

Solution:

(1)

In the reverse stock split, the shares will be 1 for 2 i.e. for each 2 shares, the shares will become 1 and this will increase the par value to double. There will be no journal entries, but the statement will be as follows:

STATEMENT OF STOCKHOLDERS' EQUITY (in \$)	
Particulars	Amount
Common stock, authorized 30 million shares, Issued 11,765,000 shares	287,637
Additional paid-in capital	3,437,547
Retained income	2,220,895
Less: Treasury stock, at cost, 508,775	(305,250)
Total stockholders' equity	5,640,829

(2)

A possible reason for the reverse split is that the market value might have gone down below the par value, which could potentially have caused delisting of the company. This caused the market price to double, whereby saving the company from getting delisted.