- Two examples of items giving rise to accumulated other comprehensive income are:
  - Market fluctuations in the value of some investment securities
  - Changes in the value of assets and liabilities held by foreign subsidiaries that are caused by exchange rate changes
- A statement of changes in equity summarizes the changes affecting all the different categories of equity during the year.

Key Terms & Concepts

- accumulated other comprehensive income, 479
- board of directors, 464
- cash dividend, 472
- common stock, 465
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Review Problem

Equity

Clarke Corporation was organized during 1979. At the end of 2018, the equity section of the balance sheet showed:

Contributed capital:	
Preferred stock (8%, $30 par, 6,000 shares authorized, 5,000 shares issued and outstanding)	$150,000
Common stock ($5 par, 50,000 shares authorized, 20,000 shares issued, 17,000 shares outstanding)	100,000
Paid-in capital in excess of par, common stock	80,000
Total contributed capital	$330,000
Retained earnings	140,000
Total contributed capital plus retained earnings	$470,000
Less treasury stock (3,000 shares of common stock at cost, $10 per share)	(30,000)
Total equity	$440,000

During 2018, the following equity transactions occurred in chronological sequence:

a. Issued 800 shares of common stock at $11 per share.
b. Reissued 1,200 shares of treasury stock at $12 per share.
c. Issued 300 shares of preferred stock at $33 per share.
d. Reissued 400 shares of treasury stock at $9 per share.
e. Declared and paid a dividend large enough to meet the current-dividend preference on the preferred stock and to pay the common stockholders $1.50 per share.
f. Net income for 2018 was $70,000, which included $400,000 of revenues and $330,000 of expenses.
g. Closed the dividends accounts for 2018.

Required:

1. Journalize the transactions.
2. Set up T-accounts with beginning balances and post the journal entries to the T-accounts, adding any necessary new accounts. (Assume a beginning balance of $20,000 for the cash account.)
3. Prepare the equity section of the balance sheet as of December 31, 2018.

Solution:

1. Journalize the Transactions

a.	Cash	8,800	
	Common Stock		4,000
	Paid-in Capital in Excess of Par, Common Stock		4,800
	Issued 800 shares of common stock at $11 per share.		

Cash received is $11 × 800 shares; common stock is par value times the number of shares ($5 × 800); paid-in capital is the excess.

b.	Cash	14,400	
	Treasury Stock		12,000
	Paid-in Capital, Treasury Stock		2,400
	Reissued 1,200 shares of treasury stock at $12 per share.		

Cash is $12 × 1,200 shares; treasury stock is the cost times the number of shares sold ($10 × 1,200 shares); paid-in capital is the excess.

c.	Cash	9,900	
	Preferred Stock		9,000
	Paid-in Capital in Excess of Par, Preferred Stock		900
	Issued 300 shares of preferred stock at $33 per share.		

Cash is $33 × 300 shares; preferred stock is par value times the number of shares issued ($30 × 300); paid-in capital is the excess.

d.	Cash	3,600	
	Paid-in Capital, Treasury Stock	400	
	Treasury Stock		4,000
	Reissued 400 shares of treasury stock at $9 per share.		

Cash is $9 × 400 shares; treasury stock is the cost times the number of shares sold ($10 × 400); paid-in capital is decreased for the difference. If no Paid-in Capital, Treasury Stock balance had existed, Retained Earnings would have been debited.

e.	Dividends, Preferred Stock	12,720	
	Dividends, Common Stock	29,100	
	Cash		41,820
	Declared and paid cash dividend.		

Calculations:

Preferred Stock	Number of Shares	Par-Value Amount
Original balance	5,000	$150,000
Entry (c)	300	9,000
Total	5,300	$159,000
		× 0.08
		$ 12,720

Common Stock	Number of Shares
Original balance (excludes treasury stock)	17,000
Entry (a)	800
Entry (b)	1,200
Entry (d)	400
Total	19,400 shares
	× $1.50
	$29,100
Total preferred stock dividend	$12,720
Total common stock dividend	29,100
Total dividend	$41,820

f.	Revenues (individual revenue accounts)	400,000	
	Expenses (individual expense accounts)		330,000
	Retained Earnings		70,000
	To close net income to Retained Earnings.		

g.	Retained Earnings	41,820	
	Dividends, Preferred Stock		12,720
	Dividends, Common Stock		29,100
	To close the dividends accounts for 2018.		

2. Set up T-Accounts and Post to the Accounts

Cash

Beg. Bal.	20,000	(e)	41,820
(a)	8,800		
(b)	14,400		
(c)	9,900		
(d)	3,600		
Bal.	14,880		

Preferred Stock

		Beg. Bal.	150,000
		(c)	9,000
		Bal.	159,000

Paid-in Capital in Excess of Par, Preferred Stock

		(c)	900
		Bal.	900

Common Stock

		Beg. Bal.	100,000
		(a)	4,000
		Bal.	104,000

Paid-in Capital in Excess of Par, Common Stock

		Beg. Bal.	80,000
		(a)	4,800
		Bal.	84,800

Treasury Stock

Beg. Bal.	30,000	(b)	12,000
		(d)	4,000
Bal.	14,000		

Paid-in Capital, Treasury Stock

(d)	400	(b)	2,400
		Bal.	2,000

Retained Earnings

(g)	41,820	Beg. Bal.	140,000
		(f)	70,000
		Bal.	168,180

Dividends, Preferred Stock

(e)	12,720	(g)	12,720
Bal.	0		

Dividends, Common Stock

(e)	29,100	(g)	29,100
Bal.	0		

Revenues

(f)	400,000	Beg. Bal.	400,000
		Bal.	0

Expenses

Beg. Bal.	330,000	(f)	330,000
Bal.	0		

3. Prepare Equity Section of the Balance Sheet

Clarke Corporation
Partial Balance Sheet
December 31, 2018

Equity	
Contributed capital:	
Preferred stock (8%, $30 par, 6,000 shares authorized, 5,300 shares issued and outstanding)	$159,000
Common stock ($5 par, 50,000 shares authorized, 20,800 shares issued, 19,400 outstanding)	104,000
Paid-in capital in excess of par, preferred stock	900
Paid-in capital in excess of par, common stock	84,800
Paid-in capital, treasury stock	2,000
Total contributed capital	$350,700
Retained earnings	168,180
Total contributed capital plus retained earnings	$518,880
Less treasury stock (1,400 shares of common stock at cost, $10 per share)	(14,000)
Total equity	$504,880

Transaction	Common Stock Issued	Common Stock Authorized	Treasury Stock
Number of shares originally issued	20,000	50,000	3,000
Entry (a)	800		
Entry (b)			(1,200)
Entry (d)			(400)
Total	20,800	50,000	1,400

Put it on Paper — Discussion Questions

1. What are the primary differences between debt financing and equity financing?
2. What are the major differences between a partnership and a corporation?
3. How is a proprietorship or partnership established?
4. Does the death of a partner legally terminate a partnership? If so, does it mean that the partnership must cease operating?
5. Are partners legally liable for the actions of other partners? Explain.
6. In which type of business entity do all owners have limited liability?
7. In what way are corporate profits subject to double taxation?
8. How do common and preferred stock differ?
9. What is the purpose of having a par value for stock?
10. Why would a company repurchase its own shares of stock that it had previously issued?
11. Is treasury stock an asset? If not, why not?
12. How is treasury stock usually accounted for?
13. In what way does the equity section of a balance sheet identify the sources of the assets?
14. What factors affect the Retained Earnings balance of a corporation?
15. Is it possible for a firm to have a large Retained Earnings balance and no cash? Explain.
16. When is a company legally barred from paying cash dividends?
17. Why should a potential common stockholder carefully examine the dividend preferences of a company's preferred stock?
18. The dividend payout ratio for Deedle Company is 40%. What does this mean?
19. What is accumulated other comprehensive income? Why was this concept adopted by accounting standard-setters?
20. Give two examples of other equity items.

Practice Exercises

PE 11-1 LO 1

Characteristics of Proprietorships and Partnerships

Which one of the following is *not* a usual characteristic of either a proprietorship or a partnership?

a. Limited size
b. Limited life
c. Ease of formation
d. Unlimited liability

PE 11-2 LO 2

Characteristics of Corporations

Which one of the following is *not* a usual characteristic of a corporation?

a. Limited liability
b. Limited life
c. Close government regulation
d. Easy transferability of ownership
e. Ability to raise large amounts of capital

PE 11-3 LO 2

Characteristics of Common Stock and Preferred Stock

Which one of the following statements is true regarding common stock and preferred stock?

a. Preferred stockholders always have the right to vote in corporate matters.
b. Common stockholders are the residual owners of the business after all other obligations have been paid.
c. Preferred stock is better than common stock.
d. Common stockholders receive dividends before preferred stockholders.
e. Preferred stock can never be converted into common stock.

PE 11-4 LO 3

Issuance of No-Par Common Stock

Golightly Company issued 25,000 shares of no-par common stock at $45 per share for cash. Make the necessary journal entry (or entries) to record this transaction.

PE 11-5 LO 3

Issuance of Common Stock for Cash

Condon Company issued 3,000 shares of $1 par-value common stock for $40 per share for cash. Make the necessary journal entry (or entries) to record this transaction.

PE 11-6 LO 3

Issuance of Common Stock for Other Assets

Tiffany Company issued 10,000 shares of $0.01 par-value common stock in exchange for a building. The market value of the stock at the date of the exchange was $40 per share. Make the necessary journal entry (or entries) to record this transaction.

PE 11-7 LO 3

Accounting for Stock Repurchases

Diviney Company repurchased 1,500 shares of $1 par-value common stock for $64 per share from the open market. Make the necessary journal entry (or entries) to record this transaction.

PE 11-8 LO 3

Accounting for Sale of Treasury Stock at Price Higher than Cost

Refer to the data in PE 11-7. Diviney resells 400 shares of treasury stock for $80 per share. Make the necessary journal entry (or entries) to record this transaction.

PE 11-9 LO 3

Accounting for Sale of Treasury Stock at Price Lower than Cost

Refer to the data in PE 11-7 and 11-8. Diviney resells 300 shares of treasury stock for $56 per share. Make the necessary journal entry (or entries) to record this transaction.

PE 11-10 LO 3

Accounting for Sale of Treasury Stock at Price Lower than Cost

Refer to the data in PE 11-7 through 11-9. Assume the paid-in capital, treasury stock account currently has a $2,000 credit balance. Diviney resells 800 shares of treasury stock for $60 per share. Make the necessary journal entry (or entries) to record this transaction.

PE 11-11
LO 4

Dividend Declaration Accounting

Kiki Company has the following two types of stock:

1. 15,000 shares of 10% cumulative preferred stock with a $30 par value.
2. 30,000 shares of common stock with a $1 par value.

Kiki Company declared a $75,000 cash dividend. Make the necessary journal entry (or entries) to record this event.

PE 11-12
LO 4

Dividend Payment Accounting

Refer to the data in PE 11-11. Make the necessary journal entry (or entries) to record the payment of the cash dividend.

PE 11-13
LO 4

Dividend Closing Entry (or Entries)

Refer to the data in PE 11-11. Make the necessary journal entry (or entries) to close the dividend accounts to Retained Earnings at the end of the year.

PE 11-14
LO 4

Dividend Payout Ratio

Using the following data, compute the dividend payout ratio.

Cash dividends	$ 19,000
Sales	512,000
Net income	76,000

PE 11-15
LO 4

Stock Dividends and Stock Split

How would the following items be affected if a company declares 5% stock dividends and a 2-for-1 stock split?

Items	Stock dividend	Stock split
(a) Number of shares outstanding	?	?
(b) Total equity	?	?
(c) Retained earnings	?	?
(d) Common stock	?	?

PE 11-16
LO 4

Stock Split

Due to the market value of the stock being so high, Lennox Inc. decides to declare a 2-for-1 stock split. Make the journal entry necessary to record the stock split.

PE 11-17
LO 5

Balance Sheet Preparation

Using the following data, prepare the equity section of the balance sheet for the company.

Paid-in capital in excess of par, common stock	$492,000
Retained earnings	200,000
Common stock ($1 par value, 8,400 shares issued, 8,000 outstanding)	8,000
Treasury stock (400 shares of $1 common at cost of $45)	18,000
Preferred stock ($20 par value, 2,500 shares issued and outstanding)	50,000

PE 11-18
LO 5

Statement of Comprehensive Income

Using the following items, compute Hart Company's comprehensive income.

1. Hart's investment in a foreign subsidiary increased by $8,000 because the euro strengthened relative to the U.S. dollar during the year.
2. Net income for the year was $104,000.
3. Unrealized loss on investments for the year was $22,000.

EXERCISES

E 11-1
LO 2

Characteristics of a Corporation

Victoria has prepared the following list of statements about corporations.

1. The chief accounting officer of a corporation is the controller.
2. Corporations may buy, own, and sell property; borrow money; enter into legally binding contracts; and sue and be sued.
3. Most of the largest corporations are privately held corporations.
4. As a legal entity, a corporation has most of the rights and privileges of a person.
5. The net income of a corporation is not taxed as a separate entity.
6. Creditors have a legal claim on the personal assets of the owners of a corporation if the corporation does not pay its debts.
7. The transfer of shares from one owner to another requires the approval of either the corporation or other shareholders.
8. The board of directors of a corporation legally owns the corporation.
9. A corporation is an entity separate and distinct from its owners.
10. Corporations are subject to fewer regulations than partnerships or proprietorships.

Identify each statement as true or false. If false, indicate how to correct the statement.

E 11-2
LO 3

No-Par Stock Transactions

Harmsen Maintenance Corporation was organized in early 2018 with 60,000 shares of no-par common stock authorized. During 2018, the following transactions occurred:

a. Issued 31,000 shares of stock at $24 per share.
b. Issued another 3,900 shares of stock at $28 per share.
c. Issued 3,000 shares for a building appraised at $90,000.
d. Declared dividends of $1.50 per share.
e. Earned net income of $187,000 for the year, including $405,000 of revenues and $218,000 of expenses, and closed these accounts.
f. Closed the dividends accounts.

Given this information:

1. Journalize the transactions.
2. Present the equity section of the balance sheet as it would appear on December 31, 2018.

E 11-3
LO 3

Treasury Stock Transactions

Provide the necessary journal entries to record the following:

a. Washington Corporation was granted a charter authorizing the issuance of 200,000 shares of $10 par-value common stock.
b. Washington issued 50,000 shares of common stock at $15 per share.
c. Washington reacquired 3,000 shares of its own stock at $19 per share, to be held in treasury.
d. Another 1,500 shares of stock were reacquired at $21 per share.
e. Of the shares reacquired in (c), 1,200 were reissued for $24 per share.
f. Of the shares reacquired in (d), all 1,500 were reissued for $16 per share.
g. Given the preceding transactions, what is the balance in the treasury stock account?

E 11-4
LO 4

Dividend Calculations

Churchill Corporation has the following stock outstanding:

Preferred stock (6%, $20 par value, 80,000 shares)	$1,600,000
Common stock ($2 par value, 800,000 shares)	1,600,000

For the two independent cases that follow, compute the amount of dividends that would be paid to preferred and common shareholders. Assume that total dividends paid are $400,000. No dividends have been paid for the past three years.

Case A, Preferred is noncumulative.
Case B, Preferred is cumulative.

E 11-5
LO 4

Dividend Payout Ratio
The following numbers are for three different companies:

	Iris	Orchid	Columbine
Total assets	$3,100	$3,500	$2,900
Cash dividends	30	200	340
Total liabilities	2,600	1,600	2,000
Net income	310	420	460

For each company, compute the dividend payout ratio.

E 11-6
LO 4

Stock Dividends
Bernard Corporation has 250,000 common shares outstanding and declares a 15% stock dividend on July 1, 2018. On July 31, Bernard issues the dividend shares. On the day of declaration, suppose that its common stock has a par value of NT$10, and market value of NT$33 per share. Make the entries necessary on the declaration and the issuing days.

E 11-7
LO 4

Stock Dividends
Referring to E 11-6, if Bernard declares a 25% stock dividend, what is the entry on the day of declaration?

E 11-8
LO 4

Comparing Effects of Stock Dividends and Stock Split
On October 31, the equity section of Alta Company consists of common stock $600,000 and retained earnings $1,720,000. Alta is considering the following two courses of action: (1) declaring a 7% stock dividend on the 100,000, $6 par value shares outstanding, or (2) effecting a 2-for-1 stock split that will reduce par value to $3 per share. The current market price is $13 per share.

Required:

Prepare a tabular summary of the effects of the alternative actions on the components of equity, outstanding shares, and par value per share. Use the following column headings: Before Action, After Share Dividend, and After Share Split.

E 11-9
LO 3
LO 4

Stock Issuance and Cash Dividends
Lindstrom Corporation was organized in January 2018. The state authorized 200,000 shares of no-par common stock and 50,000 shares of 12%, $25 par, preferred stock. Record the following transactions that occurred in 2018:

a. Issued 25,000 shares of common stock at $40 per share.
b. Issued 3,000 shares of preferred stock for a building appraised at $100,000.
c. Declared a cash dividend sufficient to meet the current-dividend preference on preferred stock and pay common shareholders $4.00 per share.

E 11-10
LO 3
LO 4

Stock Issuance, Treasury Stock, and Dividends
On January 1, 2018, Vaness Corporation was granted a charter authorizing the following capital stock: common stock, $5 par, 200,000 shares; preferred stock, $10 par, 7%, 50,000 shares. Record the following 2018 transactions:

a. Issued 95,000 shares of common stock at $22 per share.
b. Issued 18,000 shares of preferred stock at $13 per share.
c. Bought back 10,000 shares of common stock at $30 per share.
d. Reissued 1,000 shares of treasury stock at $27 per share.
e. Declared cash dividends of $27,400 to be allocated between common and preferred stockholders. (The preferred stock, which has a current-dividend preference, is noncumulative.)
f. Paid dividends of $27,400.

E 11-11
LO 3
LO 4

Stock Transactions and Dividends
Fowler Corporation was organized in January 2018. The state authorized 150,000 shares of no-par common stock and 50,000 shares of 12%, $8 par, preferred stock. Record the following transactions that occurred in 2018:

a. Issued 28,000 shares of common stock at $32 per share.
b. Issued 15,000 shares of preferred stock for a piece of land appraised at $200,000.
c. Declared a cash dividend sufficient to meet the current-dividend preference on preferred stock and paid common shareholders $2 per share.
d. How would your answer to (c) change if the dividend declared were not sufficient to meet the current-dividend preference on preferred stock?

E 11-12 LO 3 LO 4

Stock Issuance, Treasury Stock, and Dividends

During 2018, Doxey Corporation had the following transactions and related events:

Jan.	15	Issued 6,500 shares of common stock at par ($16 per share), bringing the total number of shares outstanding to 121,300.
Feb.	6	Declared a 50-cent-per-share dividend on common stock for stockholders of record on March 6.
Mar.	6	Date of record.
	8	Pedro Garcia, a prominent banker, purchased 20,000 shares of Doxey common stock from the company for $346,000.
Apr.	6	Paid dividends declared on February 6.
June	19	Reacquired 800 shares of common stock as treasury stock at a total cost of $9,350.
Sept.	6	Declared dividends of 55 cents per share to be paid to common stockholders of record on October 15, 2018.
Oct.	6	The Dow Jones Industrial Average plummeted 300 points, and Doxey's stock price fell $3 per share.
	15	Date of record.
Nov.	16	Paid dividends declared on September 6.
Dec.	15	Declared and paid a 6% cash dividend on 18,000 outstanding shares of preferred stock (par value $32).

Given this information:
1. Prepare the journal entries for these transactions.
2. What is the total amount of dividends paid to common and preferred stockholders during 2018?

E 11-13 LO 3 LO 4

Analysis of Equity

The equity section of Kay Corporation at the end of the current year showed:

Preferred stock (6%, $40 par, 10,000 shares authorized, 6,000 shares issued and outstanding)	$?
Common stock ($6 par, 80,000 shares authorized, 53,000 issued, 52,650 shares outstanding)	318,000
Paid-in capital in excess of par, preferred stock	?
Paid-in capital in excess of par, common stock	129,000
Retained earnings	86,000
Less treasury stock (350 shares at cost)	(2,000)
Total equity	$?

Based on the equity section, answer the following questions:
1. What is the dollar amount to be reported for preferred stock?
2. What is the average price for which common stock was issued? (Round to the nearest cent.)
3. If preferred stock was issued at an average price of $43 per share, what amount should appear in the paid-in capital in excess of par, preferred stock account?
4. What is the average cost per share of treasury stock? (Round to the nearest cent.)
5. Assuming that the preferred stock was issued for an average price of $43 per share, what is total equity?
6. If net income for the year were $67,000 and if only dividends on preferred stock were paid, by how much would retained earnings increase?

E 11-14 LO 3 LO 4

Preparing the Equity Section

The following account balances, before any closing entries, appear on the books of Spring Company as of December 31, 2018:

Retained Earnings (balance at January 1, 2018)	$ 350,000
Dividends, Preferred Stock	25,000
Dividends, Common Stock	50,000
Common Stock ($1 par, 100,000 shares authorized, 70,000 issued and outstanding)	70,000
Paid-in Capital in Excess of Par, Common Stock	1,330,000
Preferred Stock (8%, $50 par, 50,000 shares authorized, 5,000 issued and outstanding)	250,000
Paid-in Capital in Excess of Par, Preferred Stock	5,000

Based on these account balances, and assuming net income for 2018 of $125,000, prepare the equity section of the December 31, 2018, balance sheet for Spring Company.

E 11-15
LO 5

Comprehensive Income

The following information relates to Larkin Company:

a. Larkin Company's net income for the year was $100,000.
b. Larkin Company has an investment portfolio for long-term investment purposes. That portfolio decreased in value by $10,000 during the year.
c. Larkin Company has several foreign subsidiaries. The currencies in the countries where those subsidiaries are located increased in value (relative to the U.S. dollar) during the year. Accordingly, the computed value of the equity of those subsidiaries, in U.S. dollars, increased by $20,000.

Compute Larkin's comprehensive income for the year.

E 11-16
LO 5

Other Equity Items

Red Rider Company has the following equity section on its balance sheet as of December 31, 2018 and 2017.

Red Rider Company
(in millions)

	2018	2017
Equity		
Contributed capital:		
Preferred stock	$ 2.0	$ 2.0
Common stock	32.0	32.0
Paid-in capital—various	12.4	11.2
Retained earnings	24.5	24.6
Total retained earnings and contributed capital	$ 70.9	$69.8
Accumulated foreign currency translation adjustments	5.2	4.5
Net unrealized gains on investments in certain debt and equity securities	25.6	20.0
Total equity	$101.7	$94.3

1. At the end of 2018, what was the total amount of equity financing provided by Red Rider's investors?
2. At the end of 2018, how much of Red Rider's earnings had not been distributed to investors?
3. What is the total amount of "other equity items" contained in the 2018 equity section?
4. What contributed most to the increased equity from 2017 to 2018?

PROBLEMS

P 11-1
LO 3

Accounting for Treasury Stock

Lilbourg Company had the following equity accounts on January 1, 2018: Common Stock (£1 par) £800,000, Paid-in Capital in Excess of Par £1,000,000, and Retained Earnings £200,000. In 2018, the company had the following treasury stock transactions.

Apr.	1	Purchased 10,000 shares at £7 per share.
July	1	Sold 1,600 shares at £10 per share.
Oct.	1	Sold 3,400 shares at £9 per share.
Dec.	1	Sold 2,000 shares at £5 per share.

Lilbourg Company uses the cost method of accounting for treasury stock. In 2018, the company reported net income of £80,000.

Required:

1. Journalize the treasury stock transactions, and prepare the closing entry on December 31, 2018, for net income.
2. Open T-accounts for (1) Paid-in Capital—Treasury Stock, (2) Treasury Stock, and (3) Retained Earnings. Post the journal entries above to these T-accounts.
3. Prepare the equity section for Lilbourg Company on December 31, 2018.

P 11-2
LO 4

Dividend Calculations

Snowy Peaks Corporation was organized in January 2015 and issued shares of preferred and common stock as shown. As of December 31, 2018, there have been no changes in outstanding stock.

Preferred stock (10%, $15 par, 10,000 shares issued and outstanding)	$150,000
Common stock ($20 par, 15,000 shares issued and outstanding)	300,000

Required:

For each of the following independent situations, compute the amount of dividends that would be paid for each class of stock in 2017 and 2018. Assume that total dividends of $8,000 and $92,000 are paid in 2017 and 2018, respectively.

1. Preferred stock is noncumulative.
2. Preferred stock is cumulative, and no dividends are in arrears in 2017.
3. Preferred stock is cumulative, and no dividends have been paid during 2015 and 2016.

P 11-3
LO 4

Dividend Calculations

Lowe Corporation had authorization for 80,000 shares of 8% preferred stock, par value $20 per share, and 24,000 shares of common stock, par value $120 per share, all of which are issued and outstanding. During the years beginning in 2016, Lowe Corporation maintained a policy of paying out 50% of net income in cash dividends. One-half the net income for the three years beginning in 2016 was $50,000, $280,000, and $340,000. There are no dividends in arrears for years prior to 2016.

Required:

Compute the amount of dividends paid to each class of stock for each year under the following separate cases:

1. Preferred stock is noncumulative.
2. Preferred stock is cumulative.
3. **Interpretive Question:** Why is it important that a common stockholder know about the dividend privileges of the preferred stock?

P 11-4
LO 4

Dividend Payout Ratio

The following numbers are for three different companies:

	A	B	C
Cash	$ 300	$ 500	$ 700
Retained earnings	900	1,000	4,100
Cash dividends	0	200	1,200
Paid-in capital	3,200	2,000	2,500
Total liabilities	800	900	700
Sales	8,000	6,000	7,000
Net income	800	1,400	1,800

Required:

1. For each company, compute the dividend payout ratio.
2. **Interpretive Question:** Which of the three companies is most likely to be a high-growth Internet company? Which is most likely to be an old, stable company? Explain.

P 11-5
LO 4

Dividends, Stock Split, and Equity Section

On January 1, 2018, Allergo Company had the following equity accounts.

Common Stock (€25 par value, 96,000 shares issued and outstanding)	€2,400,000
Paid-in Capital in Excess of Par	400,000
Retained Earnings	1,200,000

During the year, the following transactions occurred.

Feb.	1	Declared a €1 cash dividend per share to shareholders of record on February 15, payable March 1.
Mar.	15	Paid the dividend declared in February.
Apr.	30	Announced a 5-for-1 share split. Prior to the split, the market price per share was €36.
July	1	Declared a 10% share dividend to shareholders of record on July 15, distributable July 31. On July 1, the market price was €7 per share.
	31	Issued the shares for the share dividend.
Dec.	1	Declared a €0.40 per share dividend to shareholders of record on December 15, payable January 5, 2019.
	31	Determined that net income for the year was €700,000.

Required:

1. Journalize the transactions and the closing entries for net income and dividends.
2. Enter the beginning balances, and post the entries to the equity accounts. (Note: Open additional equity accounts as needed.)
3. Prepare an equity section on December 31.

P 11-6
LO 3
LO 4

Stock Transactions and Analysis

The following selected items and amounts were taken from the balance sheet of Quale Company as of December 31, 2018:

Cash	$ 93,000
Property, plant, and equipment	850,000
Accumulated depreciation	150,000
Liabilities	50,000
Preferred stock (7%, $100 par, noncumulative, 10,000 shares authorized, 5,000 shares issued and outstanding)	500,000
Common stock ($10 par, 100,000 shares authorized, 80,000 shares issued and outstanding)	800,000
Paid-in capital in excess of par, preferred stock	1,000
Paid-in capital in excess of par, common stock	125,000
Paid-in capital, treasury stock	1,000
Retained earnings	310,000

Required:

For each of parts (1) to (5), (a) prepare the necessary journal entry (or entries) to record each transaction, and (b) calculate the amount that would appear on the December 31, 2018, balance sheet as a consequence of this transaction only for the account given. (*Note:* In your answer to each part of this problem, consider this to be the only transaction that took place during 2018.)

1. Quale Company issued 200 shares of common stock in exchange for cash of $4,000.
   a. Entry
   b. Paid-in Capital in Excess of Par, Common Stock
2. The company issued 200 shares of preferred stock at a price of $102 per share.
   a. Entry
   b. Paid-in Capital in Excess of Par, Preferred Stock

3. The company issued 500 shares of common stock in exchange for a building. The common stock is not actively traded, but the building was recently appraised at $11,000.
   a. Entry
   b. Property, Plant, and Equipment
4. The company reacquired 1,000 shares of common stock from a stockholder for $23,000 and subsequently reissued the shares to a different investor for $21,500. (*Note:* Make two entries.)
   a. Entries
   b. Paid-in Capital, Treasury Stock
5. The board of directors declared dividends of $75,000. This amount includes the current-year dividend preference on preferred stock, with the remainder to be paid to common shareholders.
   a. Entry
   b. Retained Earnings

P 11-7

LO 3
LO 4

Stock Transactions and the Equity Section

The following is Saratoga Springs Company's equity section of the balance sheet on December 31, 2017:

Preferred stock (7%, $50 par, noncumulative, 22,000 shares authorized, 9,000 shares issued and outstanding)	$450,000
Common stock ($8 par, 110,000 shares authorized, 94,000 shares issued and outstanding)	752,000
Paid-in capital in excess of par, preferred stock	125,000
Paid-in capital in excess of par, common stock	326,000
Retained earnings	540,000

Required:

1. Journalize the following 2018 transactions:
   a. Issued 3,000 preferred shares at $62 per share.
   b. Reacquired 2,500 common shares for the treasury at $17 per share.
   c. Declared and paid a $1.50-per-share dividend on common stock in addition to paying the required preferred dividends. (*Note:* Debit Retained Earnings directly.)
   d. Reissued 900 treasury shares at $20 per share.
   e. Reissued the remaining treasury shares at $16 per share.
   f. Earnings for the year were $83,000, including $350,000 of revenues and $267,000 of expenses.
2. Prepare the equity section of the balance sheet for the company at December 31, 2018.

P 11-8

LO 3
LO 4

Equity, Dividends, and Treasury Stock

The equity section of Nielsen Corporation's December 31, 2017, balance sheet is as follows:

Equity	
Preferred stock (10%, $50 par, 10,000 shares authorized, 1,000 shares issued and outstanding)	$ 50,000
Common stock ($15 par, 100,000 shares authorized, 5,000 shares issued and outstanding)	75,000
Paid-in capital in excess of par, preferred stock	2,000
Paid-in capital in excess of par, common stock	25,000
Total contributed capital	$152,000
Retained earnings	102,000
Total equity	$254,000

During 2018, Nielsen Corporation had the following transactions affecting equity:

Jan.	20	Paid a cash dividend of $2 per share on common stock. The dividend was declared on December 15, 2017.
Aug.	15	Reacquired 1,000 shares of common stock at $20 per share.
Sept.	30	Reissued 500 shares of treasury stock at $21 per share.
Oct.	15	Declared and paid cash dividends of $3 per share on the common stock.
Nov.	1	Reissued 200 shares of treasury stock at $18 per share.
Dec.	15	Declared and paid the 10% preferred cash dividend.
	31	Closed net income of $40,000 to Retained Earnings. (Revenues were $260,000; expenses were $220,000.) Also closed the dividends accounts to Retained Earnings.

Required:

1. Journalize the transactions.
2. Prepare the equity section of Nielsen Corporation's December 31, 2018, balance sheet.
3. **Interpretive Question:** What is the effect on earnings per share when a company purchases treasury stock?

P 11-9

LO 3
LO 4

Dividend Transactions and Calculations

As of December 31, 2017, Nibley Corporation has 300,000 shares of $12 par-value common stock authorized, with 120,000 of these shares issued and outstanding.

Required:

1. Prepare journal entries to record the following 2018 transactions:

Jan.	1	Received authorization for 150,000 shares of 5%, cumulative preferred stock with a par value of $15.
	2	Issued 14,000 shares of the preferred stock at $20 per share.
June	1	Reacquired 30% of the common stock outstanding for $25 per share.
	2	Declared a cash dividend of $20,000. The date of record is June 15.
	30	Paid the previously declared cash dividend of $20,000.

2. Determine the proper allocation to preferred and common stockholders of a $150,000 cash dividend declared on December 31, 2018. (This dividend is in addition to the June 2 dividend.)
3. **Interpretive Question:** Why didn't the preferred stockholders receive their current-dividend preference of $10,500 in part (2)?

P 11-10

LO 3
LO 4

Preparing the Equity Section and Recording Dividends

In 2015, Lee Ann Adams and some college friends organized The Candy Jar, a gourmet candy company. In 2015, The Candy Jar issued 150,000 of the 300,000 authorized shares of common stock, par value $15, for $3,000,000 and all the 50,000 authorized shares of 10%, $20 par, cumulative preferred stock for $1,100,000. Combined earnings for 2015, 2016, 2017, and 2018 amounted to $1,250,000. Dividends paid in the four years were as follows: 2015—$100,000; 2016—$300,000; 2017—$0; 2018—$150,000.

Required:

1. Prepare the equity section of the balance sheet as of December 31, 2018, for The Candy Jar.
2. Prepare the journal entry that would be necessary to record the dividends paid in 2018.

P 11-11

LO 3
LO 4

Equity Calculations

A computer virus destroyed important financial information pertaining to Paseo Company's equity section. Your expertise is needed to compute the missing account balances. The only information you can recover from the computer's backup system is as follows:

	December 31, 2017	December 31, 2018
Preferred stock	$ 3,000	$ 3,000
Common stock	8,000	?
Paid-in capital in excess of par, preferred stock	1,500	1,500
Paid-in capital in excess of par, common stock	12,000	?
Paid-in capital, treasury stock	0	?
Retained earnings	18,200	7,400
Treasury stock	0	(7,000)
Total equity	42,700	?

a. During 2018, 7,000 shares of common stock with a par value of $1 were issued when the market price per share was $12.
b. Cash dividends of $25,000 were paid to preferred shareholders.
c. Paseo Company acquired 3,000 shares of common stock at $14 to hold as treasury stock.
d. Paseo Company reissued 2,500 shares of treasury stock for $16.

Required:

1. Calculate the account balances for the following accounts:
   a. Common Stock
   b. Paid-in Capital in Excess of Par, Common Stock
   c. Paid-in Capital, Treasury Stock
   d. Equity
2. How much net income did Paseo Company report for 2018?

P 11-12
LO 3
LO 4

Unifying Concepts: Stock Transactions and the Equity Section

Richard Corporation was founded on January 1, 2018, and entered into the following stock transactions during 2018:

a. Received authorization for 100,000 shares of $20 par-value common stock, 50,000 shares of 6% preferred stock with a par value of $5, and 50,000 shares of no-par common stock.
b. Issued 25,000 shares of the $20 par-value common stock at $24 per share.
c. Issued 10,000 shares of the preferred stock at $8 per share.
d. Issued 5,000 shares of the no-par common stock at $22 per share.
e. Reacquired 1,000 shares of the $20 par-value common stock at $25 per share.
f. Reacquired 500 shares of the no-par common stock at $20 per share.
g. Reissued 250 of the 1,000 reacquired shares of $20 par-value common stock at $23 per share.
h. Reissued all the 500 reacquired shares of no-par common stock at $23 per share.
i. Closed the $14,000 net income to Retained Earnings. Revenues and expenses for the year were $90,000 and $76,000, respectively.

Required:

1. Prepare journal entries to record the 2018 transactions in Richard Corporation's books.
2. Prepare the equity section of Richard Corporation's balance sheet at December 31, 2018. Assume that the transactions represent all the events involving equity accounts during 2018.

P 11-13
LO 5

Comprehensive Income

The following information relates to Loveland Company:

Sales	$60,000
Cost of goods sold	36,000
Other operating expenses	8,000
Interest expense	500
Income tax expense	5,400

In addition, the following events occurred during the year:

a. Loveland Company has an investment portfolio for long-term investment purposes. That portfolio decreased in value by $9,000 during the year.
b. Loveland Company owns a substantial amount of land. During the year, the land increased in value by $34,000.
c. Loveland Company has several foreign subsidiaries. The currencies in the countries where those subsidiaries are located declined in value (relative to the U.S. dollar) during the year. Accordingly, the computed value of the equity of those subsidiaries, in U.S. dollars, decreased by $3,700.

Required:

1. Compute Loveland's comprehensive income for the year.
2. **Interpretive Question:** Is comprehensive income a good measure of the change in a company's value during the year?

P 11-14
LO 5

Equity Section with Selected "Other Information"

The equity section of Glory Company's balance sheet was as follows as of December 31, 2018, and December 31, 2017:

Glory Company
Equity Sections of Balance Sheet
December 31, 2018 and 2017
(in millions)

	2018	2017
Preferred stock	$ 21.4	$ 21.4
Common stock	48.4	43.2
Paid-in capital, various types	22.6	15.3
Retained earnings	51.8	41.2
Subtotal	$144.2	$121.1
Accumulated foreign currency translation adjustments	21.4	57.3
Net unrealized gains (losses) on investments in certain debt and equity securities	(46.4)	(8.8)
Total equity	$119.2	$169.6

Required:

Based on the equity section for Glory Company, answer the following questions:

1. Do you believe Glory Company made a profit during the year 2018? Assuming that only net income and dividends changed the Retained Earnings balance from 2017 to 2018, by how much did net income exceed dividends?
2. What was the total amount of money raised during 2018 from the selling of stock? (Assume that only the selling of stock affected the contributed capital accounts.)
3. Did the market value of Glory Company's securities that affect the equity section increase or decrease in 2018? By how much?
4. **Interpretive Question:** The board of directors believes it should fire the current management of the company because total equity decreased substantially. Do you agree? Why or why not?

P 11-15
LO 3
LO 5

Unifying Concepts: Stock Transactions, the Equity Section, and the Statement of Changes in Equity

The condensed balance sheet of JCB Corporation at December 31, 2017, is shown below.

JCB Corporation
Balance Sheet
December 31, 2017

Assets	
Cash	$ 550,000
All other assets	828,000
	$1,378,000
Liabilities and Equity	
Current liabilities	$ 145,000
Long-term liabilities	220,000
	$ 365,000
Contributed capital:	
Common stock ($10 par, 150,000 shares authorized, 70,000 shares outstanding)	$ 700,000
Paid-in capital in excess of par, common stock	140,000
Retained earnings	173,000
	$1,013,000
	$1,378,000

During 2018, the following transactions affected equity:

Feb.	15	Purchased 6,000 shares of JCB outstanding common stock at $18 per share.
May	21	Sold 3,500 of the shares purchased on February 15 at $21 per share.
Sept.	15	Issued 12,000 shares of previously unissued common stock at $22 per share.
Dec.	21	Sold the remaining 2,500 shares of treasury stock at $23 per share.
	31	Closed net income of $91,600 to Retained Earnings. Revenues were $291,600; expenses were $200,000.

Required:

1. Prepare the journal entries to record the 2018 transactions.
2. Prepare the equity section of the balance sheet at December 31, 2018.
3. Prepare a statement of changes in equity for the year ended December 31, 2018.

ANALYTICAL ASSIGNMENTS

AA 11-1

Discussion

To Pay or Not To Pay Dividends

Assume Lenny Company manufactures specialized computer peripheral parts like speakers and modems. It is a new company that has been in operation for just two years. During those two years, Lenny's stock price has increased over 400%. Lenny does not pay dividends nor does the company plan to do so in the future. However, the company's stock seems to be heavily traded. Why do you think there is so much interest in buying Lenny's stock if stockholders do not receive dividends?

AA 11-2

Judgment Call

You Decide: **Should partners of a business be held personally liable for the debts of the business, or should their business activities and debts be kept separate from their personal activities?**

John and Jeff formed a partnership and started selling cookies based on a secret recipe they created. After one year of strong sales, Jeff left the company with $30,000 cash and was never heard of again. Now, the creditors are requesting payment from John to satisfy a loan Jeff signed. If John can't make the payments from what is left in the business, who will the bank look to for payment?

AA 11-3

Judgment Call

You Decide: **Should companies be required to pay cash dividends on their stock to shareholders, or should it be left up to the companies' discretion whether they pay dividends or reinvest those funds back in the company?**

Your father asked you why his investment in a publicly traded stock is not paying him any dividends. He said, "As far as I know, they never have. I invested in the company to get something back and so far, I haven't received anything. Shouldn't the company be looking after its shareholders?" Should all companies be required to pay dividends?

AA 11-4

Real Company Analysis

Philips

Philips' statement of changes in equity provides details of equity transactions of the company during the 2015 fiscal year. Locate the 2015 financial statement of Philips (Appendix B) and consider the following questions:

1. How much did common stockholders receive in dividends during the year?
2. Did Philips issue more shares than it repurchased during the year or vice versa? How can you tell?

AA 11-5

Ethics

Buying Your Own Shares Back

You are the chief financial officer for Esoteric, Inc., a company whose stock is publicly traded. The stock market has recently experienced an overall downturn, and the price of your company's stock has decreased by about 15%. This significantly affects the compensation of the executives of your company, as their bonuses are based on the company's stock price. The bonus plan rewards company executives who take actions to increase the value of the company to shareholders. The reasoning is that if management increases the value of the company to shareholders, management should be rewarded.

As you consider ways to increase the value of the company when the market itself is slumping, the following idea pops into your head: We will buy back our own stock. That will cause the remaining outstanding stock to increase in value, which is good for those individuals holding that stock. And it will also result in you and the other corporate executives receiving sizable bonuses.

Do you think this plan of action to increase stock price was what the designers of the compensation plan had in mind when they linked executive bonuses to company stock price? Does buying back the company's own stock add value to the company as a whole? Should the compensation plan prohibit activities like buying stock back? Consider these issues and be prepared to discuss them.