PRACTICE MULTIPLE-CHOICE QUESTIONS

**11-1.** (LO 1)

Which of the following is **not**a major advantage of the corporate form of organization?

(a) Separate legal existence.

(b) Continuous life.

(c) Government regulations.

(d) Transferable ownership rights.

**Answer**

(c) Government regulations.

**11-2.** (LO 1)

A major disadvantage of a corporation is:

(a) limited liability of shareholders.

(b) additional taxes.

(c) transferable ownership rights.

(d) separate legal existence.

**Answer**

(b) additional taxes.

**11-3.** (LO 2)

Which of the following statements is **false**?

(a) Ownership of ordinary shares gives the owner a voting right.

(b) The equity section begins with a share capital section.

(c) The authorization of share capital does not result in a formal accounting entry.

(d) Par value and market price of a company’s shares are always the same.

**Answer**

(d) Legal capital per share applies to par value shares but not to no-par value shares.

**11-4.** (LO 2)

ABC Industries Ltd. issues 1,000 €10 par ordinary shares value at €12 per share. In recording the transaction, credits are made to:

(a) Share Capital—Ordinary €10,000 and Share Premium—Ordinary €2,000.

(b) Share Capital—Ordinary €12,000.

(c) Share Capital—Ordinary €10,000 and Gain from Sale of Shares €2,000.

(d) Share Capital—Ordinary €10,000 and Retained Earnings €2,000.

**Answer**

(a) Share Capital—Ordinary €10,000 and Share Premium—Ordinary €2,000.

**11-5.** (LO 3)

XYZ, Ltd. sells 100 of its £5 par value treasury shares at £13 per share. If the cost of acquiring the shares was £10 per share, the entry for the sale should include credits to:

(a) Treasury Shares £1,000 and Share Premium—Treasury £300.

(b) Treasury Shares £500 and Share Premium—Treasury £800.

(c) Treasury Shares £1,000 and Retained Earnings £300.

(d) Treasury Shares £500 and Gain from Sale of Treasury Shares £800.

**Answer**

(a) Treasury Shares £1,000 and Share Premium—Treasury £300.

**11-6.** (LO 3)

In the statement of financial position, the cost of treasury shares is deducted in:

(a) expenses.

(b) revenues.

(c) equity.

(d) liabilities.

**Answer**

(c) equity.

**11-7.** (LO 4)

Preference shares may have priority over ordinary shares **except**in:

(a) dividends.

(b) assets in the event of liquidation.

(c) cumulative dividend features.

(d) voting.

**Answer**

(d) voting.

**11-8.** (LO 4, 5)

M-Bot Corporation has 10,000 8%, £100 par value, cumulative preference shares outstanding at December 31, 2017. No dividends were declared in 2015 or 2016. If M-Bot wants to pay £375,000 of dividends in 2017, ordinary shareholders will receive:

(a) £0.

(b) £295,000.

(c) £215,000.

(d) £135,000.

**Answer**

(d) £135,000.

**11-9.** (LO 5)

Entries for cash dividends are required on the:

(a) declaration date and the payment date.

(b) record date and the payment date.

(c) declaration date, record date, and payment date.

(d) declaration date and the record date.

**Answer**

(a) declaration date and the payment date.

**11-10.** (LO 5)

Which of the following statements about small share dividends is **true**?

(a) A debit to Retained Earnings for the par value of the shares issued should be made.

(b) A small share dividend decreases total equity.

(c) Market price per share should be assigned to the dividend shares.

(d) A small share dividend ordinarily will have an effect on par value per share.

**Answer**

(c) Market price per share should be assigned to the dividend shares.

**11-11.** (LO 6)

All **but one** of the following is reported in a retained earnings statement. The exception is:

(a) cash and share dividends.

(b) net income and net loss.

(c) sales revenue.

(d) prior period adjustments.

**Answer**

(c) sales revenue.

**11-12.** (LO 6)

A prior period adjustment is:

(a) reported in the income statement as a non-typical item.

(b) a correction of an error that is recorded directly to retained earnings.

(c) reported directly in the equity section of the statement of financial position.

(d) reported in the retained earnings statement as an adjustment of the ending balance of retained earnings.

**Answer**

(b) a correction of an error that is recorded directly to retained earnings.

**11-13.** (LO 7)

In the equity section of the statement of financial position, share capital—ordinary:

(a) is listed before share capital—preference.

(b) is listed after retained earnings.

(c) is listed after share capital—preference.

(d) is reduced for treasury shares.

**Answer**

(c) is listed after share capital—preference.

**11-14.** (LO 7)

Adana A.S. reported net income of [Turkish lira symbol black.svg](http://zh.wikipedia.org/wiki/%E5%9C%9F%E8%80%B3%E5%85%B6%E9%87%8C%E6%8B%89%E7%AC%A6%E5%8F%B7)186,000 during 2017, paid dividends of   
[Turkish lira symbol black.svg](http://zh.wikipedia.org/wiki/%E5%9C%9F%E8%80%B3%E5%85%B6%E9%87%8C%E6%8B%89%E7%AC%A6%E5%8F%B7)26,000 on ordinary shares, and paid dividends of [Turkish lira symbol black.svg](http://zh.wikipedia.org/wiki/%E5%9C%9F%E8%80%B3%E5%85%B6%E9%87%8C%E6%8B%89%E7%AC%A6%E5%8F%B7)60,000 on preference shares. It also has 10,000 shares of 6%, [Turkish lira symbol black.svg](http://zh.wikipedia.org/wiki/%E5%9C%9F%E8%80%B3%E5%85%B6%E9%87%8C%E6%8B%89%E7%AC%A6%E5%8F%B7)100 par value, non-cumulative preference shares outstanding. Ordinary shareholders' equity was [Turkish lira symbol black.svg](http://zh.wikipedia.org/wiki/%E5%9C%9F%E8%80%B3%E5%85%B6%E9%87%8C%E6%8B%89%E7%AC%A6%E5%8F%B7)1,200,000 on January 1, 2017, and [Turkish lira symbol black.svg](http://zh.wikipedia.org/wiki/%E5%9C%9F%E8%80%B3%E5%85%B6%E9%87%8C%E6%8B%89%E7%AC%A6%E5%8F%B7)1,600,000 on December 31, 2017. The company's return on ordinary shareholders' equity for 2017 is:

(a) 10.0%.

(b) 9.0%.

(c) 7.1%.

(d) 13.3%.

**Answer**

(b) 9.0%.

**\*11-15.** (LO 8)

When a statement of changes in equity is presented, it is **not**necessary to prepare a (an):

(a) retained earnings statement.

(b) statement of financial position.

(c) income statement.

(d) statement of cash flows.

**Answer**

(a) retained earnings statement.

**\*11-16.** (LO 9)

The ledger of JFK, plc shows share capital—ordinary, treasury shares—ordinary, and no preference shares. For this company, the formula for computing book value per share is:

(a) total equity divided by the number of ordinary shares issued.

(b) share capital—ordinary divided by the number of ordinary shares issued.

(c) total equity divided by the number of ordinary shares outstanding.

(d) share capital—ordinary divided by the number of ordinary shares outstanding.

**Answer**

(c) total equity divided by the number of ordinary shares outstanding.

QUESTIONS

**11-1.** Mark Adler, a student, asks your help in understanding the following characteristics of a corporation: (a) separate legal existence, (b) limited liability of shareholders, and (c) transferable ownership rights. Explain these characteristics to Mark.

**11-2.** (a) Your friend Paula Leuck cannot understand how the characteristic of corporation management is both an advantage and a disadvantage. Clarify this problem for Paula.

(b) Identify and explain two other disadvantages of a corporation.

**11-3.** The following terms pertain to the forming of a corporation: (1) charter, (2) by-laws, and (3) organization costs. Explain the terms.

**11-4.** What are the basic ownership rights of ordinary shareholders in the absence of restrictive provisions?

**11-5.** A corporation has been defined as an entity separate and distinct from its owners. In what ways is a corporation a separate legal entity?

**11-6.** (a) What are the two principal components of equity?

(b) What is share capital? Give three examples.

**11-7.** The corporate charter of Keller Ltd. allows the issuance of a maximum of 100,000 ordinary shares. During its first two years of operations, Keller sold 70,000 shares and reacquired 7,000 of these shares. After these transactions, how many shares are authorized, issued, and outstanding?

**11-8.** Which is the better investment—ordinary shares with a par value of ₩5,000 per share, or ordinary shares with a par value of ₩20,000 per share? Why?

**11-9.** What factors help determine the market value of shares?

**11-10.** Why are ordinary shares usually not issued at a price that is less than par value?

**11-11.** Land appraised at £84,000 is purchased by issuing 1,000 £10 par value ordinary shares. The market price of the shares at the time of the exchange, based on active trading in the securities market, is £95 per share. Should the land be recorded at £10,000, £84,000, or £95,000? Explain.

**11-12.** For what reasons might a company like IBM (USA) repurchase some of its shares (treasury shares)?

**11-13.** Luz, A/S purchases 1,000 shares of its own previously issued €5 par value ordinary shares for €9,000. Assuming the shares are held in the treasury, what effect does this transaction have on (a) net income, (b) total assets, (c) retained earnings, and (d) total equity?

**11-14.** The treasury shares purchased in Question 13 are resold by Luz, A/S for €13,000. What effect does this transaction have on (a) net income, (b) total assets, (c) retained earnings, and (d) total equity?

**11-15.** (a) What are the principal differences between ordinary share and preference shares?

(b) Preference shares may be cumulative. Discuss this feature.

(c) How are dividends in arrears presented in the financial statements?

**11-16.** Identify the events that result in credits and debits to retained earnings.

**11-17.** Tim Miotke maintains that adequate cash is the only requirement for the declaration of a cash dividend. Is Tim correct? Explain.

**11-18.**(a) Three dates are important in connection with cash dividends. Identify these dates, and explain their significance to the corporation and its share-holders.

(b) Identify the accounting entries that are made for a cash dividend and the date of each entry.

**11-19.** Contrast the effects of a cash dividend and a share dividend on a corporation's statement of financial position.

**11-20.** Travis Plum asks, “Since share dividends don't change anything, why declare them?” What is your answer to Travis?

**11-21.** Meloy Company Ltd. has 30,000 £9 par value ordinary shares outstanding when it announces a 3-for-1 share split. Before the split, the shares had a market price of £120 per share. After the split, how many shares will be outstanding? What will be the approximate market price per share?

**11-22.** The board of directors is considering either a share split or a share dividend. They understand that total equity will remain the same under either action. However, they are not sure of the different effects of the two types of actions on other aspects of equity. Explain the differences to the directors.

**11-23.** What is a prior period adjustment, and how is it reported in the financial statements?

**11-24.** What is the purpose of a retained earnings restriction? Identify the possible causes of retained earnings restrictions.

**\*11-25.** What is the formula for computing book value per share when a corporation has only ordinary shares?

**\*11-26.** Bihar Ltd.'s ordinary shares have a par value of Rs10, a book value of Rs240, and a current market price of Rs180. Explain why these amounts are all different.

BRIEF EXERCISES

**BE11-1.** *List the advantages and disadvantages of a corporation*.

(LO 1)

Kari Home is studying for her accounting midterm examination. Identify for Kari the advantages and disadvantages of the corporate form of business organization.

**BE11-2.** *Prepare entries for issuance of par value ordinary shares*.

(LO 2)

On May 10, Chen Co. issues 2,000 €6 par value ordinary shares for cash at €13 per share. Journalize the issuance of the shares.

**BE11-3.** *Prepare entries for issuance of no-par value ordinary shares*.

(LO 2)

On June 1, Federia Ltd. issues 4,500 no-par ordinary shares at a cash price of ¥6 per share. Journalize the issuance of the shares assuming the shares have a stated value of ¥2 per share.

**BE11-4.** *Prepare entries for issuance of shares in a non-cash transaction*.

(LO 2)

Alou Ltd.'s £10 par value ordinary shares are actively traded at a market price of £15 per share. Alou issues 5,000 shares to purchase land advertised for sale at £81,000. Journalize the issuance of the shares in acquiring the land.

**BE11-5.** *Prepare entries for treasury share transactions*.

(LO 3)

On July 1, Pearl River Industries purchases 500 of its HK$20 par value ordinary shares for the treasury at a cash price of HK$80 per share. On September 1, it sells 350 treasury shares for cash at HK$90 per share. Journalize the two treasury share transactions.

**BE11-6.** *Prepare entries for issuance of preference shares*.

(LO 4)

Chard Ltd. issues 5,000 £100 par value preference shares for cash at £118 per share. Journalize the issuance of the preference shares.

**BE11-7.** *Prepare entries for a cash dividend*.

(LO 5)

Fields Enterprises has 70,000 ordinary shares outstanding. It declares a €1.5 per share cash dividend on November 1 to shareholders of record on December 1. The dividend is paid on December 31. Prepare the entries on the appropriate dates to record the declaration and payment of the cash dividend.

**BE11-8.** *Prepare entries for a share dividend*.

(LO 5)

Valiant Ltd. has 56,000 £10 par value ordinary shares outstanding. It declares a 10% share dividend on December 1 when the market price per share is £16. The dividend shares are issued on December 31. Prepare the entries for the declaration and payment of the share dividend.

**BE11-9.** *Show before-and-after effects of a share dividend*.

(LO 5)

The equity section of Neely Company Ltd. consists of share capital—ordinary (£10 par) £2,000,000 and retained earnings £500,000. A 15% share dividend (30,000 shares) is declared when the market price per share is £16. Show the before-and-after effects of the dividend on the following.

(a) The components of equity.

(b) Shares outstanding.

(c) Par value per share.

**BE11-10.** *Prepare a retained earnings statement*.

(LO 6)

For the year ending December 31, 2017, Abbott SE reports net income €140,000 and dividends €55,000. Prepare the retained earnings statement for the year assuming the balance in retained earnings on January 1, 2017, was €220,000.

**BE11-11.** *Prepare a retained earnings statement*.

(LO 6)

The balance in retained earnings on January 1, 2017, for Sandra Ltd. was £800,000. During the year, the corporation paid cash dividends of £50,000 and distributed a share dividend of £8,000. In addition, the company determined that it had understated its depreciation expense in prior years by £35,000. Net income for 2017 was £120,000. Prepare the retained earnings statement for 2017.

**BE11-12.** *Prepare equity section*.

(LO 7)

Garcia Enterprises SLU has the following accounts at December 31: Share Capital—Ordinary, €10 par, 5,000 shares issued, €50,000; Share Premium—Ordinary €32,000; Retained Earnings €45,000; and Treasury Shares, 500 shares, €9,000. Prepare the equity section of the statement of financial position.

**\*BE11-13.** *Compute book value per share*.

(LO 9)

The statement of financial position for Lauren Ltd. shows the following: total equity £817,000, ordinary shares issued 44,000 shares, and ordinary shares outstanding 35,000 shares. Compute the book value per share. (No preference shares are outstanding.)

**DO IT! REVIEW**

**DO IT! 11-1.** *Analyze statements about corporate organization*.

(LO 1)

Indicate whether each of the following statements is true or false. If false, indicate how to correct the statement.

\_\_\_\_\_\_\_\_ 1. The corporation is an entity separate and distinct from its owners.

\_\_\_\_\_\_\_\_ 2. The liability of shareholders is normally limited to their investment in the corporation.

\_\_\_\_\_\_\_\_ 3. The relative lack of government regulation is an advantage of the corporate form of business.

\_\_\_\_\_\_\_\_ 4. There is no journal entry to record the authorization of ordinary shares.

\_\_\_\_\_\_\_\_ 5. No-par value shares are quite rare today.

**DO IT! 11-2.** *Close net income and prepare equity section*.

(LO 1)

At the end of its first year of operation, Jaeger Industries AG has €1,000,000 of ordinary shares and net income of €228,000. Prepare (a) the closing entry for net income and (b) the equity section at year-end.

**DO IT! 11-3.** *Journalize issuance of shares*.

(LO 2)

Zermatt AG began operations on April 1 by issuing 50,000 CHF2 par value ordinary shares for cash at CHF13 per share. On April 19, it issued 2,000 ordinary shares to attorneys in settlement of their bill of CHF27,100 for organization costs. Journalize both issuances, assuming the shares are not publicly traded.

**DO IT! 11-4.** *Journalize treasury share transactions*.

(LO 3)

Delsman Limited purchased 2,000 of its £5 par value ordinary shares for £128,000 on August 1. It will hold these shares in the treasury until resold. On December 1, the corporation sold 1,200 treasury shares for cash at £72 per share. Journalize the treasury share transactions.

**DO IT! 11-5.** *Determine dividends paid to preference and ordinary shareholders*.

(LO 5)

Inmann SE has 2,000 7%, €100 par value preference shares outstanding at December 31, 2017. At December 31, 2017, the company declared a €110,000 cash dividend. Determine the dividend paid to preference shareholders and ordinary shareholders under each of the following scenarios.

1. The preference shares are non-cumulative, and the company has not missed any dividends in previous years.

2. The preference shares are non-cumulative, and the company did not pay a dividend in each of the two previous years.

3. The preference shares are cumulative, and the company did not pay a dividend in each of the two previous years.

**DO IT! 11-6.** *Determine effects of share dividend and share split*.

(LO 5)

Sentry Company Ltd. has had 4 years of strong earnings. Due to this success, the market price of its 400,000 £2 par value ordinary shares has increased from £12 per share to £49. During this period, share capital and share premium remained the same at a total of £2,400,000. Retained earnings increased from £1,800,000 to £12,000,000. CEO T. Boldt is considering either a 15% share dividend or a 2-for-1 share split. He asks you to show the before-and-after effects of each option on (a) retained earnings, (b) total equity, and (c) outstanding shares and par value per share.

**DO IT! 11-7.** *Prepare a retained earnings statement*.

(LO 6)

Raymond SA has retained earnings of €3,100,000 on January 1, 2017. During the year, Raymond earned €1,200,000 of net income. It declared and paid a €130,000 cash dividend. In 2017, Raymond recorded an adjustment of €75,000 due to the overstatement (from mathematical error) of 2016 depreciation expense. Prepare a retained earnings statement for 2017.

**DO IT! 11-8.** *Compute return on equity*.

(LO 7)

On January 1, 2017, Leonard Corporation purchased 1,000 treasury shares. Other information regarding Leonard Corporation is provided below.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2016** |  | **2017** |
| Net income | £200,000 |  | £210,000 |
| Dividends on preference shares | £30,000 |  | £30,000 |
| Dividends on ordinary shares | £20,000 |  | £25,000 |
| Weighted-average number of ordinary shares outstanding | 10,000 |  | 9,000 |
| Ordinary shareholders' equity beginning of year | £600,000 |  | £760,000 |
| Ordinary shareholders' equity end of year | £760,000 |  | £830,000 |

Compute return on ordinary shareholders' equity for each year.

EXERCISES

**E11-1.** *Identify characteristics of a corporation*.

(LO 1)

Victoria has prepared the following list of statements about corporations.

1. A corporation is an entity separate and distinct from its owners.

2. As a legal entity, a corporation has most of the rights and privileges of a person.

3. Most of the largest corporations are privately held corporations.

4. Corporations may buy, own, and sell property; borrow money; enter into legally binding contracts; and sue and be sued.

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. The chief accounting officer of a corporation is the controller.

10. Corporations are subject to fewer regulations than partnerships or proprietorships.

***Instructions***

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

**E11-2.** *Identify characteristics of a corporation*.

(LO 1, 2)

Victoria (see E11-1) has studied the information you gave her in that exercise and has come to you with more statements about corporations.

1. Corporation management is both an advantage and a disadvantage of a corporation compared to a proprietorship or a partnership.

2. Limited liability of shareholders, government regulations, and additional taxes are the major disadvantages of a corporation.

3. When a corporation is formed, organization costs are recorded as an asset.

4. Each ordinary share gives the shareholder the ownership rights to vote at shareholder meetings, share in corporate earnings, keep the same percentage ownership when new shares are issued, and share in assets upon liquidation.

5. The number of issued shares is always greater than or equal to the number of authorized shares.

6. A journal entry is required for the authorization of ordinary shares.

7. Publicly held corporations usually issue shares directly to investors.

8. The trading of shares on a securities exchange involves the transfer of already issued shares from an existing shareholder to another investor.

9. The market price of ordinary shares is usually the same as its par value.

10. Retained earnings is the total amount of cash and other assets paid in to the corporation by shareholders in exchange for shares.

***Instructions***

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

**E11-3.** *Journalize issuance of ordinary shares*.

(LO 2)

During its first year of operations, Punjab Corporation had the following transactions pertaining to its ordinary shares.

Jan. 10 Issued 70,000 shares for cash at Rs5 per share.

July 1 Issued 30,000 shares for cash at Rs7 per share.

***Instructions***

(a) Journalize the transactions, assuming that the ordinary shares have a par value of Rs5 per share.

(b) Journalize the transactions, assuming that the ordinary shares are no-par with a stated value of Rs1 per share.

**E11-4.** *Journalize issuance of ordinary shares*.

(LO 2)

Luis SLU issued 1,000 ordinary shares.

***Instructions***

Prepare the entry for the issuance under the following assumptions.

(a) The shares had a par value of €5 per share and were issued for a total of €48,000.

(b) The shares had a stated value of €5 per share and were issued for a total of €48,000.

(c) The shares had no par or stated value and were issued for a total of €48,000.

(d) The shares had a par value of €5 per share and were issued to attorneys for services during incorporation valued at €48,000.

(e) The shares had a par value of €5 per share and were issued for land worth €48,000.

**E11-5.** *Journalize treasury share transactions*.

(LO 3)

Nanjing Ltd. purchased from its shareholders 5,000 shares of its own previously issued shares for ¥250,000. It later resold 1,300 shares for ¥54 per share, then 2,000 more shares for ¥49 per share, and finally 1,700 shares for ¥40 per share.

***Instructions***

Prepare journal entries for the purchase of the treasury shares and the three sales of treasury shares.

**E11-6.** *Differentiate between preference and ordinary shares*.

(LO 4)

Robydek Limited issued 100,000 £20 par value, cumulative, 9% preference shares on January 1, 2015, for £2,080,000. In December 2017, Robydek declared its first dividend of £550,000.

***Instructions***

(a) Prepare Robydek's journal entry to record the issuance of the preference shares.

(b) If the preference shares are **not** cumulative, how much of the £550,000 would be paid to **ordinary** shareholders?

(c) If the preference shares are cumulative, how much of the £550,000 would be paid to **ordinary** shareholders?

**E11-7.** *Journalize issuance of ordinary and preference shares and purchase of treasury shares*.

(LO 2, 3, 4)

Sorocaba Co. had the following transactions during the current period.

Mar. 2 Issued 5,000 R$1 par value ordinary shares to attorneys in payment of a bill for R$44,000 for services provided in helping the company to incorporate.

June 12 Issued 60,000 R$1 par value ordinary shares for cash of R$468,000.

July 11 Issued 1,000 R$100 par value preference shares for cash at R$110 per share.

Nov. 28 Purchased 2,000 treasury shares for R$18,000.

***Instructions***

Journalize the transactions.

**E11-8.** *Journalize non-cash ordinary share transactions*.

(LO 2)

As an auditor for the firm of Gratis and Goode, you encounter the following situations in auditing different clients.

1. JR SpA is a closely held corporation whose shares are not publicly traded. On December 5, the corporation acquired land by issuing 5,000 €10 par value ordinary shares. The owners' asking price for the land was €138,000, and the fair value of the land was €124,000.

2. Novak A/S is a publicly held corporation whose ordinary shares are traded on the securities markets. On June 1, it acquired land by issuing 20,000 €10 par value ordinary shares. At the time of the exchange, the land was advertised for sale at €250,000. The shares were selling at €11 per share.

***Instructions***

Prepare the journal entries for each of the situations above.

**E11-9.** *Journalize treasury share transactions*.

(LO 3)

On January 1, 2017, the equity section of Bergin ASA shows share capital—ordinary (£5 par value) £1,500,000; share premium—ordinary £1,000,000; and retained earnings £1,200,000. During the year, the following treasury share transactions occurred.

Mar. 1 Purchased 50,000 shares for cash at £12 per share.

July 1 Sold 10,000 treasury shares for cash at £14 per share.

Sept. 1 Sold 8,000 treasury shares for cash at £10 per share.

***Instructions***

(a) Journalize the treasury share transactions.

(b) Restate the entry for September 1, assuming the treasury shares were sold at £9 per share.

**E11-10.** *Journalize preference share transactions and indicate statement presentation*.

(LO 4, 7)

Suliman SJSC is authorized to issue both preference and ordinary shares. The par value of the preference shares is €50. During the first year of operations, the company had the following events and transactions pertaining to its preference shares.

Feb. 1 Issued 12,000 shares for cash at €53 per share.

July 1 Issued 23,000 shares for cash at €57 per share.

***Instructions***

(a) Journalize the transactions.

(b) Post to the equity accounts.

(c) Indicate the financial statement presentation of the related accounts.

**E11-11.** *Answer questions about equity section*.

(LO 2, 3, 4, 7)

The equity section of Ahab SA at December 31 is as follows.

|  |  |
| --- | --- |
| **AHAB SA**  **Statement of Financial Position (partial)** | |
| Equity |  |
| Share capital—preference, cumulative, 10,000 shares authorized, 5,000 |  |
| shares issued and outstanding | € 300,000 |
| Share capital—ordinary, no par, 750,000 shares authorized, 600,000 |  |
| shares issued | 1,200,000 |
| Retained earnings | 1,858,000 |
| Less: Treasury shares—ordinary (75,000 shares) | 75,000 |
| Total equity | €3,283,000 |

***Instructions***

From a review of the equity section, as chief accountant, write a memo to the president of the company answering the following questions.

(a) How many ordinary shares are outstanding?

(b) Assuming there is a stated value, what is the stated value of the ordinary shares?

(c) What is the par value of the preference shares?

(d) If the annual dividend on preference shares is €24,000, what is the dividend rate on preference shares?

(e) If dividends of €48,000 were in arrears on preference shares, what would be the balance in Retained Earnings?

**E11-12.** *Prepare correct entries for share capital transactions*.

(LO 2, 3, 4)

Anya OAO recently hired a new accountant with extensive experience in accounting for partnerships. Because of the pressure of the new job, the accountant was unable to review his textbooks on the topic of corporation accounting. During the first month, the accountant made the following entries for the corporation's share capital.

|  |  |  |  |
| --- | --- | --- | --- |
| May 2 | Cash | 130,000 |  |
|  | Share Capital—Ordinary |  | 130,000 |
|  | (Issued 10,000 €10 par value |  |  |
|  | ordinary shares at €13 per share) |  |  |
|  |  |  |  |
| 10 | Cash | 580,000 |  |
|  | Share Capital—Ordinary |  | 580,000 |
|  | (Issued 10,000 €50 par value |  |  |
|  | preference shares at €58 per share) |  |  |
|  |  |  |  |
| May 15 | Share Capital—Ordinary | 18,000 |  |
|  | Cash |  | 18,000 |
|  | (Purchased 1,200 ordinary shares |  |  |
|  | for the treasury at €15 per share) |  |  |
|  |  |  |  |
| 31 | Cash | 8,000 |  |
|  | Share Capital—Ordinary |  | 5,000 |
|  | Gain on Sale of Shares |  | 3,000 |
|  | (Sold 500 treasury shares at |  |  |
|  | €16 per share) |  |  |

***Instructions***

On the basis of the explanation for each entry, prepare the entry that should have been made for the share capital transactions.

**E11-13.** *Journalize cash dividends; indicate statement presentation*.

(LO 5)

On January 1, Chevon Enterprises SA had 98,000 no-par ordinary shares issued and outstanding. The shares have a stated value of €4 per share. During the year, the following occurred.

Apr. 1 Issued 18,000 additional ordinary shares for €17 per share.

June 15 Declared a cash dividend of €1 per share to shareholders of record on June 30.

July 10 Paid the €1 cash dividend.

Dec. 1 Issued 2,000 additional ordinary shares for €19 per share.

15 Declared a cash dividend on outstanding shares of €1.20 per share to shareholders of record on December 31.

***Instructions***

(a) Prepare the entries, if any, on each of the three dividend dates.

(b) How are dividends and dividends payable reported in the financial statements prepared at December 31?

**E11-14.** *Journalize share dividends*.

(LO 5)

On January 1, 2017, Lanie Limited had £1,000,000 of ordinary shares outstanding that were issued at par. It also had retained earnings of £750,000. The company issued 40,000 ordinary shares at par on July 1 and earned net income of £400,000 for the year.

***Instructions***

Journalize the declaration of a 15% share dividend on December 10, 2017, for the following independent assumptions.

(a) Par value is £8, and market price is £18.

(b) Par value is £5, and market price is £20.

**E11-15.** *Compare effects of a share dividend and a share split*.

(LO 5)

On October 31, the equity section of Lucerne Company AG consists of share capital—ordinary CHF300,000 and retained earnings CHF860,000. Lucerne is considering the following two courses of action: (1) declaring a 7% share dividend on the 50,000, CHF6 par value shares outstanding, or (2) effecting a 2-for-1 share split that will reduce par value to CHF3 per share. The current market price is CHF13 per share.

***Instructions***

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.

**E11-16.** *Prepare correcting entries for dividends and a share split*.

(LO 5)

Before preparing financial statements for the current year, the chief accountant for Paul Company discovered the following errors in the accounts.

1. The declaration and payment of a €50,000 cash dividend was recorded as a debit to Interest Expense €50,000 and a credit to Cash €50,000.

2. A 10% share dividend (1,200 shares) was declared on the €10 par value shares when the market price per share was €17. The only entry made was Share Dividends (Dr.) €12,000 and Dividends Payable (Cr.) €12,000. The shares have not been issued.

3. A 4-for-1 share split involving the issue of 400,000 €5 par value ordinary shares for 100,000 €20 par value ordinary shares was recorded as a debit to Retained Earnings €2,000,000 and a credit to Share Capital—Ordinary €2,000,000.

***Instructions***

Prepare the correcting entries at December 31.

**E11-17.** *Prepare a retained earnings statement*.

(LO 6)

On January 1, 2017, Richard Industries Ltd. had retained earnings of £550,000. During the year, Richard had the following selected transactions.

1. Declared cash dividends £96,000.

2. Corrected overstatement of 2016 net income because of depreciation error £31,000.

3. Earned net income £350,000.

4. Declared share dividends £62,000.

***Instructions***

Prepare a retained earnings statement for the year.

**E11-18.** *Prepare a retained earnings statement*.

(LO 6)

Bindra Company A.S. reported retained earnings at December 31, 2016, of   
[Turkish lira symbol black.svg](http://zh.wikipedia.org/wiki/%E5%9C%9F%E8%80%B3%E5%85%B6%E9%87%8C%E6%8B%89%E7%AC%A6%E5%8F%B7)340,000. Bindra had 200,000 ordinary shares outstanding throughout 2017.

The following transactions occurred during 2017.

1. An error was discovered: in 2015, depreciation expense was recorded at   
[Turkish lira symbol black.svg](http://zh.wikipedia.org/wiki/%E5%9C%9F%E8%80%B3%E5%85%B6%E9%87%8C%E6%8B%89%E7%AC%A6%E5%8F%B7)66,000, but the correct amount was [Turkish lira symbol black.svg](http://zh.wikipedia.org/wiki/%E5%9C%9F%E8%80%B3%E5%85%B6%E9%87%8C%E6%8B%89%E7%AC%A6%E5%8F%B7)50,000.

2. A cash dividend of [Turkish lira symbol black.svg](http://zh.wikipedia.org/wiki/%E5%9C%9F%E8%80%B3%E5%85%B6%E9%87%8C%E6%8B%89%E7%AC%A6%E5%8F%B7)0.50 per share was declared and paid.

3. A 5% share dividend was declared and distributed when the market price per share was [Turkish lira symbol black.svg](http://zh.wikipedia.org/wiki/%E5%9C%9F%E8%80%B3%E5%85%B6%E9%87%8C%E6%8B%89%E7%AC%A6%E5%8F%B7)14 per share.

4. Net income was [Turkish lira symbol black.svg](http://zh.wikipedia.org/wiki/%E5%9C%9F%E8%80%B3%E5%85%B6%E9%87%8C%E6%8B%89%E7%AC%A6%E5%8F%B7)285,000.

***Instructions***

Prepare a retained earnings statement for 2017.

**E11-19.** *Classify equity accounts*.

(LO 7)

The ledger of Summit SA contains the following accounts: Share Capital—Ordinary, Share Capital—Preference, Treasury Shares, Share Premium—Preference, Share Premium—Ordinary, Share Premium—Treasury, and Retained Earnings.

***Instructions***

Classify each account using the following table headings.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Account** |  | **Share Capital** |  | **Share Premium** |  | **Retained Earnings** |  | **Other** |

**E11-20.** *Prepare an equity section*.

(LO 7)

The following accounts appear in the ledger of Tiger Ltd. after the books are closed at December 31.

|  |  |
| --- | --- |
| Share Capital—Ordinary, no par, ¥1 stated value, |  |
| 400,000 shares authorized; 300,000 shares issued | ¥300,000 |
| Ordinary Share Dividends Distributable | 30,000 |
| Share Premium—Ordinary | 1,200,000 |
| Share Capital—Preference, ¥5 par value, 8%, |  |
| 40,000 shares authorized; 30,000 shares issued | 150,000 |
| Retained Earnings | 800,000 |
| Treasury Shares—Ordinary (10,000 shares) | 65,000 |
| Share Premium—Preference | 50,000 |

***Instructions***

Prepare the equity section at December 31, assuming retained earnings is restricted for plant expansion in the amount of ¥150,000.

**E11-21.** *Prepare an equity section*.

(LO 7)

Perrin SA reported the following balances at December 31, 2016: share capital—ordinary €400,000; share premium—ordinary €220,000; and retained earnings €250,000. During 2017, the following transactions affected equity.

1. Issued preference shares with a par value of €125,000 for €165,000.

2. Purchased treasury shares (ordinary) for €40,000.

3. Earned net income of €128,000.

4. Declared and paid cash dividends of €33,000.

***Instructions***

Prepare the equity section of Perrin Company's December 31, 2017, statement of financial position.

**E11-22.** *Prepare an income statement and compute return on ordinary shareholders' equity*.

(LO 7)

In 2017, Orasco Company SA had net sales of R$600,000 and cost of goods sold of R$360,000. Operating expenses were R$153,000, and interest expense was R$7,500. The corporation's tax rate is 25%. The corporation declared preference dividends of R$12,000 in 2017, and its average ordinary shareholders' equity during the year was R$180,000.

***Instructions***

(a) Prepare an income statement for Orasco Company SA.

(b) Compute Orasco Corporation's return on ordinary shareholders' equity for 2017.

**\*E11-23.** *Prepare an equity section*.

(LO 7, 9)

The equity section of Atrio Ltd. showed the following: share premium €6,101, share capital—ordinary €925, share capital—preference €58, retained earnings €7,420, and treasury shares 2,828. (All amounts are in millions.)

The preference shares have 577,740 shares authorized, with a par value of €100 and an annual €3.50 per share cumulative dividend preference. At December 31, 577,649 preference shares are issued and 546,024 shares are outstanding. There are 1.8 billion shares of €1 par value ordinary shares authorized, of which 924.6 million are issued and 844.8 million are outstanding at December 31.

***Instructions***

(a) Prepare the equity section, including disclosure of all relevant data.

(b) Compute the book value per share of ordinary shares, assuming there are no preference dividends in arrears. (Round to two decimals.)

**\*E11-24.** *Compute book value per share with preference shares*.

(LO 4, 9)

At December 31, Gorden Limited has total equity of £3,200,000. Included in this total are share capital—preference £500,000 and share premium—preference £50,000. There are 10,000 shares of £50 par value, 8% cumulative preference shares outstanding. At year-end, 200,000 ordinary shares are outstanding.

***Instructions***

Compute the book value per share of ordinary shares, under each of the following assumptions.

(a) There are no preference dividends in arrears, and the preference shares do not have a call price.

(b) Preference dividends are one year in arrears, and the preference shares have a call price of £60 per share.

**\*E11-25.** *Compute book value per share; indicate account balances after a share dividend*.

(LO 5, 7, 9)

On October 1, Venden Limited's equity is as follows.

|  |  |
| --- | --- |
| Share capital—ordinary, £5 par value | £400,000 |
| Share premium—ordinary | 25,000 |
| Retained earnings | 225,000 |
| Total equity | £650,000 |

On October 1, Venden declares and distributes a 12% share dividend when the market price of the shares is £14 per share.

***Instructions***

(a) Compute the book value per share (1) before the share dividend and (2) after the share dividend. (Round to two decimals.)

(b) Indicate the balances in the three equity accounts after the dividend shares have been distributed.

PROBLEMS: SET A AND PROBLEMS: SET B

**P11-1A** *Journalize share transactions, post, and prepare share capital section*.

(LO 2, 4, 7)

Gão Limited was organized on January 1, 2017. It is authorized to issue 10,000 8%, HK$1,000 par value preference shares, and 500,000 no-par ordinary shares with a stated value of HK$20 per share. The following share transactions were completed during the first year.

Jan. 10 Issued 100,000 ordinary shares for cash at HK$48 per share.

Mar. 1 Issued 5,000 preference shares for cash at HK$1,050 per share.

Apr. 1 Issued 18,000 ordinary shares for land. The asking price of the land was HK$980,000. The fair value of the land was HK$920,000.

May 1 Issued 80,000 ordinary shares for cash at HK$45 per share.

Aug. 1 Issued 10,000 ordinary shares to attorneys in payment of their bill of HK$320,000 for services provided in helping the company organize.

Sept. 1 Issued 10,000 ordinary shares for cash at HK$50 per share.

Nov. 1 Issued 1,000 preference shares for cash at HK$1,060 per share.

***Instructions***

(a) Journalize the transactions.

(b) Post to the equity accounts. (Use J5 as the posting reference.)

(c) Prepare the share capital section of the statement of financial position at December 31, 2017.

Total equity HK$16,450,000

**P11-2A** *Journalize and post treasury share transactions, and prepare equity section*.

(LO 3, 7)

Elston Limited had the following equity accounts on January 1, 2017: Share Capital—Ordinary (£5 par) £400,000, Share Premium—Ordinary £200,000, and Retained Earnings £100,000. In 2017, the company had the following treasury share transactions.

Mar. 1 Purchased 5,000 shares at £9 per share.

June 1 Sold 500 shares at £12 per share.

Sept. 1 Sold 2,500 shares at £10 per share.

Dec. 1 Sold 1,000 shares at £6 per share.

Elston Corporation uses the cost method of accounting for treasury shares. In 2017, the company reported net income of £34,000.

***Instructions***

(a) Journalize the treasury share transactions, and prepare the closing entry at December 31, 2017, for net income.

(b) Open accounts for (1) Share Premium—Treasury, (2) Treasury Shares, and (3) Retained Earnings. Post to these accounts using J10 as the posting reference.

Treasury Shares £9,000

(c) Prepare the equity section for Elston Corporation at December 31, 2017.

Total equity £726,000

**P11-3A** *Journalize and post transactions, prepare equity section*.

(LO 2, 3, 4, 7)

The equity accounts of Terrell Corporation on January 1, 2017, were as follows.

|  |  |
| --- | --- |
| Share Capital—Preference (9%, €50 par, cumulative, |  |
| 10,000 shares authorized) | € 400,000 |
| Share Capital—Ordinary (€1 stated value, 2,000,000 shares authorized) | 1,000,000 |
| Share Premium—Preference | 100,000 |
| Share Premium—Ordinary | 1,450,000 |
| Retained Earnings | 1,816,000 |
| Treasury Shares—Ordinary (20,000 shares) | 50,000 |

During 2017, the corporation had the following transactions and events pertaining to its equity.

Feb. 1 Issued 30,000 ordinary shares for €120,000.

Apr.14 Sold 9,000 treasury shares—ordinary for €42,000.

Sept. 3 Issued 7,000 ordinary shares for a patent valued at €32,000.

Nov. 10 Purchased 1,000 ordinary shares for the treasury at a cost of €6,000.

Dec. 31 Determined that net income for the year was €452,000.

No dividends were declared during the year.

***Instructions***

(a) Journalize the transactions and the closing entry for net income.

(b) Enter the beginning balances in the accounts, and post the journal entries to the equity accounts. (Use J5 for the posting reference.)

(c) Prepare an equity section at December 31, 2017, including the disclosure of the preference dividends in arrears.

Total equity €5,356,000

**P11-4A** *Prepare dividend entries and equity section*.

(LO 5, 7)

On January 1, 2017, Prasad SpA had the following equity accounts.

|  |  |
| --- | --- |
| Share Capital—Ordinary (€25 par value, 48,000 shares |  |
| issued and outstanding) | €1,200,000 |
| Share Premium—Ordinary | 200,000 |
| Retained Earnings | 600,000 |

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. 1 Paid the dividend declared in February.

Apr. 1 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, 2018.

31 Determined that net income for the year was €350,000.

***Instructions***

(a) Journalize the transactions and the closing entries for net income and dividends.

(b) Enter the beginning balances, and post the entries to the equity accounts. (*Note:* Open additional equity accounts as needed.)

(c) Prepare an equity section at December 31.

Total equity €2,196,400

**P11-5A** *Prepare retained earnings statement and equity section, and allocation of dividends*.

(LO 5, 6, 7)

The post-closing trial balance of Russo Company SpA at December 31, 2017, contains the following equity accounts.

|  |  |
| --- | --- |
| Share Capital—Preference (12,000 shares issued) | € 600,000 |
| Share Capital—Ordinary (250,000 shares issued) | 2,500,000 |
| Share Premium—Preference | 250,000 |
| Share Premium—Ordinary | 425,000 |
| Ordinary Share Dividends Distributable | 250,000 |
| Retained Earnings | 1,078,000 |

A review of the accounting records reveals the following.

1. No errors have been made in recording 2017 transactions or in preparing the closing entry for net income.

2. Preference shares are €50 par, 8%, and cumulative; 12,000 shares have been outstanding since January 1, 2016.

3. Authorized shares are 20,000 preference shares, 500,000 ordinary shares with a €10 par value.

4. The January 1 balance in Retained Earnings was €1,200,000.

5. On July 1, 20,000 ordinary shares were issued for cash at €16 per share.

6. On September 1, the company discovered an understatement error of €60,000 in computing depreciation in 2016. The net of tax effect of €42,000 was properly debited directly to Retained Earnings.

7. A cash dividend of €240,000 was declared and properly allocated to preference and ordinary shares on October 1. No dividends were paid to preference shareholders in 2016.

8. On December 31, a 10% ordinary share dividend was declared out of retained earnings on ordinary shares when the market price per share was €17.

9. Net income for the year was €585,000.

10. On December 31, 2017, the directors authorized disclosure of a €200,000 restriction of retained earnings for plant expansion. (Use Note X.)

***Instructions***

(a) Reproduce the Retained Earnings account for 2017.

(b) Prepare a retained earnings statement for 2017.

(c) Prepare an equity section at December 31, 2017.

Total equity €5,103,000

(d) Compute the allocation of the cash dividend to preference and ordinary shares.

**P11-6A** *Prepare entries for share transactions and prepare equity section*.

(LO 2, 3, 4, 7)

Jude Limited has been authorized to issue 20,000 £100 par value, 10%, non-cumulative preference shares and 1,000,000 no-par ordinary shares. The corporation assigned a £2.50 stated value to the ordinary shares. At December 31, 2017, the ledger contained the following balances pertaining to equity.

|  |  |
| --- | --- |
| Share Capital—Preference | £ 120,000 |
| Share Premium—Preference | 12,000 |
| Share Capital—Ordinary | 1,000,000 |
| Share Premium—Ordinary | 1,600,000 |
| Treasury Shares—Ordinary (1,000 shares) | 9,000 |
| Share Premium—Treasury | 1,000 |
| Retained Earnings | 82,000 |

The preference shares were issued for land having a fair value of £132,000. All ordinary shares issued were for cash. In November, 1,500 ordinary shares were purchased for the treasury at a per share cost of £9. In December, 500 treasury shares were sold for £11 per share. No dividends were declared in 2017.

***Instructions***

(a) Prepare the journal entries for the:

1. Issuance of preference shares for land.

2. Issuance of ordinary shares for cash.

3. Purchase of treasury shares (ordinary) for cash.

4. Sale of treasury shares for cash.

(b) Prepare the equity section at December 31, 2017.

Total equity £2,806,000

**P11-7A** *Prepare dividend entries and equity section*.

(LO 5, 7)

On January 1, 2017, Primo Corporation had the following equity accounts.

|  |  |
| --- | --- |
| Share Capital—Ordinary (£10 par value, 75,000 shares |  |
| issued and outstanding) | £750,000 |
| Share Premium—Ordinary | 200,000 |
| Retained Earnings | 540,000 |

During the year, the following transactions occurred.

Jan. 15 Declared a £2 cash dividend per share to shareholders of record on January 31, payable February 15.

Feb. 15 Paid the dividend declared in January.

Apr. 15 Declared a 10% share dividend to shareholders of record on April 30, distributable May 15. On April 15, the market price of the shares was £15 per share.

May 15 Issued the shares for the share dividend.

July 1 Announced a 2-for-1 share split. The market price per share prior to the announcement was £15. (The new par value is £5.)

Dec. 1 Declared a £0.60 per share cash dividend to shareholders of record on December 15, payable January 10, 2018.

31 Determined that net income for the year was £260,000.

***Instructions***

(a) Journalize the transactions and the closing entries for net income and dividends.

(b) Enter the beginning balances, and post the entries to the equity accounts. (*Note:* Open additional equity accounts as needed.)

(c) Prepare an equity section at December 31.

Total equity £1,501,000

**\*P11-8A** *Prepare equity section; compute book value per share*.

(LO 7, 9)

The following equity accounts are in the ledger of Westin SE at December 31, 2017.

|  |  |
| --- | --- |
| Share Capital—Ordinary (€10 stated value) | €1,500,000 |
| Share Premium—Treasury | 6,000 |
| Share Premium—Ordinary | 690,000 |
| Share Premium—Preference | 42,400 |
| Share Capital—Preference (8%, €100 par, non-cumulative) | 360,000 |
| Retained Earnings | 776,000 |
| Treasury Shares—Ordinary (7,000 shares) | 92,000 |

***Instructions***

(a) Prepare an equity section at December 31, 2017.

Total equity €3,282,400

(b) Compute the book value per share of the ordinary shares, assuming the preference shares have a call price of €110 per share.

**\*P11-9A** *Prepare statement of changes in equity*.

(LO 7, 8)

On January 1, 2017, Chamblin AG had the following equity balances.

|  |  |
| --- | --- |
| Share Capital—Ordinary (400,000 shares issued) | CHF800,000 |
| Share Premium—Ordinary | 500,000 |
| Ordinary Share Dividends Distributable | 120,000 |
| Retained Earnings | 600,000 |

During 2017, the following transactions and events occurred.

1. Issued 60,000 CHF2 par value ordinary shares as a result of 15% share dividend declared on December 15, 2016.

2. Issued 25,000 ordinary shares for cash at CHF4 per share.

3. Purchased 22,000 ordinary shares for the treasury at CHF5 per share.

4. Declared and paid a cash dividend of CHF111,000.

5. Sold 8,000 treasury shares for cash at CHF5 per share.

6. Earned net income of CHF360,000.

***Instructions***

Prepare a statement of changes in equity for the year.

Total equity CHF2,299,000

**Problems: Set B**

**P11-1B** *Journalize share transactions, post, and prepare share capital section*.

(LO 2, 4, 7)

Welles plc was organized on January 1, 2017. It is authorized to issue 20,000 6%, £40 par value preference shares, and 500,000 no-par ordinary shares with a stated value of £1 per share. The following share transactions were completed during the first year.

Jan. 10 Issued 74,000 ordinary shares for cash at £3 per share.

Mar. 1 Issued 10,000 preference shares for cash at £43 per share.

Apr. 1 Issued 25,000 ordinary shares for land. The asking price of the land was £90,000. The company's estimate of fair value of the land was £75,000.

May 1 Issued 75,000 ordinary shares for cash at £4 per share.

Aug. 1 Issued 10,000 ordinary shares to attorneys in payment of their bill for £44,000 for services provided in helping the company organize.

Sept. 1 Issued 5,000 ordinary shares for cash at £6 per share.

Nov. 1 Issued 2,000 preference shares for cash at £45 per share.

***Instructions***

(a) Journalize the transactions.

(b) Post to the equity accounts. (Use J1 as the posting reference.)

(c) Prepare the share capital section of the statement of financial position at December 31, 2017.

Total share capital £1,191,000

**P11-2B** *Journalize and post treasury share transactions, and prepare equity section*.

(LO 3, 7)

Plover Limited had the following equity accounts on January 1, 2017: Share Capital—Ordinary (£1 par) £400,000, Share Premium—Ordinary £500,000, and Retained Earnings £100,000. In 2017, the company had the following treasury share transactions.

Mar. 1 Purchased 5,000 shares at £7 per share.

June 1 Sold 800 shares at £10 per share.

Sept. 1 Sold 1,700 shares at £9 per share.

Dec. 1 Sold 1,000 shares at £5 per share.

Plover uses the cost method of accounting for treasury shares. In 2017, the company reported net income of £80,000.

***Instructions***

(a) Journalize the treasury share transactions, and prepare the closing entry at December 31, 2017, for net income.

(b) Open accounts for (1) Share Premium—Treasury, (2) Treasury Shares, and (3) Retained Earnings. Post to these accounts using J12 as the posting reference.

Treasury Shares £10,500

(c) Prepare the equity section for Plover Corporation at December 31, 2017.

Total equity £1,073,300

**P11-3B** *Journalize and post transactions, prepare equity section*.

(LO 2, 3, 4, 7)

The equity accounts of Marya SA on January 1, 2017, were as follows.

|  |  |
| --- | --- |
| Share Capital—Preference (9%, €100 par, cumulative, 5,000 |  |
| shares authorized) | €300,000 |
| Share Capital—Ordinary (€3 stated value, 300,000 shares authorized) | 66,000 |
| Share Premium—Preference | 20,000 |
| Share Premium—Ordinary | 396,000 |
| Retained Earnings | 488,000 |
| Treasury Shares—Ordinary (5,000 shares) | 30,000 |

During 2017, the corporation had the following transactions and events pertaining to its equity.

Feb. 1 Issued 2,800 ordinary shares for €18,200.

Mar. 20 Purchased 1,200 additional treasury shares (ordinary) at €6 per share.

June 14 Sold 4,000 treasury shares (ordinary) for €26,000.

Sept. 3 Issued 2,000 ordinary shares for a patent valued at €14,000.

Dec. 31 Determined that net income for the year was €365,000.

No dividends were declared during the year.

***Instructions***

(a) Journalize the transactions and the closing entry for net income.

(b) Enter the beginning balances in the accounts and post the journal entries to the equity accounts. (Use J1 as the posting reference.)

(c) Prepare an equity section at December 31, 2017, including the disclosure of the preference dividends in arrears.

Total equity €2,250,000

**P11-4B** *Prepare dividend entries and equity section*.

(LO 5, 7)

On January 1, 2017, Belgium Industries SA had the following equity accounts.

|  |  |
| --- | --- |
| Share Capital—Ordinary (€4 par value, 250,000 shares |  |
| issued and outstanding) | €1,000,000 |
| Share Premium—Ordinary | 200,000 |
| Retained Earnings | 840,000 |

During the year, the following transactions occurred.

Jan. 15 Declared a €1 cash dividend per share to shareholders of record on January 31, payable February 15.

Feb. 15 Paid the dividend declared in January.

Apr. 15 Declared a 10% share dividend to shareholders of record on April 30, distributable May 15. On April 15, the market price was €11 per share.

May 15 Issued the shares for the share dividend.

July 1 Announced a 2-for-1 share split. The market price per share prior to the announcement was €12. (The new par value is €2.)

Dec. 1 Declared a €0.50 per share cash dividend to shareholders of record on December 15, payable January 10, 2018.

31 Determined that net income for the year was €264,000.

***Instructions***

(a) Journalize the transactions and the closing entries for net income and dividends.

(b) Enter the beginning balances, and post the entries to the equity accounts. (*Note:* Open additional equity accounts as needed.)

(c) Prepare an equity section at December 31.

Total equity €1,779,000

**P11-5B** *Prepare retained earnings statement and equity section*.

(LO 6, 7)

On December 31, 2016, Andes Company SA had 1,500,000 €10 par ordinary shares issued and outstanding. The equity accounts at December 31, 2016, had the following balances.

|  |  |
| --- | --- |
| Share Capital—Ordinary | €15,000,000 |
| Share Premium—Ordinary | 1,500,000 |
| Retained Earnings | 900,000 |

Transactions during 2017 and other information related to equity accounts were as follows.

1. On January 10, 2017, Andes issued at €104 per share 100,000 €100 par value, 7% cumulative preference shares.

2. On February 8, 2017, Andes reacquired 16,000 ordinary shares for €14 per share.

3. On June 8, 2017, Andes declared a cash dividend of €1 per share on the ordinary shares outstanding, payable on July 10, 2017, to shareholders of record on July 1, 2017.

4. On December 15, 2017, Andes declared the yearly cash dividend on preference shares, payable January 10, 2018, to shareholders of record on December 15, 2017.

5. Net income for the year is €3,600,000.

6. It was discovered that depreciation expense had been understated in 2016 by €58,000.

***Instructions***

(a) Prepare a retained earnings statement for the year ended December 31, 2017.

(b) Prepare the equity section of Andes's statement of financial position at December 31, 2017.

Total equity €28,934,000

**P11-6B** *Prepare retained earnings statement and equity section, and allocation of dividends*.

(LO 5, 6, 7)

The ledger of Fortaleza SA at December 31, 2017, after the books have been closed, contains the following equity accounts.

|  |  |
| --- | --- |
| Share Capital—Preference (8,000 shares issued) | R$ 800,000 |
| Share Capital—Ordinary (400,000 shares issued) | 2,000,000 |
| Share Premium—Preference | 100,000 |
| Share Premium—Ordinary | 1,220,000 |
| Ordinary Share Dividends Distributable | 200,000 |
| Retained Earnings | 2,520,000 |

A review of the accounting records reveals the following.

1. No errors have been made in recording 2017 transactions or in preparing the closing entry for net income.

2. Preference shares are 8%, R$100 par value, non-cumulative, and callable at R$125. Since January 1, 2016, 8,000 shares have been outstanding; 20,000 shares are authorized.

3. Ordinary shares are no-par with a stated value of R$5 per share; 600,000 shares are authorized.

4. The January 1 balance in Retained Earnings was R$2,450,000.

5. On October 1, 100,000 ordinary shares were sold for cash at R$8 per share.

6. A cash dividend of R$500,000 was declared and properly allocated to preference and ordinary shares on November 1. No dividends were paid to preference shareholders in 2016.

7. On December 31, a 10% ordinary share dividend was declared out of retained earnings on ordinary shares when the market price per share was R$10.

8. Net income for the year was R$970,000.

9. On December 31, 2017, the directors authorized disclosure of a R$100,000 restriction of retained earnings for plant expansion. (Use Note A.)

***Instructions***

(a) Reproduce the Retained Earnings account (T-account) for 2017.

(b) Prepare a retained earnings statement for 2017.

(c) Prepare an equity section at December 31, 2017.

Total equity R$6,840,000

(d) Compute the allocation of the cash dividend to preference and ordinary shares.

**\*P11-7B** *Prepare equity section; compute book value per share*.

(LO 7, 9)

The following equity accounts are in the ledger of Crivello SpA at December 31, 2017.

|  |  |
| --- | --- |
| Share Capital—Ordinary (€3 stated value) | €2,400,000 |
| Share Premium—Treasury | 10,000 |
| Share Premium—Ordinary | 1,500,000 |
| Share Premium—Preference | 220,000 |
| Share Capital—Preference (8%, €50 par, non-cumulative) | 800,000 |
| Retained Earnings | 1,448,000 |
| Treasury Shares—Ordinary (10,000 shares) | 68,000 |

***Instructions***

(a) Prepare an equity section at December 31, 2017.

Total equity €6,160,000

(b) Compute the book value per share of the ordinary shares, assuming the preference shares have a call price of €60 per share.

COMPREHENSIVE PROBLEM

**CP11-1.** Voltaire Corporation's statement of financial position at December 31, 2016, is presented below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **VOLTAIRE ENTERPRISES SA**  **Statement of Financial Position**  **December 31, 2016** | | | | |
| Land | €40,000 |  | Share capital—ordinary |  |
| Buildings | 130,000 |  | (€1 par) | €50,000 |
| Accumulated depreciation—buildings | (20,000) |  | Retained earnings | 147,400 |
| Supplies | 4,400 |  | Accounts payable | 25,600 |
| Accounts receivable | 45,500 |  |  | €223,000 |
| Allowance for doubtful |  |  |  |  |
| accounts | (1,500) |  |  |  |
| Cash | 24,600 |  |  |  |
|  | €223,000 |  |  |  |

During 2017, the following transactions occurred.

1. On January 1, 2017, Voltaire issued 1,500 €20 par, 6% preference shares for €33,000.

2. On January 1, 2017, Voltaire also issued 900 €1 par value ordinary shares for €6,300.

3. Voltaire performed services for €276,000 on account.

4. On April 1, 2017, Voltaire collected fees of €36,000 in advance for services to be performed from April 1, 2017, to March 31, 2018.

5. Voltaire collected €267,000 from customers on account.

6. Voltaire bought €26,100 of supplies on account.

7. Voltaire paid €32,200 on accounts payable.

8. Voltaire reacquired 400 ordinary shares on June 1, 2017, for €8 per share.

9. Paid other operating expenses of €188,200.

10. On December 31, 2017, Voltaire declared the annual preference share dividend and a €0.50 per share dividend on the outstanding ordinary shares, all payable on January 15, 2018.

11. An account receivable of €1,300 which originated in 2016 is written off as uncollectible.

Adjustment data:

1. A count of supplies indicates that €5,900 of supplies remain unused at year-end.

2. Recorded revenue recognized from item 4 above.

3. The allowance for doubtful accounts should have a balance of €3,500 at year-end.

4. Depreciation is recorded on the building on a straight-line basis based on a 30-year life and a residual value of €10,000.

5. The income tax rate is 30%. (*Hint:* Prepare the income statement up to income before taxes and multiply by 30% to compute the amount.)

***Instructions***

(You may want to set up T-accounts to determine ending balances.)

(a) Prepare journal entries for the transactions listed above and adjusting entries.

(b) Prepare an adjusted trial balance at December 31, 2017.

Totals €647,620

(c) Prepare an income statement and a retained earnings statement for the year ending December 31, 2017, and a classified statement of financial position as of December 31, 2017.

Net income €58,030

Tot. assets €344,900

MATCHA CREATIONS

(*Note*: This is a continuation of the Matcha Creations problem from Chapter 1-10.)

**MC11**Mei-ling and her friend Curtis Lesperance decide that they can benefit from joining Matcha Creations and Curtis's coffee shop. In the first part of this problem, they come to you with questions about setting up a corporation for their new business. In the second part of the problem, they want your help in preparing financial information following the first year of operations of their new business, Matcha & Coffee Creations.

**Go to the book's companion website**, **www.wiley.com/college/weygandt**, **to see the completion of this problem**.

**Broadening Your Perspective**

Financial Reporting and Analysis

**BYP11-1. Financial Reporting Problem: TSMC, Ltd. (TWN)**

The equity section for TSMC is shown in Appendix A. The complete annual report, including the notes to the financial statements (use Note 24), is available in the Investor Relations section of the company's website at *www.tsmc.com*.

***Instructions***

(a) What is the par or stated value per share of TSMC's ordinary shares?

(b) What percentage of TSMC's authorized ordinary shares was issued at December 31, 2013?

(c) How many ordinary shares were outstanding at December 31, 2013, and at December 31, 2012?

**BYP11-2. Comparative Analysis Problem: Nestlé SA (CHE) vs. Petra Foods Ltd. (SGP)**

Nestlé's financial statements are presented in Appendix B, and its complete annual report is available at *www.nestle.com*. Petra Food's financial statements are presented in Appendix C, and its complete annual report is available at *www.petrafoods.com*.

***Instructions***

Use the financial statements provided in this text, as well as the notes to the financial statements provided at each company's website, to answer the following questions.

(a) What was the amount of basic earnings per share reported by each company for the most recent fiscal year shown? (For Petra Foods, use earnings related to continuing operations.)

(b) Compute the return on ordinary shareholders' equity for both companies for the most recent fiscal year shown. (For Petra Foods, use earnings related to continuing operations.) Discuss the relative profitability of the two companies.

(c) What was the total amount of dividends paid by each company for the most recent fiscal year shown?

**BYP11-3. Real-World Focus**

Use the equity section of an annual report and identify the major components.

***Address:* www.annualreports.com**, or go to **www.wiley.com/college/weygandt**

***Steps***

1. From Annual Reports Homepage, choose **Search by Alphabet**, and choose a letter.

2. Select a particular company.

3. Choose Annual Report.

4. Follow instructions below.

***Instructions***

Answer the following questions.

(a) What is the company's name?

(b) What classes of share capital has the company issued?

(c) For each class:

1. How many shares are authorized, issued, and/or outstanding?

2. What is the par value?

(d) What are the company's retained earnings?

(e) Has the company acquired treasury shares? How many?

Critical Thinking

**BYP11-4. Decision-Making Across the Organization**

The shareholders' meeting for Kissinger Company SE has been in progress for some time. The chief financial officer for Kissinger is presently reviewing the company's financial statements and is explaining the items that comprise the equity section of the statement of financial position for the current year. The equity section of Kissinger at December 31, 2017, is as follows.

|  |  |
| --- | --- |
| **KISSINGER COMPANY SE**  **Statement of Financial Position (partial)**  **December 31, 2017** | |
| Share capital—preference, authorized 1,000,000 shares | € 600,000 |
| cumulative, €100 par value, €8 per share, 6,000 |  |
| shares issued and outstanding |  |
| Share capital—ordinary, authorized 5,000,000 shares, €1 par |  |
| value, 3,000,000 shares issued, and 2,700,000 |  |
| outstanding | 3,000,000 |
| Share premium—preference | 50,000 |
| Share premium—ordinary | 25,000,000 |
| Retained earnings | 900,000 |
| Less: Treasury shares (300,000 shares) | 9,300,000 |
| Total equity | €20,250,000 |

At the meeting, shareholders have raised a number of questions regarding the equity section.

***Instructions***

With the class divided into groups, answer the following questions as if you were the chief financial officer for Kissinger Company SE.

(a) “What does the cumulative provision related to the preference shares mean?”

(b) “I thought the ordinary shares were presently selling at €29.75, but the company has the shares stated at €1 per share. How can that be?”

(c) “Why is the company buying back its ordinary shares? Furthermore, the treasury shares have a debit balance because they are subtracted from equity. Why are treasury shares not reported as an asset if they have a debit balance?”

**BYP11-5. Communication Activity**

Jerrod Platt, your uncle, is an inventor who has decided to incorporate. Uncle Jerrod knows that you are an accounting major at U.N.O. In a recent letter to you, he ends with the question, “I'm filling out an incorporation application. Can you tell me the difference in the following terms: (1) authorized shares, (2) issued shares, (3) outstanding shares, and (4) preference shares?”

***Instructions***

In a brief note, differentiate for Uncle Jerrod among the four different share terms. Write the letter to be friendly, yet professional.

**BYP11-6. Ethics Case**

The R&D division of Hancock Chemical Ltd. has just developed a chemical for sterilizing the vicious Brazilian “killer bees” which are invading Mexico and the southern states of the United States. The president of Hancock is anxious to get the chemical on the market to boost the company's profits. He believes his job is in jeopardy because of decreasing sales and profits. Hancock has an opportunity to sell this chemical in Central American countries, where the laws are much more relaxed than in the United States.

The director of Hancock's R&D division strongly recommends further testing in the laboratory for side-effects of this chemical on other insects, birds, animals, plants, and even humans. He cautions the president, “We could be sued from all sides if the chemical has tragic side-effects that we didn't even test for in the labs.” The president answers, “We can't wait an additional year

for your lab tests. We can avoid losses from such lawsuits by establishing a separate wholly owned corporation to shield Hancock Ltd. from such lawsuits. We can't lose any more than our investment in the new corporation, and we'll invest in just the patent covering this chemical. We'll reap the benefits if the chemical works and is safe, and avoid the losses from lawsuits if it's a disaster.” The following week, Hancock creates a new wholly owned corporation called Badell Ltd., sells the chemical patent to it for $10, and watches the spraying begin.

***Instructions***

(a) Who are the stakeholders in this situation?

(b) Are the president's motives and actions ethical?

(c) Can Hancock shield itself against losses of Badell Ltd.?

A LOOK at U.S. GAAP

The accounting for transactions related to equity, such as issuance of shares and purchase of treasury shares, are similar under both IFRS and GAAP. Major differences relate to terminology used, introduction of items such as revaluation surplus, and presentation of equity information. The basic accounting for cash and share dividends is essentially the same under both GAAP and IFRS although IFRS terminology may differ.

**Key Points**

* + Many countries have a different mix of investor groups than in the United States. For example, in Germany, financial institutions like banks are not only major creditors of corporations but often are the largest corporate shareholders as well. In the United States, Asia, and the United Kingdom, many companies rely on substantial investment from private investors.
  + There are often terminology differences for equity accounts. The following summarizes some of the common differences in terminology.

|  |  |  |
| --- | --- | --- |
| **GAAP** |  | **IFRS** |
| Common stock |  | Share capital—ordinary |
| Stockholders |  | Shareholders |
| Authorized stock |  | Authorized share capital |
| Preferred stock |  | Share capital—preference |
| Paid-in capital |  | Issued/allocated share capital |
| Paid-in capital in excess of par—common stock |  | Share premium—ordinary |
| Paid-in capital in excess of par—preferred stock |  | Share premium—preference |
| Retained earnings |  | Retained earnings or Retained profits |
| Retained earnings deficit |  | Accumulated losses |
| Accumulated other comprehensive income |  | General reserve and other reserve accounts |

As an example of how similar transactions use different terminology under GAAP, consider the accounting for the issuance of 1,000 shares of $1 par value ordinary shares for $5 per share. Under GAAP, the entry is as follows.

|  |  |  |
| --- | --- | --- |
| Cash | 5,000 |  |
| Common Stock |  | 1,000 |
| Paid-in Capital in Excess of Par—Common Stock |  | 4,000 |

* + Equity is given various descriptions under IFRS, such as shareholders' equity, owners' equity, capital and reserves, and shareholders' funds.

**Similarities**

* + The accounting related to prior period adjustment is essentially the same under IFRS and GAAP. IFRS addresses the accounting for errors in *IAS 8* (“Accounting Policies, Changes in Accounting Estimates, and Errors”). One area where IFRS and GAAP differ in reporting relates to error corrections in previously issued financial statements. While IFRS requires restatement with some exceptions, GAAP does not permit any exceptions.
  + The income statement using IFRS and GAAP is presented in a one- or two-statement format. The single-statement approach includes all items of income and expense, as well as each component of other comprehensive income or loss by its individual characteristic. In the two-statement approach, a traditional income statement is prepared. It is then followed by a statement of comprehensive income, which starts with net income or loss and then adds other comprehensive income or loss items. Regardless of which approach is reported, income tax expense is required to be reported.
  + The computations related to earnings per share are essentially the same under IFRS and GAAP.

**Differences**

* + As indicated in the chapter, under IFRS, the term *reserves* is used to describe all equity accounts other than those arising from contributed (paid-in) capital. This would include, for example, reserves related to retained earnings, asset revaluations, and fair value differences.
  + GAAP has always discouraged the use of the term “Reserves” in any context. Under GAAP, comprehensive income items are reported in the equity section of the statement of financial position in a line labeled accumulated other comprehensive income.
  + The accounting for treasury shares differs somewhat between IFRS and GAAP. However, many of the differences are beyond the scope of this course. Like IFRS, GAAP does not allow a company to record gains or losses on purchases of its own shares. One difference worth noting is that, when a company purchases its own shares, IFRS treats it as a reduction of equity, but it does not specify which particular equity accounts are to be affected. Therefore, it could be shown as an increase to a contra-equity account (Treasury Shares) or a decrease to retained earnings or share capital.
  + A major difference between IFRS and GAAP relates to the account Revaluation Surplus. Revaluation surplus arises under IFRS because companies are permitted to revalue their property, plant, and equipment to fair value under certain circumstances. This account is part of general reserves under IFRS and is not considered contributed capital. GAAP does not permit revaluation of property, plant, and equipment.
  + IFRS often uses terms such as **retained profits**or **accumulated profit or loss**to describe retained earnings. The term **retained earnings**is also often used under GAAP.

**Looking to the Future**

The IASB and the FASB are currently working on a project related to financial statement presentation. An important part of this study is to determine whether certain line items, subtotals, and totals should be clearly defined and required to be displayed in the financial statements. For example, it is likely that the statement of changes in equity and its presentation will be examined closely.

Both the IASB and FASB are working toward convergence of any remaining differences related to earnings per share computations. This convergence will deal with highly technical changes beyond the scope of this textbook.

**GAAP Practice**

**GAAP Self-Test Questions**

**1.** Under GAAP, a purchase by a company of its own shares is recorded by:

(a) an increase in Treasury Stock.

(b) a decrease in accumulated comprehensive income.

(c) a decrease in retained earnings.

(d) All of these are acceptable treatments.

**Answer**

(a) an increase in Treasury Stock.

**2.** Which of the following is **true**?

(a) In the United States, the primary corporate shareholders are financial institutions.

(b) Share capital means total assets under IFRS.

(c) The IASB and FASB are presently studying how financial statement information should be presented.

(d) The accounting for treasury shares differs extensively between GAAP and IFRS.

**Answer**

(c) The IASB and FASB are presently studying how financial statement information should be presented.

**3.** Under GAAP, the amount of capital received in excess of par value would be credited to:

(a) Retained Earnings.

(b) Paid-in Capital in Excess of Par—Common Stock.

(c) Share Premium.

(d) Par value is not used under GAAP.

**Answer**

(b) Paid-in Capital in Excess of Par—Common Stock.

**4.** Which of the following is **false**?

(a) Under GAAP, companies cannot record gains on transactions involving their own shares.

(b) Under IFRS, companies cannot record gains on transactions involving their own shares.

(c) Under GAAP, the income statement is presented in a one- or two-statement format.

(d) Under IFRS, a company records a revaluation surplus when it experiences an increase in the price of its ordinary shares.

**Answer**

(d) Under IFRS, a company records a revaluation surplus when it experiences an increase in the price of its ordinary shares.

**5.** Which of the following does **not**represent a pair of GAAP/IFRS-comparable terms?

(a) Additional paid-in capital/Share premium.

(b) Treasury stock/Repurchase reserve.

(c) Common stock/Share capital.

(d) Preferred stock/Preference shares.

**Answer**

(b) Treasury stock/Repurchase reserve.

**6.** The basic accounting for cash dividends and share dividends:

(a) is different under IFRS versus GAAP.

(b) is the same under IFRS and GAAP.

(c) differs only for the accounting for cash dividends between GAAP and IFRS.

(d) differs only for the accounting for share dividends between GAAP and IFRS.

**Answer**

(b) is the same under IFRS and GAAP.

**7.** Which item in **not**considered part of reserves?

(a) Accumulated other comprehensive income.

(b) Revaluation surplus.

(c) Retained earnings.

(d) Issued shares.

**Answer**

(d) Issued shares.

**8.** Under GAAP, a statement of comprehensive income must include:

(a) accounts payable.

(b) retained earnings.

(c) income tax expense.

(d) preferred stock.

**Answer**

(c) income tax expense.

**9.** Which term is used to describe total equity under GAAP?

(a) Other comprehensive income.

(b) Capital and reserves.

(c) Stockholders' equity.

(d) All of the above.

**Answer**

(c) Stockholders' equity.

**10.** Earnings per share computations related to IFRS and GAAP:

(a) are essentially similar.

(b) result in an amount referred to as earnings per share.

(c) must deduct preferred (preference) dividends when computing earnings per share.

(d) All of the above.

**Answer**

(d) All of the above.

**GAAP Exercises**

**GAAP11-1.** On May 10, Romano Corporation issues 1,000 shares of $10 par value ordinary shares for cash at $18 per share. Journalize the issuance of the shares using GAAP.

**GAAP11-2.** Ingram Corporation has the following accounts at December 31: Common Stock, $10 par, 5,000 shares issued, $50,000; Paid-in Capital in Excess of Par—Common Stock, $10,000; Retained Earnings, $45,000; and Treasury Stock, 500 shares, $11,000. Prepare the stockholders' equity section of the balance sheet (statement of financial position) using GAAP.

**GAAP11-3.** Sorocaba Co. had the following transactions during the current period.

Mar. 2 Issued 5,000 shares of $1 par value ordinary shares to attorneys in payment of a bill for $30,000 for services provided in helping the company to incorporate.

June 12 Issued 60,000 shares of $1 par value ordinary shares for cash of $375,000.

July 11 Issued 1,000 shares of $100 par value preference shares for cash at $110 per share.

Nov. 28 Purchased 2,000 treasury shares for $80,000.

**Instructions**

Journalize the above transactions using GAAP.

**GAAP Financial Reporting Problem: Apple Inc.**

**GAAP11-4.** The financial statements of Apple are presented in Appendix D. The company's complete annual report, including the notes to its financial statements, is available at *http://investor.apple.com*.

**Instructions**

Use the company's financial statements and notes to the financial statements to answer the following questions.

(a) What is the par or stated value per share of Apple's common stock?

(b) What percentage of Apple's authorized common stock was issued at September 28, 2013? (Round to the nearest full percent.)

(c) How many shares of common stock were outstanding at September 29, 2012, and at September 28, 2013?

(d) Calculate the earnings per share and return on common stockholders' equity ratio for 2013.