**Concept Based**

Here are 20 concept-based multiple-choice questions (MCQs) for Chapter 14: "Corporations: Dividends, Retained Earnings, and Income Reporting" from Accounting Principles, 12th Edition.

1. Which of the following best describes a "dividend"?

A) A distribution of profits to bondholders.

B) A reduction in the par value of common stock.

C) A distribution of earnings to shareholders.

D) A mandatory payment to creditors.

Key: C

Distractors: A (dividends go to shareholders, not bondholders), B (dividends do not affect par value), D (dividends are discretionary, not mandatory).

2. Retained earnings represent:

A) Cash reserved for future expansion.

B) Cumulative net income not distributed as dividends.

C) The total amount of shareholders' equity.

D) The market value of a corporation’s stock.

Key: B

Distractors: A (retained earnings are not necessarily cash), C (only part of shareholders' equity), D (unrelated to market value).

3. A company declares a cash dividend. What is the impact on the accounting equation?

A) Assets decrease, liabilities increase.

B) Liabilities increase, retained earnings decrease.

C) Assets decrease, shareholders’ equity decreases.

D) No effect until the dividend is paid.

Key: B (Dividend declaration increases Dividends Payable [liability] and decreases Retained Earnings [equity]).

Distractors: A (assets don’t change until payment), C (assets change only upon payment), D (declaration has an immediate effect).

4. Which of the following is NOT a requirement for declaring a cash dividend?

A) Sufficient retained earnings.

B) Approval by the board of directors.

C) Positive net income in the current year.

D) Adequate cash availability.

Key: C (Past profits in retained earnings matter, not current net income).

Distractors: A, B, D are all true requirements.

5. Stock dividends differ from cash dividends in that stock dividends:

A) Reduce total shareholders’ equity.

B) Increase the corporation’s assets.

C) Do not affect total shareholders’ equity.

D) Are taxable to the shareholders.

Key: C (Stock dividends reallocate equity, not reduce it).

Distractors: A (no effect on total equity), B (no asset impact), D (not taxable until sold).

6. A small stock dividend (less than 20-25%) is recorded at:

A) Par value.

B) Market value.

C) Book value.

D) Historical cost.

Key: B (GAAP requires market value for small stock dividends).

Distractors: A (used for large stock dividends), C/D (irrelevant).

7. Prior period adjustments are reported in the financial statements as:

A) An expense on the income statement.

B) A direct adjustment to retained earnings.

C) A liability on the balance sheet.

D) A footnote disclosure only.

Key: B (They correct errors in prior years’ retained earnings).

Distractors: A (not an expense), C (not a liability), D (must be recorded, not just disclosed).

8. Comprehensive income includes all of the following EXCEPT:

A) Net income.

B) Unrealized gains on available-for-sale securities.

C) Dividends paid to shareholders.

D) Foreign currency translation adjustments.

Key: C (Dividends paid are not part of comprehensive income).

Distractors: A, B, D are all included in comprehensive income.

9. Which statement about retained earnings restrictions is TRUE?

A) They increase the amount of cash available.

B) They are legally required for all corporations.

C) They limit the ability to pay dividends.

D) They are reported as a liability.

Key: C (Restrictions limit dividend payouts).

Distractors: A (no impact on cash), B (not always required), D (not a liability).

10. A corporation’s statement of retained earnings shows:

A) All changes in cash during the period.

B) Net income, dividends, and prior period adjustments.

C) Only the ending balance of retained earnings.

D) The market value of equity.

Key: B

Distractors: A (cash is in the cash flow statement), C (must show changes), D (irrelevant).

11. A stock split will:

A) Increase total shareholders’ equity.

B) Reduce retained earnings.

C) Decrease the market price per share.

D) Be recorded as a journal entry to adjust par value.

Key: C (Stock splits reduce price per share proportionally).

Distractors: A (no effect on equity), B (no impact on retained earnings), D (no journal entry needed).

12. The payout ratio is calculated as:

A) Dividends per share / Earnings per share.

B) Total dividends / Net income.

C) Retained earnings / Total equity.

D) Dividends / Total assets.

Key: B (Payout ratio = Dividends / Net income).

Distractors: A (close but not standard), C/D (irrelevant).

13. Which of the following does NOT affect retained earnings?

A) Declaration of a cash dividend.

B) Net loss for the year.

C) Issuance of new common stock.

D) Prior period adjustment.

Key: C (Issuing stock affects paid-in capital, not retained earnings).

Distractors: A, B, D all impact retained earnings.

14. A large stock dividend (over 20-25%) is recorded at:

A) Market value.

B) Par value.

C) Book value.

D) Fair value.

Key: B (Large stock dividends use par value).

Distractors: A (used for small dividends), C/D (irrelevant).

15. Dividends in arrears apply to:

A) Common stock.

B) Treasury stock.

C) Cumulative preferred stock.

D) Noncumulative preferred stock.

Key: C (Cumulative preferred stock accrues unpaid dividends).

Distractors: A/B (not applicable), D (no arrears).

16. The purpose of appropriating retained earnings is to:

A) Increase dividend payments.

B) Set aside earnings for specific future uses.

C) Reduce tax liabilities.

D) Inflate reported net income.

Key: B (Appropriations restrict earnings for specific purposes).

Distractors: A (opposite effect), C/D (no tax or income impact).

17. Earnings per share (EPS) is calculated as:

A) Net income / Total shares authorized.

B) (Net income – Preferred dividends) / Weighted-average common shares outstanding.

C) Total dividends / Common shares outstanding.

D) Retained earnings / Total shares issued.

Key: B (EPS = (Net income – Preferred dividends) / Avg. common shares).

Distractors: A/C/D (incorrect formulas).

18. Which of the following is reported in the stockholders’ equity section?

A) Dividends payable.

B) Accumulated other comprehensive income.

C) Accounts payable.

D) Bonds payable.

Key: B (Part of equity).

Distractors: A/C/D (liabilities).

19. A company with a high dividend yield is likely:

A) A growth stock with low payouts.

B) A mature company with stable earnings.

C) A startup with no profits.

D) A company with declining share price.

Key: B (Mature firms often have high yields).

Distractors: A (growth stocks pay low dividends), C (startups don’t pay dividends), D (yield rises if price falls, but not always the case).

20. Comprehensive income is reported in:

A) The balance sheet only.

B) The income statement only.

C) A separate statement or within the income statement.

D) The statement of cash flows.

Key: C (Can be a separate statement or part of income statement).

Distractors: A/B/D (incorrect reporting locations).

These questions cover key concepts from the chapter while testing students' critical thinking and application skills. Let me know if you'd like any refinements!

**Math Based**

Here are \*\*20 math-based MCQs\*\* for \*\*Chapter 14: Corporations: Dividends, Retained Earnings, and Income Reporting\*\* from \*Accounting Principles, 12th Edition\*.

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### \*\*1. A company has 50,000 shares of $10 par value common stock outstanding. If it declares a 10% stock dividend when the market price is $15 per share, what is the total amount debited to Retained Earnings?\*\*

A) $50,000

B) $75,000

C) $100,000

D) $150,000

\*\*Key:\*\* B

\*\*Explanation:\*\*

- \*\*Stock dividend = 10% × 50,000 = 5,000 shares\*\*

- \*\*Debit to Retained Earnings = 5,000 × $15 (market price) = $75,000\*\*

\*\*Distractors:\*\*

- A) Uses par value ($10 × 5,000)

- C) Incorrectly uses 10% of total par value (10% × 500,000)

- D) Incorrectly assumes 10% of market value (10% × 750,000)

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### \*\*2. A corporation reports net income of $200,000 and has 100,000 common shares outstanding. If it declares $0.50 per share in dividends, what is the payout ratio?\*\*

A) 10%

B) 25%

C) 50%

D) 75%

\*\*Key:\*\* B

\*\*Explanation:\*\*

- \*\*Total dividends = 100,000 × $0.50 = $50,000\*\*

- \*\*Payout ratio = Dividends / Net Income = $50,000 / $200,000 = 25%\*\*

\*\*Distractors:\*\*

- A) Incorrectly calculates 50,000 / 200,000 × 100%

- C) Uses dividend per share / EPS incorrectly

- D) Overestimates payout

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### \*\*3. A company has 20,000 shares of 6%, $100 par cumulative preferred stock and 50,000 shares of common stock. If no dividends were paid last year and net income this year is $300,000, what is the dividend per common share if the company pays the maximum dividends possible?\*\*

A) $1.20

B) $2.40

C) $3.60

D) $4.80

\*\*Key:\*\* C

\*\*Explanation:\*\*

- \*\*Preferred dividends per year = 20,000 × $100 × 6% = $120,000\*\*

- \*\*Arrears from last year = $120,000\*\*

- \*\*Total preferred dividends due = $240,000\*\*

- \*\*Remaining for common = $300,000 - $240,000 = $60,000\*\*

- \*\*Dividend per common share = $60,000 / 50,000 = $1.20\*\*

\*\*Distractors:\*\*

- A) Only current year preferred dividends ($120,000 deducted)

- B) Incorrectly divides remaining $120,000 by 50,000

- D) Forgets to deduct preferred dividends

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### \*\*4. A company’s retained earnings at the beginning of the year were $500,000. Net income for the year was $150,000, and cash dividends declared were $50,000. What is the ending retained earnings balance?\*\*

A) $450,000

B) $550,000

C) $600,000

D) $700,000

\*\*Key:\*\* C

\*\*Explanation:\*\*

- \*\*Ending RE = Beginning RE + Net Income - Dividends\*\*

- \*\*$500,000 + $150,000 - $50,000 = $600,000\*\*

\*\*Distractors:\*\*

- A) Subtracts net income instead of adding

- B) Forgets to subtract dividends

- D) Adds dividends instead of subtracting

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### \*\*5. A company declares a 3-for-1 stock split when the market price is $60 per share. What is the new market price per share after the split?\*\*

A) $10

B) $20

C) $30

D) $60

\*\*Key:\*\* B

\*\*Explanation:\*\*

- \*\*New price = Old price / Split ratio = $60 / 3 = $20\*\*

\*\*Distractors:\*\*

- A) Incorrectly divides by 6

- C) Incorrectly divides by 2

- D) Ignores split

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### \*\*6. A company has 10,000 shares of $5 par common stock outstanding. If it declares a 30% stock dividend when the market price is $8 per share, what is the debit to Retained Earnings?\*\*

A) $15,000

B) $24,000

C) $30,000

D) $40,000

\*\*Key:\*\* B

\*\*Explanation:\*\*

- \*\*Stock dividend = 30% × 10,000 = 3,000 shares\*\*

- \*\*Debit to RE = 3,000 × $8 = $24,000\*\*

\*\*Distractors:\*\*

- A) Uses par value ($5 × 3,000)

- C) Incorrectly uses 30% of total par value

- D) Incorrectly assumes 30% of market cap

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### \*\*7. A corporation has net income of $180,000, preferred dividends of $30,000, and 50,000 common shares outstanding. What is earnings per share (EPS)?\*\*

A) $2.00

B) $3.00

C) $3.60

D) $4.20

\*\*Key:\*\* B

\*\*Explanation:\*\*

- \*\*EPS = (Net Income – Preferred Dividends) / Common Shares\*\*

- \*\*($180,000 - $30,000) / 50,000 = $3.00\*\*

\*\*Distractors:\*\*

- A) Forgets to deduct preferred dividends

- C) Incorrectly divides by 40,000 shares

- D) Adds preferred dividends instead of subtracting

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### \*\*8. A company has 100,000 shares outstanding and declares a $0.25 cash dividend. What is the total dividend payment?\*\*

A) $25,000

B) $50,000

C) $100,000

D) $250,000

\*\*Key:\*\* A

\*\*Explanation:\*\*

- \*\*Total dividend = 100,000 × $0.25 = $25,000\*\*

\*\*Distractors:\*\*

- B) Incorrectly multiplies by $0.50

- C) Incorrectly multiplies by $1.00

- D) Incorrectly multiplies by $2.50

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### \*\*9. A company’s retained earnings at the beginning of the year were $400,000. If net income is $120,000 and dividends are $80,000, what is the ending retained earnings?\*\*

A) $320,000

B) $440,000

C) $480,000

D) $600,000

\*\*Key:\*\* B

\*\*Explanation:\*\*

- \*\*Ending RE = $400,000 + $120,000 - $80,000 = $440,000\*\*

\*\*Distractors:\*\*

- A) Subtracts net income instead of adding

- C) Forgets to subtract dividends

- D) Adds dividends instead of subtracting

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### \*\*10. A company has 5,000 shares of 8%, $50 par preferred stock and 20,000 common shares. If total dividends declared are $40,000, how much goes to common shareholders?\*\*

A) $0

B) $20,000

C) $30,000

D) $40,000

\*\*Key:\*\* B

\*\*Explanation:\*\*

- \*\*Preferred dividends = 5,000 × $50 × 8% = $20,000\*\*

- \*\*Common dividends = $40,000 - $20,000 = $20,000\*\*

\*\*Distractors:\*\*

- A) Assumes all goes to preferred

- C) Incorrectly calculates preferred dividends

- D) Forgets to deduct preferred dividends

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### \*\*11. A company has 200,000 shares outstanding and declares a 5% stock dividend when the market price is $20. What is the debit to Retained Earnings?\*\*

A) $100,000

B) $200,000

C) $400,000

D) $1,000,000

\*\*Key:\*\* B

\*\*Explanation:\*\*

- \*\*Stock dividend = 5% × 200,000 = 10,000 shares\*\*

- \*\*Debit to RE = 10,000 × $20 = $200,000\*\*

\*\*Distractors:\*\*

- A) Incorrectly uses 5% of market cap

- C) Incorrectly doubles the correct amount

- D) Incorrectly multiplies shares by $50

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### \*\*12. A company reports net income of $500,000, preferred dividends of $50,000, and has 100,000 common shares outstanding. What is the EPS?\*\*

A) $4.00

B) $4.50

C) $5.00

D) $5.50

\*\*Key:\*\* B

\*\*Explanation:\*\*

- \*\*EPS = ($500,000 - $50,000) / 100,000 = $4.50\*\*

\*\*Distractors:\*\*

- A) Forgets to deduct preferred dividends

- C) Incorrectly divides by 90,000 shares

- D) Adds preferred dividends instead of subtracting

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### \*\*13. A company declares a 2-for-1 stock split when the par value is $10. What is the new par value?\*\*

A) $2

B) $5

C) $10

D) $20

\*\*Key:\*\* B

\*\*Explanation:\*\*

- \*\*New par value = Old par / Split ratio = $10 / 2 = $5\*\*

\*\*Distractors:\*\*

- A) Incorrectly divides by 5

- C) Ignores split

- D) Incorrectly multiplies by 2

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### \*\*14. A company has 50,000 shares outstanding and declares a $0.40 dividend per share. What is the total cash dividend paid?\*\*

A) $10,000

B) $20,000

C) $40,000

D) $60,000

\*\*Key:\*\* B

\*\*Explanation:\*\*

- \*\*Total dividend = 50,000 × $0.40 = $20,000\*\*

\*\*Distractors:\*\*

- A) Incorrectly uses $0.20

- C) Incorrectly uses $0.80

- D) Incorrectly uses $1.20

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### \*\*15. A company reports net income of $1,000,000, preferred dividends of $100,000, and has 200,000 common shares outstanding. What is the EPS?\*\*

A) $4.00

B) $4.50

C) $5.00

D) $5.50

\*\*Key:\*\* B

\*\*Explanation:\*\*

- \*\*EPS = ($1,000,000 - $100,000) / 200,000 = $4.50\*\*

\*\*Distractors:\*\*

- A) Forgets to deduct preferred dividends

- C) Incorrectly divides by 180,000 shares

- D) Adds preferred dividends instead of subtracting

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### \*\*16. A company has retained earnings of $300,000, net income of $80,000, and declares $20,000 in dividends. What is the ending retained earnings?\*\*

A) $260,000

B) $360,000

C) $380,000

D) $400,000

\*\*Key:\*\* B

\*\*Explanation:\*\*

- \*\*Ending RE = $300,000 + $80,000 - $20,000 = $360,000\*\*

\*\*Distractors:\*\*

- A) Subtracts net income instead of adding

- C) Forgets to subtract dividends

- D) Adds dividends instead of subtracting

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### \*\*17. A company has 10,000 shares of 5%, $100 par preferred stock and 40,000 common shares. If total dividends declared are $80,000, how much goes to common shareholders?\*\*

A) $0

B) $30,000

C) $50,000

D) $80,000

\*\*Key:\*\* B

\*\*Explanation:\*\*

- \*\*Preferred dividends = 10,000 × $100 × 5% = $50,000\*\*

- \*\*Common dividends = $80,000 - $50,000 = $30,000\*\*

\*\*Distractors:\*\*

- A) Assumes all goes to preferred

- C) Incorrectly calculates preferred dividends

- D) Forgets to deduct preferred dividends

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### \*\*18. A company declares a 15% stock dividend when the market price is $12 per share and there are 100,000 shares outstanding. What is the debit to Retained Earnings?\*\*

A) $120,000

B) $150,000

C) $180,000

D) $1,200,000

\*\*Key:\*\* C

\*\*Explanation:\*\*

- \*\*Stock dividend = 15% × 100,000 = 15,000 shares\*\*

- \*\*Debit to RE = 15,000 × $12 = $180,000\*\*

\*\*Distractors:\*\*

- A) Incorrectly uses 10% of market cap

- B) Incorrectly uses par value (if assumed $10)

- D) Incorrectly multiplies total shares by $12

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### \*\*19. A company has 25,000 shares outstanding and declares a $0.60 dividend per share. What is the total cash dividend paid?\*\*

A) $12,500

B) $15,000

C) $25,000

D) $30,000

\*\*Key:\*\* B

\*\*Explanation:\*\*

- \*\*Total dividend = 25,000 × $0.60 = $15,000\*\*

\*\*Distractors:\*\*

- A) Incorrectly uses $0.50

- C) Incorrectly uses $1.00

- D) Incorrectly uses $1.20

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### \*\*20. A company reports net income of $750,000, preferred dividends of $50,000, and has 100,000 common shares outstanding. What is the EPS?\*\*

A) $6.00

B) $7.00

C) $7.50

D) $8.00

\*\*Key:\*\* B

\*\*Explanation:\*\*

- \*\*EPS = ($750,000 - $50,000) / 100,000 = $7.00\*\*

\*\*Distractors:\*\*

- A) Forgets to deduct preferred dividends

- C) Incorrectly divides by 93,750 shares

- D) Adds preferred dividends instead of subtracting

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These questions test \*\*dividend calculations, retained earnings adjustments, stock splits, EPS, and stock dividends\*\*—all key numerical concepts from the chapter. Let me know if you'd like any refinements!