*\*Question 10\*\*

\*\*Stem:\*\*

A company has \*\*$2,500,000 in net income\*\*, \*\*$400,000 in preferred dividends\*\*, and \*\*1,000,000 common shares outstanding\*\*. If it pays a \*\*$0.75 dividend per share\*\*, what is its \*\*dividend payout ratio\*\*?

\*\*Choices:\*\*

A) 20%

B) 30%

C) 40%

D) 50%

\*\*Key:\*\* B

\*\*Distractors:\*\*

- A) Uses only preferred dividends.

- C) Incorrectly includes preferred dividends in payout.

- D) Miscalculates total dividends.

\*\*Explanation:\*\*

- \*\*Common dividends\*\* = 1,000,000 × $0.75 = \*\*$750,000\*\*.

- \*\*Payout ratio\*\* = $750,000 / $2,500,000 = \*\*30%\*\*.

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### \*\*Summary\*\*

These questions test:

✔ \*\*Dividend calculations\*\* (cash, stock, property).

✔ \*\*Retained earnings adjustments\*\*.

✔ \*\*Comprehensive income\*\*.

✔ \*\*Treasury stock transactions\*\*.

✔ \*\*Debt-to-equity impact\*\*.

✔ \*\*Indirect method cash flows\*\*.

Each question requires \*\*multi-step reasoning\*\* and \*\*real-world application\*\*. Let me know if you'd like adjustments!