

# Chapter 11

## Reporting and Interpreting Stockholders' Equity

### E11-6.

Req. 1

Common stock, class A at par value:  $118,529,925 \times \$0.001 = \underline{\$118,530}$

Req. 2

Number of shares outstanding current year: 118,529,925 shares issued minus 73,099,319 shares held as treasury stock = 45,430,606.

Number of shares outstanding last year: 117,706,523 shares issued minus 61,740,439 shares held as treasury stock = 55,966,084.

Req. 3

Retained earnings last year: \$3,107,344,000 minus net income for the current year \$463,909,000 plus dividends for the current year \$10,002,000 = \$2,653,437,000

Req. 4

As of the end of the current year, treasury stock had decreased assets by \$1,846,312,000.

Req. 5

Treasury stock transactions decreased stockholders' equity by \$490,786,000 (\$1,846,312,000 - \$1,355,526,000).

Req. 6

At the end of the current year, treasury stock cost per share:  $\$1,846,312,000 \div 73,099,319 \text{ shares} = \underline{\$25.26}$ .

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**E11-16.**

Req. 1

Feb. 1:

Treasury stock (+XSE, -SE) (160 shares x \$20).....	3,200	
Cash (-A).....		3,200

July 15:

Cash (+A) (80 shares x \$21) .....	1,680	
Treasury stock (-XSE, +SE) (80 shares x \$20) .....		1,600
Additional paid-in capital (+SE).....		80

Sept. 1:

Cash (+A) (50 shares x \$19) .....	950	
Additional paid-in capital (-SE) .....	50	
Treasury stock (-XSE, +SE) (50 shares x \$20) .....		1,000

Req. 2

Dividends are not paid on treasury stock. Therefore, the amount of total cash dividends paid is reduced when a company repurchases outstanding shares.

Req. 3

The sale of treasury stock for more or less than its original purchase price does not have an impact on net income. The transaction affects only balance sheet accounts. The cash received from the sale of treasury stock is a financing cash inflow on the statement of cash flows.

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**E11–19.**

<i>Item</i>	<i>Effect of Cash Dividend (Preferred)</i>	<i>Effect of Stock Dividend (Common)</i>
Assets	<ul style="list-style-type: none"><li>–No effect on declaration date.</li><li>–Decreased by the amount of the dividend (\$7,200) on payment date.</li></ul>	No effect because no assets are disbursed.
Liabilities	<ul style="list-style-type: none"><li>–Increased on declaration date (\$7,200).</li><li>–Decreased on payment date (\$7,200).</li></ul>	No effect—no entry on declaration date because no contractual liability is created (no assets are disbursed).
Stockholders' equity	Decreased by the amount of the dividend on declaration date (retained earnings decreased by \$7,200).	<ul style="list-style-type: none"><li>–Total stockholders' equity not changed.</li><li>–Retained earnings reduced and contributed capital increased by same amount (\$120,000).</li></ul>

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**E11-24.**

Comparative results:

Items	Before Dividend and Split	After Stock Dividend	After Cash Dividend
Common stock account	\$640,000	\$896,000	\$640,000
Par per share	\$8	\$8	\$ 8
Shares outstanding	80,000	112,000	80,000
Additional paid-in capital	\$ 280,000	\$ 280,000	\$ 280,000
Retained earnings	\$ 2,100,000	\$ 1,844,000	\$ 1,940,000
Total stockholders' equity	\$3,020,000	\$3,020,000	\$2,860,000

Comments: The stock dividend does not change total stockholders' equity because it does not involve the disbursement of assets. The stock dividend reduced retained earnings and increased the common stock account by the same amount; it increased shares outstanding but did not change par value per share. The cash dividend required the disbursement of assets (cash) and a similar reduction of the retained earnings account in the stockholders' equity section of the balance sheet.

Req. 2

The stock dividend will not affect the statement of cash flows. The amount of the cash dividend (\$160,000) will be reported as a financing activity cash outflow on the statement of cash flows.

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