**Corporates\_Hard\_Wolfram**

Here are 20 very hard multiple-choice questions (MCQs) on Chapter 14, *Corporations: Dividends, Retained Earnings, and Income Reporting*, from *Accounting Principles, 12th Edition*. These include 10 concept-based and 10 math-based questions.

**Concept-Based Questions**

**1. Which of the following statements regarding retained earnings is most accurate?**

A) Retained earnings represent cash available for dividends.  
B) Retained earnings reflect cumulative net income minus dividends declared.  
C) Retained earnings are recorded as an expense on the income statement.  
D) Retained earnings are included under liabilities on the balance sheet.

**Key:** B  
**Distractors:** A (confuses retained earnings with cash flow), C (misclassifies retained earnings), D (misplaces retained earnings in liabilities).

**2. When a corporation declares a cash dividend, which of the following occurs?**

A) Liabilities increase and stockholders’ equity increases.  
B) Liabilities decrease and stockholders’ equity decreases.  
C) Liabilities increase and stockholders’ equity decreases.  
D) Liabilities remain unchanged, but stockholders’ equity decreases.

**Key:** C  
**Distractors:** A, B, and D (each misrepresents the impact of declaring a dividend).

**3. Which type of dividend does not reduce total stockholders' equity?**

A) Cash dividend  
B) Stock dividend  
C) Property dividend  
D) Liquidating dividend

**Key:** B  
**Distractors:** A, C, and D (all of these reduce total stockholders' equity).

**4. How does a prior period adjustment to correct an error affect the financial statements?**

A) It is recorded as an expense on the current income statement.  
B) It is reported as an adjustment to beginning retained earnings.  
C) It affects net income for the current period.  
D) It is disclosed in the footnotes but does not impact the statements.

**Key:** B  
**Distractors:** A (incorrect accounting treatment), C (confuses current vs. prior period), D (ignores financial impact).

**5. How do stock splits affect a corporation’s financial statements?**

A) Decrease total stockholders’ equity  
B) Increase total assets  
C) Increase the number of outstanding shares without changing total stockholders' equity  
D) Decrease net income

**Key:** C  
**Distractors:** A, B, and D (each misstates the impact of a stock split).

**6. Which of the following is NOT a reason a corporation may restrict retained earnings?**

A) To comply with loan agreements  
B) To legally reserve funds for future investments  
C) To distribute excess profits as dividends  
D) To protect creditor claims

**Key:** C  
**Distractors:** A, B, and D (all are valid reasons for restrictions).

**7. The return on common stockholders’ equity (ROE) ratio measures:**

A) The percentage of net income distributed as dividends  
B) The profitability of common stockholders' investment  
C) The efficiency of asset utilization  
D) The proportion of retained earnings to net income

**Key:** B  
**Distractors:** A (dividend payout ratio), C (total asset turnover), D (earnings retention rate).

**8. A corporation with a net loss during the year will still report positive retained earnings if:**

A) It issues additional common stock  
B) Its beginning retained earnings balance is positive and exceeds the net loss  
C) It pays no dividends during the year  
D) It records deferred tax assets

**Key:** B  
**Distractors:** A (affects stockholders' equity but not retained earnings), C (avoiding dividends doesn't negate net losses), D (affects income tax expense, not retained earnings directly).

**9. What is the effect of a stock dividend on stockholders' equity?**

A) Increases common stock and decreases retained earnings  
B) Decreases assets and decreases retained earnings  
C) Increases liabilities and decreases stockholders' equity  
D) No effect on stockholders' equity

**Key:** A  
**Distractors:** B (assets are unaffected), C (liabilities do not increase), D (total equity remains unchanged, but the components shift).

**10. How does a stock repurchase (treasury stock transaction) affect the balance sheet?**

A) Increases stockholders' equity  
B) Decreases stockholders' equity  
C) Increases retained earnings  
D) Increases liabilities

**Key:** B  
**Distractors:** A (incorrect; repurchasing stock reduces equity), C (incorrect; retained earnings are unaffected), D (liabilities are not involved).

**Math-Based Questions**

**11. A corporation declares a $1.50 per share dividend on 400,000 shares. If 60,000 shares are treasury stock, how much will be paid in dividends?**

A) $600,000  
B) $510,000  
C) $450,000  
D) $600,000

**Key:** B (dividends are not paid on treasury stock)  
**Solution:** (400,000−60,000)×1.50=510,000(400,000 - 60,000) \times 1.50 = 510,000

**12. A company has net income of $250,000 and pays dividends of $40,000. Beginning retained earnings were $160,000. What are ending retained earnings?**

A) $450,000  
B) $370,000  
C) $290,000  
D) $210,000

**Key:** C  
**Solution:** 160,000+250,000−40,000=290,000160,000 + 250,000 - 40,000 = 290,000

**13. A firm issues 5,000 shares of $5 par value stock at $18 per share. What is the total additional paid-in capital (APIC)?**

A) $90,000  
B) $65,000  
C) $25,000  
D) $50,000

**Key:** B  
**Solution:** (18−5)×5,000=65,000(18 - 5) \times 5,000 = 65,000

**14. If a company reports net income of $800,000, has average common equity of $4,000,000, and pays $200,000 in preferred dividends, what is its return on common equity (ROE)?**

A) 15%  
B) 20%  
C) 25%  
D) 30%

**Key:** A  
**Solution:** (800,000−200,000)/4,000,000=15%(800,000 - 200,000) / 4,000,000 = 15\%

**15. A company declares a 10% stock dividend when its stock is trading at $40 per share. If it has 50,000 shares outstanding, how much is transferred from retained earnings?**

A) $50,000  
B) $200,000  
C) $500,000  
D) $1,000,000

**Key:** C  
**Solution:** (50,000×10%)×40=500,000(50,000 \times 10\%) \times 40 = 500,000

Here are five more **very hard math-based MCQs** to complete the set of 20.

**16. A company has total stockholders’ equity of $2,500,000, including $600,000 of retained earnings and $400,000 in treasury stock. If common stock has a $5 par value and there are 200,000 shares issued, what is the total additional paid-in capital (APIC)?**

A) $1,900,000  
B) $1,100,000  
C) $500,000  
D) $400,000

**Key:** C  
**Solution:**

Total stockholders’ equity=Common stock+APIC+Retained earnings−Treasury stock\text{Total stockholders' equity} = \text{Common stock} + \text{APIC} + \text{Retained earnings} - \text{Treasury stock} 2,500,000=(200,000×5)+APIC+600,000−400,0002,500,000 = (200,000 \times 5) + \text{APIC} + 600,000 - 400,000 2,500,000=1,000,000+APIC+600,000−400,0002,500,000 = 1,000,000 + \text{APIC} + 600,000 - 400,000 APIC=500,000\text{APIC} = 500,000

**17. A corporation has net income of $900,000, pays $120,000 in preferred dividends, and has 300,000 common shares outstanding. What is its earnings per share (EPS)?**

A) $2.60  
B) $3.00  
C) $2.80  
D) $2.40

**Key:** C  
**Solution:**

EPS=Net income−Preferred dividendsCommon shares outstanding\text{EPS} = \frac{\text{Net income} - \text{Preferred dividends}}{\text{Common shares outstanding}} =900,000−120,000300,000=780,000300,000=2.60= \frac{900,000 - 120,000}{300,000} = \frac{780,000}{300,000} = 2.60

**18. A corporation’s beginning retained earnings were $1,200,000. During the year, it reported net income of $350,000 and paid $80,000 in dividends. It also made a prior-period adjustment increasing retained earnings by $40,000. What is its ending retained earnings balance?**

A) $1,430,000  
B) $1,510,000  
C) $1,590,000  
D) $1,610,000

**Key:** B  
**Solution:**

Ending retained earnings=Beginning retained earnings+Net income+Prior period adjustment−Dividends\text{Ending retained earnings} = \text{Beginning retained earnings} + \text{Net income} + \text{Prior period adjustment} - \text{Dividends} =1,200,000+350,000+40,000−80,000=1,510,000= 1,200,000 + 350,000 + 40,000 - 80,000 = 1,510,000

**19. A corporation has 800,000 shares of common stock outstanding and declares a 5% stock dividend. If the stock is trading at $50 per share, what is the total value transferred from retained earnings?**

A) $2,000,000  
B) $2,500,000  
C) $3,000,000  
D) $4,000,000

**Key:** B  
**Solution:**

Total value transferred=(Outstanding shares×Stock dividend percentage)×Stock price\text{Total value transferred} = (\text{Outstanding shares} \times \text{Stock dividend percentage}) \times \text{Stock price} =(800,000×5%)×50= (800,000 \times 5\%) \times 50 =(40,000)×50=2,500,000= (40,000) \times 50 = 2,500,000

**20. A company reports net income of $1,200,000 and has an average stockholders' equity of $6,000,000. The company’s dividend payout ratio is 40%. What is the return on stockholders' equity (ROE)?**

A) 16%  
B) 18%  
C) 20%  
D) 22%

**Key:** C  
**Solution:**

ROE=Net incomeAverage stockholders’ equity\text{ROE} = \frac{\text{Net income}}{\text{Average stockholders' equity}} =1,200,0006,000,000=20%= \frac{1,200,000}{6,000,000} = 20\%