CHAPTER 13

Corporations: Organization and Capital Stock Transactions

ASSIGNMENT CLASSIFICATION TABLE

Study Objectives	Questions	Brief Exercises	Exercises	A Problems	B Problems
1. Identify the major characteristics of a corporation.	1, 2, 3, 4	1	1, 2		
2. Differentiate between paid-in capital and retained earnings.	5, 6, 8, 9, 11, 14, 15	2	2	3A, 4A	3B, 4B
3. Record the issuance of common stock.	7, 10, 11, 12	3, 4, 5	3, 4, 5, 6, 11, 13	1A, 3A, 4A, 6A	1B, 3B, 4B, 6B
4. Explain the accounting for treasury stock.	7, 13, 14, 15	6	5, 7, 8, 11, 13	2A, 3A, 6A	2B, 3B, 6B
5. Differentiate preferred stock from common stock.	16	7	5, 9, 10, 11, 13	1A, 3A, 4A, 6A	1B, 3B, 4B, 6B
6. Prepare a stockholders' equity section.	19	8	9, 12, 13, 14, 15	1A, 2A, 3A, 4A, 5A, 6A	1B, 2B, 3B, 4B, 5B, 6B
7. Compute book value per share.	17, 18	9	16		

ASSIGNMENT CHARACTERISTICS TABLE

Problem Number	Description	Difficulty Level	Time Allotted (min.)
1A	Journalize stock transactions, post, and prepare paid-in capital section.	Simple	30–40
2A	Journalize and post treasury stock transactions, and prepare stockholders' equity section.	Moderate	30–40
3A	Journalize and post transactions, prepare stockholders' equity section.	Moderate	40–50
4A	Journalize and post stock transactions, and prepare stockholders' equity section.	Moderate	30–40
5A	Prepare stockholders' equity section.	Simple	20–30
6A	Prepare entries for stock transactions and prepare stockholders' equity section.	Moderate	20–30
1B	Journalize stock transactions, post, and prepare paid-in capital section.	Simple	30–40
2B	Journalize and post treasury stock transactions, and prepare stockholders' equity section.	Moderate	30–40
3B	Journalize and post transactions, prepare stockholders' equity section.	Complex	40–50
4B	Journalize and post stock transactions, and prepare stockholders' equity section.	Moderate	30–40
5B	Prepare stockholders' equity section.	Simple	20–30
6B	Prepare entries for stock transactions and prepare stockholders' equity section.	Moderate	20–30

BLOOM'S TAXONOMY TABLE

Correlation Chart between Bloom's Taxonomy, Study Objectives and End-of-Chapter Exercises and Problems

Study Objective	Knowledge	Comprehension	Application	Analysis	Synthesis	Evaluation
1. Identify the major characteristics of a corporation.	Q13-4 BE13-1 E13-1 E13-2	Q13-1 Q13-2 Q13-3				
2. Differentiate between paid-in capital and retained earnings.	Q13-5 E13-2	Q13-6 Q13-11 Q13-8 Q13-14 Q13-9 Q13-15	BE13-2 P13-3B P13-3A P13-4B P13-4A			
3. Record the issuance of common stock.		Q13-10 Q13-11 Q13-12 E13-13	Q13-7 E13-5 P13-4A BE13-3 E13-6 P13-6A BE13-4 E13-11 P13-1B BE13-5 E13-13 P13-3B E13-3 P13-1A P13-4B E13-4 P13-3A P13-6B			
4. Explain the accounting for treasury stock.		Q13-13 E13-13 Q13-14 Q13-15	Q13-7 E13-11 P13-2B BE13-6 E13-13 P13-3B E13-5 P13-2A P13-6B E13-7 P13-3A E13-8 P13-6A			
5. Differentiate preferred stock from common stock.		Q13-16 E13-13	BE13-7 E13-13 P13-1B E13-5 P13-1A P13-3B E13-9 P13-3A P13-4B E13-10 P13-4A P13-6B E13-11 P13-6A			
6. Prepare a stockholders' equity section.		Q13-19 E13-13 E13-15	BE13-8 P13-2A P13-2B E13-9 P13-3A P13-3B E13-12 P13-4A P13-4B E13-13 P13-5A P13-5B E13-14 P13-6A P13-6B P13-1A P13-1B			
7. Compute book value per share.	Q13-17	Q13-18	BE13-9 E13-16			
Broadening Your Perspective		Decision Making Across the Organization Exploring the Web	Financial Reporting Comparative Analysis		Communication All About You	Ethics Case

ANSWERS TO QUESTIONS

1. (a) Separate legal existence. A corporation is separate and distinct from its owners and it acts in its own name rather than in the name of its stockholders. In contrast to a partnership, the acts of the owners (stockholders) do not bind the corporation unless the owners are duly appointed agents of the corporation.
(b) Limited liability of stockholders. Because of its separate legal existence, creditors of a corporation ordinarily have recourse only to corporate assets to satisfy their claims. Thus, the liability of stockholders is normally limited to their investment in the corporation.
(c) Transferable ownership rights. Ownership of a corporation is shown in shares of capital stock. The shares are transferable units. Stockholders may dispose of part or all of their interest by simply selling their stock. The transfer of ownership to another party is entirely at the discretion of the stockholder.

2. (a) Corporation management is an advantage to a corporation because it can hire professional managers to run the company. Corporation management is a disadvantage to a corporation because it prevents owners from having an active role in directly managing the company.
(b) Two other disadvantages of a corporation are government regulations and additional taxes. A corporation is subject to numerous state and federal regulations. For example, state laws prescribe the requirements for issuing stock, and federal securities laws govern the sale of stock to the general public. Corporations must pay both federal and state income taxes. These taxes are substantial. In addition, stockholders must pay income taxes on cash dividends received.

3. (a) (1) A charter is a document that creates a corporation. A charter is also referred to as the articles of incorporation.
(2) The by-laws are the internal rules and procedures for conducting the affairs of a corporation. They also indicate the powers of the stockholders, directors, and officers of the corporation.
(3) Organization costs are costs incurred in the formation of a corporation. Organization costs are expensed as incurred.
(b) Incorrect. A corporation must be incorporated in only one state. It is to the company's advantage to incorporate in a state whose laws are favorable to the corporate form of business organization. A corporation may incorporate in a state in which it does not have a headquarters office or major operating facilities.

4. In the absence of restrictive provisions, the basic ownership rights of common stockholders are the rights to:
(1) vote in the election of board of directors and in corporate actions that require stockholders' approval.
(2) share in corporate earnings through the receipt of dividends.
(3) keep the same percentage ownership when new shares of common stock are issued (the preemptive right).
(4) share in assets upon liquidation.

5. (a) The two principal components of stockholders' equity for a corporation are paid-in capital (the investment of cash and other assets in the corporation by stockholders in exchange for capital stock) and retained earnings. The principal source of retained earnings is net income.
(b) Paid-in capital is the term used to describe the total amount paid-in on capital stock. Paid-in capital may result through the sale of common stock, preferred stock, or treasury stock.

6. Each of the three basic financial statements for a corporation differs from those for a proprietorship. The income statement for a corporation will have income tax expense. For a corporation, a retained earnings statement is prepared to show the changes in retained earnings during the period. In the balance sheet, the owner's equity section is called the stockholders' equity section.

7. The maximum number of shares that a corporation is legally allowed to issue is the number authorized. Hawes Corporation is authorized to sell 100,000 shares. Of these shares, 70,000 shares have been issued. Outstanding shares are those issued shares which have not been reacquired by the corporation; in other words, issued shares less treasury shares. Hawes has 63,000 shares outstanding (70,000 issued less 7,000 treasury).

8. The par value of common stock has no effect on its market value. Par value is a legal amount per share which usually indicates the minimum amount at which a share of stock can be issued. The market value of stock depends on a number of factors, including the company's anticipated future earnings, its expected dividend rate per share, its current financial position, the current state of the economy, and the current state of the securities markets. Therefore, either investment mentioned in the question could be the better investment, based on the above factors and future potential. The relative par values should have no effect on the investment decision.

9. Among the factors which influence the market value of stock are the company's anticipated future earnings, its expected dividend rate per share, its current financial position, the current state of the economy, and the current state of the securities markets.

10. The issuance of stock does not have any effect on the issuer's net income. If stock is issued at a price above par, the excess is credited to a stockholders' equity account, Paid-in Capital in Excess of Par. This excess is part of the company's paid-in capital.

11. The sale of common stock below par value is not permitted in most states.

12. When stock is issued for services or noncash assets, the cost should be measured at either the fair market value of the consideration given up (in this case, the stock) or the fair market value of the consideration received (in this case, the land), whichever is more clearly evident. In this case, the fair market value of the stock is more objectively determinable than that of the land, since the stock is actively traded in the securities market. The appraised value of the land is merely an estimate of the land's value, while the market price of the stock is the amount the stock was actually worth on the date of exchange. Therefore, the land should be recorded at $95,000, the common stock at $20,000, and the excess ($75,000) as paid-in capital in excess of par value.

13. A corporation may acquire treasury stock: (1) to reissue the shares to officers and employees under bonus and stock compensation plans, (2) to increase trading of the company's stock in the securities market in the hope of enhancing its market value, (3) to have additional shares available for use in the acquisition of other companies, (4) to reduce the number of shares outstanding and, thereby, increase earnings per share, and (5) to rid the company of disgruntled investors.

14. When treasury stock is purchased, treasury stock is debited and cash is credited at cost ($12,000 in this example). Treasury stock is a contra stockholders' equity account and cash is an asset. Thus, this transaction: (a) has no effect on net income, (b) decreases total assets, (c) has no effect on total paid-in capital, and (d) decreases total stockholders' equity.

15. When treasury stock is resold at a price above original cost, Cash is debited for the amount of the proceeds ($18,000), Treasury Stock is credited at cost ($12,000), and the excess ($6,000) is credited to Paid-in Capital from Treasury Stock. Cash is an asset, and the other two accounts are part of stockholders' equity. Therefore, this transaction: (a) has no effect on net income, (b) increases total assets, (c) increases total paid-in capital, and (d) increases total stockholders' equity.

16. (a) Common stock and preferred stock both represent ownership of the corporation. Common stock signifies the basic residual ownership; preferred stock is ownership with certain privileges or preferences. Preferred stockholders typically have a preference as to dividends and as to assets in the event of liquidation. However, preferred stockholders generally do not have voting rights.

(b) Some preferred stocks possess the additional feature of being cumulative. Most preferred stock is cumulative—preferred stockholders must be paid both current-year dividends and unpaid prior year dividends before common stockholders receive any dividends.

(c) Dividends in arrears are disclosed in the notes to the financial statements.

17. The formula for computing book value per share when a corporation has only common stock outstanding is:

Total Stockholders' Equity	÷	Number of Common Shares Outstanding	=	Book Value per Share

Book value per share represents the equity a common stockholder has in the net assets of the corporation from owning one share of stock.

18. Par value is a legal amount per share, often set at an arbitrarily selected amount, which usually indicates the minimum amount at which a share of stock can be issued. Book value per share represents the equity a common stockholder has in the net assets of the corporation from owning one share of stock. If the corporation has been reinvesting some of its earnings over the years, or if the stock was originally issued above par, or both, the book value per share will exceed the par value. Market value is generally unrelated to par value and at best only remotely related to book value. A stock's market value will reflect many factors, including the company's anticipated future earnings, its expected dividend rate per share, its current financial position, the current state of the economy, and the current state of the securities markets.

19. The answers are summarized in the table below:

	Account	Classification
(a)	Common Stock	Paid-in capital—capital stock
(b)	Paid-in Capital in Excess of Par Value	Paid-in capital—additional paid-in capital
(c)	Retained Earnings	Retained earnings
(d)	Treasury Stock	Deducted from total paid-in capital and retained earnings
(e)	Paid-in Capital from Treasury Stock	Paid-in capital—additional paid-in capital
(f)	Paid-in Capital in Excess of Stated Value	Paid-in capital—additional paid-in capital
(g)	Preferred Stock	Paid-in capital—capital stock

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 13-1

The advantages and disadvantages of a corporation are as follows:

Advantages	Disadvantages
Separate legal existence	Corporation management—separation of ownership and management
Limited liability of stockholders	Government regulations
Transferable ownership rights	Additional taxes
Ability to acquire capital	
Continuous life	
Corporation management—professional management	

BRIEF EXERCISE 13-2

Dec. 31	Income Summary	450,000	
	Retained Earnings		450,000

BRIEF EXERCISE 13-3

May 10	Cash (2,000 X $18)	36,000	
	Common Stock (2,000 X $10)		20,000
	Paid-in Capital in Excess of Par Value (2,000 X $8)		16,000

BRIEF EXERCISE 13-4

June 1	Cash (3,000 X $6)	18,000	
	Common Stock (3,000 X $1)		3,000
	Paid-in Capital in Excess of Stated Value (3,000 X $5)		15,000

BRIEF EXERCISE 13-5

Land (5,000 X $15)	75,000	
Common Stock (5,000 X $10)		50,000
Paid-in Capital in Excess of Par Value (5,000 X $5)		25,000

BRIEF EXERCISE 13-6

July 1	Treasury Stock (500 X $8)	4,000	
	Cash		4,000
Sept. 1	Cash (300 X $11)	3,300	
	Treasury Stock (300 X $8)		2,400
	Paid-in Capital from Treasury Stock (300 X $3)		900

BRIEF EXERCISE 13-7

Cash (5,000 X $130)	650,000	
Preferred Stock (5,000 X $100)		500,000
Paid-in Capital in Excess of Par Value—Preferred Stock (5,000 X $30)		150,000

BRIEF EXERCISE 13-8

Stockholders' equity	
Paid-in capital	
Capital stock	
Common stock, $10 par value, 5,000 shares issued and 4,500 shares outstanding	$ 50,000
Additional paid-in capital	
In excess of par value—common stock	20,000
Total paid-in capital	70,000
Retained earnings	45,000
Total paid-in capital and retained earnings	115,000
Less: Treasury stock—common (500 shares)	(11,000)
Total stockholders' equity	$104,000

BRIEF EXERCISE 13-9

Book value per share = $20.50, or ($820,000 ÷ 40,000).

SOLUTIONS TO EXERCISES

EXERCISE 13-1

1. True.
2. True.
3. False. Most of the largest U.S. corporations are *publicly* held corporations.
4. True.
5. False. The net income of a corporation *is* taxed as a separate entity.
6. False. Creditors have *no* legal claim on the personal assets of the owners of a corporation if the corporation does not pay its debts.
7. False. The transfer of stock from one owner to another *does not require* the approval of either the corporation or other stockholders; *it is entirely at the discretion of the stockholder.*
8. False. The board of directors of a corporation *manages* the corporation *for the stockholders, who legally own the corporation.*
9. True.
10. False. Corporations are subject to *more* state and federal regulations than partnerships or proprietorships.

EXERCISE 13-2

1. True.
2. False. *Corporation management (separation of ownership and management),* government regulations, and additional taxes are the major disadvantages of a corporation.
3. False. When a corporation is formed, organization costs are expensed as incurred.
4. True.
5. False. The number of issued shares is always *less* than or equal to the number of authorized shares.
6. False. *No* journal entry is required for the authorization of capital stock.
7. False. Publicly held corporations usually issue stock *indirectly through an investment banking firm.*

EXERCISE 13-2 (Continued)

8. True.
9. False. The market value of common stock *has no relationship with the* par value.
10. False. *Paid-in capital* is the total amount of cash and other assets paid in to the corporation by stockholders in exchange for capital stock.

EXERCISE 13-3

(a)	Jan. 10	Cash (70,000 X $5)	350,000	
		Common Stock		350,000
	July 1	Cash (40,000 X $7)	280,000	
		Common Stock (40,000 X $5)		200,000
		Paid-in Capital in Excess of Par Value (40,000 X $2)		80,000
(b)	Jan. 10	Cash (70,000 X $5)	350,000	
		Common Stock (70,000 X $1)		70,000
		Paid-in Capital in Excess of Stated Value (70,000 X $4)		280,000
	July 1	Cash (40,000 X $7)	280,000	
		Common Stock (40,000 X $1)		40,000
		Paid-in Capital in Excess of Stated Value (40,000 X $6)		240,000

EXERCISE 13-4

(a)	Cash	52,000	
	Common Stock (1,000 X $5)		5,000
	Paid-in Capital in Excess of Par Value		47,000
(b)	Cash	52,000	
	Common Stock (1,000 X $5)		5,000
	Paid-in Capital in Excess of Stated Value		47,000

EXERCISE 13-4 (Continued)

(c)	Cash	52,000	
	Common Stock		52,000
(d)	Organization Expense	52,000	
	Common Stock (1,000 X $5)		5,000
	Paid-in Capital in Excess of Par Value		47,000
(e)	Land	52,000	
	Common Stock (1,000 X $5)		5,000
	Paid-in Capital in Excess of Par Value		47,000

EXERCISE 13-5

Mar. 2	Organization Expense	30,000	
	Common Stock (5,000 X $5)		25,000
	Paid-in Capital in Excess of Par Value—Common Stock		5,000
June 12	Cash	375,000	
	Common Stock (60,000 X $5)		300,000
	Paid-in Capital in Excess of Par Value—Common Stock		75,000
July 11	Cash (1,000 X $110)	110,000	
	Preferred Stock (1,000 X $100)		100,000
	Paid-in Capital in Excess of Par Value—Preferred Stock (1,000 X $10)		10,000
Nov. 28	Treasury Stock	80,000	
	Cash		80,000

EXERCISE 13-6

(1)	Land	115,000	
	Common Stock (5,000 X $20)		100,000
	Paid-in Capital in Excess of Par Value		15,000
(2)	Land (20,000 X $12)	240,000	
	Common Stock (20,000 X $10)		200,000
	Paid-in Capital in Excess of Par Value (20,000 X $2)		40,000

EXERCISE 13-7

(a)	Mar. 1	Treasury Stock (50,000 X $15)	750,000	
		Cash		750,000
	July 1	Cash (10,000 X $17)	170,000	
		Treasury Stock (10,000 X $15)		150,000
		Paid-in Capital from Treasury Stock (10,000 X $2)		20,000
	Sept. 1	Cash (8,000 X $14)	112,000	
		Paid-in Capital from Treasury Stock (8,000 X $1)	8,000	
		Treasury Stock (8,000 X $15)		120,000
(b)	Sept. 1	Cash (8,000 X $12)	96,000	
		Paid-in Capital from Treasury Stock	20,000	
		Retained Earnings	4,000	
		Treasury Stock (8,000 X $15)		120,000

EXERCISE 13-8

Treasury Stock	250,000	
Cash		250,000
Cash (2,000 X $54)	108,000	
Treasury Stock (2,000 X $50)		100,000
Paid-in Capital from Treasury Stock		8,000
Cash (2,000 X $49)	98,000	
Paid-in Capital from Treasury Stock	2,000	
Treasury Stock (2,000 X $50)		100,000
Cash (1,000 X $40)	40,000	
Paid-in Capital from Treasury Stock ($8,000 – $2,000)	6,000	
Retained Earnings	4,000	
Treasury Stock (1,000 X $50)		50,000

EXERCISE 13-9

(a)	Feb. 1	Cash (20,000 X $53)	1,060,000	
		Preferred Stock (20,000 X $50)		1,000,000
		Paid-in Capital in Excess of Par Value—Preferred Stock (20,000 X $3)		60,000
	July 1	Cash (12,000 X $57)	684,000	
		Preferred Stock (12,000 X $50)		600,000
		Paid-in Capital in Excess of Par Value—Preferred Stock (12,000 X $7)		84,000

EXERCISE 13-9 (Continued)

(b)

Preferred Stock

Date	Explanation	Ref.	Debit	Credit	Balance
Feb. 1				1,000,000	1,000,000
July 1				600,000	1,600,000

Paid-in Capital in Excess of Par Value—Preferred Stock

Date	Explanation	Ref.	Debit	Credit	Balance
Feb. 1				60,000	60,000
July 1				84,000	144,000

(c) Preferred stock—listed first in paid-in capital under capital stock.

Paid-in Capital in Excess of Par Value—Preferred Stock—listed first under additional paid-in capital.

EXERCISE 13-10

(a)	Cash	2,100,000	
	Preferred Stock (100,000 X $20)		2,000,000
	Paid-in Capital in Excess of Par Value		100,000

(b)	Total Dividend	$ 500,000
	Less: Preferred Stock Dividend ($2,000,000 X 8%)	(160,000)
	Common Stock Dividends	$ 340,000

(c)	Total Dividend	$ 500,000
	Less: Preferred Stock Dividend [($2,000,000 X 8%) X 3]	(480,000)
	Common Stock Dividends	$ 20,000

EXERCISE 13-11

May 2	Cash (100,000 X $13)	130,000	
	Common Stock (10,000 X $10)		100,000
	Paid-in Capital in Excess of Par Value—Common Stock (10,000 X $3)		30,000
10	Cash	600,000	
	Preferred Stock (10,000 X $50)		500,000
	Paid-in Capital in Excess of Par Value—Preferred Stock (10,000 X $10)		100,000
15	Treasury Stock	15,000	
	Cash		15,000
31	Cash (500 X $16)	8,000	
	Treasury Stock (500 X $15)		7,500
	Paid-in Capital from Treasury Stock (500 X $1)		500

EXERCISE 13-12

FREEZE CORPORATION
Partial Balance Sheet
December 31, 2008

Stockholders' equity		
Paid-in capital		
Capital stock		
8% Preferred stock, $100 par value, noncumulative, 5,000 shares issued		$ 500,000
Common stock, no par, $5 stated value, 340,000 shares issued, and 330,000 shares outstanding		1,700,000
Total capital stock		2,200,000
Additional paid-in capital		
In excess of par value—preferred stock	$280,000	
In excess of stated value—common stock	900,000	
Total additional paid-in capital		1,180,000
Total paid-in capital		3,380,000
Retained earnings		1,134,000
Total paid-in capital and retained earnings		4,514,000
Less: Treasury stock (10,000 common shares)		(120,000)
Total stockholders' equity		$4,394,000

EXERCISE 13-13

MEMO

To: President ___________

From: Your name, Chief Accountant

Re: Questions about Stockholders' Equity Section

Your memorandum about the stockholders' equity section was received this morning. I hope the following will answer your questions.

(a) Common stock outstanding is 590,000 shares. (Issued shares 600,000 less treasury shares 10,000.)

(b) The stated value of the common stock is $2 per share. (Common stock issued $1,200,000 ÷ 600,000 shares.)

(c) The par value of the preferred stock is $50 per share. (Preferred stock $300,000 ÷ 6,000 shares.)

(d) The dividend rate is 10%, or ($30,000 ÷ $300,000).

(e) The Retained Earnings balance is still $1,858,000. Cumulative dividends in arrears are only disclosed in the notes to the financial statements.

If I can be of further help, please contact me.

EXERCISE 13-14

ALUMINUM COMPANY OF AMERICA

Stockholders' equity (in millions of dollars)	
Paid-in capital	
Capital stock	
Preferred stock, $100 par value, $3.75, cumulative, 557,740 shares authorized, 557,649 shares issued and 546,024 shares outstanding	**$ 55**
Common stock, $1 par value, 1,800,000,000 shares authorized, 924,600,000 issued and 844,800,000 shares outstanding	**925**
Total capital stock	**980**
Additional paid-in capital	**6,101**
Total paid-in capital	**7,081**
Retained earnings	**7,428**
Total paid-in capital and retained earnings	**14,509**
Less: Treasury stock	**(2,828)**
Total stockholders' equity	**$11,681**

EXERCISE 13-15

Account	Paid-in Capital: Capital Stock	Paid-in Capital: Additional	Retained Earnings	Other
Common Stock	X			
Preferred Stock	X			
Treasury Stock—Common				X
Paid-in Capital in Excess of Par Value—Preferred Stock		X		
Paid-in Capital in Excess of Stated Value—Common Stock		X		
Paid-in Capital from Treasury Stock		X		
Retained Earnings			X	

EXERCISE 13-16

Total stockholders' equity	$5,500,000
Common shares outstanding	÷ 250,000
Book value per share	$22.00

SOLUTIONS TO PROBLEMS

PROBLEM 13-1A

(a)	Jan. 10	Cash (80,000 X $4)	320,000	
		Common Stock (80,000 X $2)		160,000
		Paid-in Capital in Excess of Stated Value—Common Stock (80,000 X $2)		160,000
	Mar. 1	Cash (5,000 X $105)	525,000	
		Preferred Stock (5,000 X $100)		500,000
		Paid-in Capital in Excess of Par Value—Preferred Stock (5,000 X $5)		25,000
	Apr. 1	Land	85,000	
		Common Stock (24,000 X $2)		48,000
		Paid-in Capital in Excess of Stated Value—Common Stock ($85,000 – $48,000)		37,000
	May 1	Cash (80,000 X $4.50)	360,000	
		Common Stock (80,000 X $2)		160,000
		Paid-in Capital in Excess of Stated Value—Common Stock (80,000 X $2.50)		200,000
	Aug. 1	Organization Expense	30,000	
		Common Stock (10,000 X $2)		20,000
		Paid-in Capital in Excess of Stated Value—Common Stock ($30,000 – $20,000)		10,000
	Sept. 1	Cash (10,000 X $5)	50,000	
		Common Stock (10,000 X $2)		20,000
		Paid-in Capital in Excess of Stated Value—Common Stock (10,000 X $3)		30,000

PROBLEM 13-1A (Continued)

Nov. 1	Cash (1,000 X $109)	109,000	
	Preferred Stock (1,000 X $100)		100,000
	Paid-in Capital in Excess of Par Value—Preferred Stock (1,000 X $9)		9,000

(b)

Preferred Stock

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 1		J5		500,000	500,000
Nov. 1		J5		100,000	600,000

Common Stock

Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 10		J5		160,000	160,000
Apr. 1		J5		48,000	208,000
May 1		J5		160,000	368,000
Aug. 1		J5		20,000	388,000
Sept. 1		J5		20,000	408,000

Paid-in Capital in Excess of Par Value—Preferred Stock

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 1		J5		25,000	25,000
Nov. 1		J5		9,000	34,000

Paid-in Capital in Excess of Stated Value—Common Stock

Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 10		J5		160,000	160,000
Apr. 1		J5		37,000	197,000
May 1		J5		200,000	397,000
Aug. 1		J5		10,000	407,000
Sept. 1		J5		30,000	437,000

PROBLEM 13-1A (Continued)

(c) FRANCO CORPORATION

Paid-in capital		
Capital stock		
8% Preferred stock, $100 par value, 10,000 shares authorized, 6,000 shares issued and outstanding		**$ 600,000**
Common stock, no par, $2 stated value, 500,000 shares authorized, 204,000 shares issued and outstanding		**408,000**
Total capital stock		**1,008,000**
Additional paid-in capital		
In excess of par value—preferred stock	**$ 34,000**	
In excess of stated value—common stock	**437,000**	
Total additional paid-in capital		**471,000**
Total paid-in capital		**$1,479,000**

PROBLEM 13-2A

(a)

Mar.	1	Treasury Stock (5,000 X $9)	45,000	
		Cash		45,000
June	1	Cash (1,000 X $12)	12,000	
		Treasury Stock (1,000 X $9)		9,000
		Paid-in Capital from Treasury Stock (1,000 X $3)		3,000
Sept.	1	Cash (2,000 X $10)	20,000	
		Treasury Stock (2,000 X $9)		18,000
		Paid-in Capital from Treasury Stock (2,000 X $1)		2,000
Dec.	1	Cash (1,000 X $6)	6,000	
		Paid-in Capital from Treasury Stock (1,000 X $3)	3,000	
		Treasury Stock (1,000 X $9)		9,000
	31	Income Summary	30,000	
		Retained Earnings		30,000

(b)

Paid-in Capital from Treasury Stock

Date		Explanation	Ref.	Debit	Credit	Balance
June	1		J10		3,000	3,000
Sept.	1		J10		2,000	5,000
Dec.	1		J10	3,000		2,000

Treasury Stock

Date		Explanation	Ref.	Debit	Credit	Balance
Mar.	1		J10	45,000		45,000
June	1		J10		9,000	36,000
Sept.	1		J10		18,000	18,000
Dec.	1		J10		9,000	9,000

PROBLEM 13-2A (Continued)

Retained Earnings

Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 1	Balance	✓			100,000
Dec. 31		J10		30,000	130,000

(c) **JACOBSEN CORPORATION**

Stockholders' equity		
Paid-in capital		
Capital stock		
Common stock, $5 par, 100,000 shares issued and 99,000 outstanding		$500,000
Additional paid-in capital		
In excess of par value	$200,000	
From treasury stock	2,000	
Total additional paid-in capital		202,000
Total paid-in capital		702,000
Retained earnings		130,000
Total paid-in capital and retained earnings		832,000
Less: Treasury stock (1,000 common shares, at cost)		(9,000)
Total stockholders' equity		$823,000

PROBLEM 13-3A

(a)	Feb. 1	Cash	120,000	
		Common Stock (25,000 X $1)		25,000
		Paid-in Capital in Excess of Stated Value—Common Stock ($120,000 – $25,000)		95,000
	Apr. 14	Cash	33,000	
		Paid-in Capital from Common Treasury Stock ($33,000 – $30,000)		3,000
		Treasury Stock—Common (6,000 X $5)		30,000
	Sept. 3	Patent	35,000	
		Common Stock (5,000 X $1)		5,000
		Paid-in Capital in Excess of Stated Value—Common Stock ($35,000 – $5,000)		30,000
	Nov. 10	Treasury Stock—Common	6,000	
		Cash		6,000
	Dec. 31	Income Summary	452,000	
		Retained Earnings		452,000

(b)

Preferred Stock

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			400,000

Common Stock

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			1,000,000
Feb.	1		J5		25,000	1,025,000
Sept.	3		J5		5,000	1,030,000

PROBLEM 13-3A (Continued)

Paid-in Capital in Excess of Par Value—Preferred Stock

Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 1	Balance	✓			100,000

Paid-in Capital in Excess of Stated Value—Common Stock

Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 1	Balance	✓			1,450,000
Feb. 1		J5		95,000	1,545,000
Sept. 3		J5		30,000	1,575,000

Paid-in Capital from Common Treasury Stock

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 14		J5		3,000	3,000

Retained Earnings

Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 1	Balance	✓			1,816,000
Dec. 31		J5		452,000	2,268,000

Treasury Stock—Common

Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 1	Balance	✓			50,000
Apr. 14		J5		30,000	20,000
Nov. 10		J5	6,000		26,000

PROBLEM 13-3A (Continued)

(c) NEER CORPORATION

Stockholders' equity		
Paid-in capital		
Capital stock		
8% Preferred stock, $50 par value, cumulative, 10,000 shares authorized, 8,000 shares issued and outstanding		$ 400,000
Common stock, no par, $1 stated value, 2,000,000 shares authorized, 1,030,000 shares issued and 1,025,000 shares outstanding		1,030,000
Total capital stock		1,430,000
Additional paid-in capital		
In excess of par value—preferred stock	$ 100,000	
In excess of stated value—common stock	1,575,000	
From common treasury stock	3,000	
Total additional paid-in capital		1,678,000
Total paid-in capital		3,108,000
Retained earnings (see Note X)		2,268,000
Total paid-in capital and retained earnings		5,376,000
Less: Treasury stock (5,000 common shares)		(26,000)
Total stockholders' equity		$5,350,000

Note X: Dividends on preferred stock totaling $32,000 [8,000 X (8% X $50)] are in arrears.

PROBLEM 13-4A

(a)	Feb. 1	Land	125,000	
		Preferred Stock (2,000 X $50)		100,000
		Paid-in Capital in Excess of Par Value—Preferred Stock ($125,000 – $100,000)		25,000
	Mar. 1	Cash (1,000 X $65)	65,000	
		Preferred Stock (1,000 X $50)		50,000
		Paid-in Capital in Excess of Par Value—Preferred Stock (1,000 X $15)		15,000
	July 1	Cash (16,000 X $7)	112,000	
		Common Stock (16,000 X $3)		48,000
		Paid-in Capital in Excess of Par Value—Common Stock ($112,000 – $48,000)		64,000
	Sept. 1	Patent (400 X $70)	28,000	
		Preferred Stock (400 X $50)		20,000
		Paid-in Capital in Excess of Par Value—Preferred Stock (400 X $20)		8,000
	Dec. 1	Cash (8,000 X $7.50)	60,000	
		Common Stock (8,000 X $3)		24,000
		Paid-in Capital in Excess of Par Value—Common Stock ($60,000 – $24,000)		36,000
	Dec. 31	Income Summary	260,000	
		Retained Earnings		260,000

PROBLEM 13-4A (Continued)

(b)

Preferred Stock

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			500,000
Feb.	1		J2		100,000	600,000
Mar.	1		J2		50,000	650,000
Sept.	1		J2		20,000	670,000

Common Stock

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			210,000
July	1		J2		48,000	258,000
Dec.	1		J2		24,000	282,000

Paid-in Capital in Excess of Par Value—Preferred Stock

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			75,000
Feb.	1		J2		25,000	100,000
Mar.	1		J2		15,000	115,000
Sept.	1		J2		8,000	123,000

Paid-in Capital in Excess of Par Value—Common Stock

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			700,000
July	1		J2		64,000	764,000
Dec.	1		J2		36,000	800,000

PROBLEM 13-4A (Continued)

Retained Earnings

Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 1	Balance	✓			300,000
Dec. 31		J2		260,000	560,000

(c) **VARGAS CORPORATION**

Stockholders' equity		
Paid-in capital		
Capital stock		
10% Preferred stock, $50 par value, 20,000 shares authorized, 13,400 shares issued and outstanding		$ 670,000
Common stock, $3 par value, 125,000 shares authorized, 94,000 shares issued and outstanding		282,000
Total capital stock		952,000
Additional paid-in capital		
In excess of par value—preferred	$123,000	
In excess of par value—common	800,000	
Total additional paid-in capital		923,000
Total paid-in capital		1,875,000
Retained earnings		560,000
Total stockholders' equity		$2,435,000

PROBLEM 13-5A

TYNER CORPORATION

Stockholders' equity		
Paid-in capital		
Capital stock		
8% Preferred stock, $50 par noncumulative, 16,000 shares issued and outstanding		$ 800,000
Common stock, no par, $5 stated value, 400,000 shares issued and 390,000 outstanding		2,000,000
Total capital stock		2,800,000
Additional paid-in capital		
In excess of par value—preferred stock	$ 679,000	
In excess of stated value—common stock	1,600,000	
From treasury stock	10,000	
Total additional paid-in capital		2,289,000
Total paid-in capital		5,089,000
Retained earnings		1,748,000
Total paid-in capital and retained earnings		6,837,000
Less: Treasury stock (10,000 shares)		(130,000)
Total stockholders' equity		$6,707,000

PROBLEM 13-6A

(a)	(1)	Land	140,000	
		Preferred Stock (1,200 X $100)		120,000
		Paid-in Capital in Excess of Par Value—Preferred Stock		20,000
	(2)	Cash (400,000 X $7.00)	2,800,000	
		Common Stock (400,000 X $2.50)		1,000,000
		Paid-in Capital in Excess of Stated Value—Common Stock		1,800,000
	(3)	Treasury Stock—Common (1,500 X $13)	19,500	
		Cash		19,500
	(4)	Cash (500 X $14)	7,000	
		Treasury Stock—Common (500 X $13)		6,500
		Paid-in Capital from Treasury Stock		500

PROBLEM 13-6A (Continued)

(b) **PALMARO CORPORATION**

Stockholders' equity		
Paid-in capital		
Capital stock		
10% Preferred stock, $100 par value, noncumulative, 20,000 shares authorized, 1,200 shares issued and outstanding		**$ 120,000**
Common stock, no par, $2.50 stated value, 1,000,000 shares authorized, 400,000 shares issued, and 399,000 outstanding		**1,000,000**
Total capital stock		**1,120,000**
Additional paid-in capital		
In excess of par value—preferred stock	**$ 20,000**	
In excess of stated value—common stock	**1,800,000**	
From treasury stock—common	**500**	
Total additional paid-in capital		**1,820,500**
Total paid-in capital		**2,940,500**
Retained earnings		**82,000**
Total paid-in capital and retained earnings		**3,022,500**
Less: Treasury stock (1,000 common shares)		**(13,000)**
Total stockholders' equity		**$3,009,500**

PROBLEM 13-1B

(a)	Jan. 10	Cash (100,000 X $3)	300,000	
		Common Stock (100,000 X $1)		100,000
		Paid-in Capital in Excess of Stated Value—Common Stock (100,000 X $2)		200,000
	Mar. 1	Cash (10,000 X $55)	550,000	
		Preferred Stock (10,000 X $50)		500,000
		Paid-in Capital in Excess of Par Value—Preferred Stock (10,000 X $5)		50,000
	Apr. 1	Land	75,000	
		Common Stock (25,000 X $1)		25,000
		Paid-in Capital in Excess of Stated Value—Common Stock ($75,000 – $25,000)		50,000
	May 1	Cash (75,000 X $4)	300,000	
		Common Stock (75,000 X $1)		75,000
		Paid-in Capital in Excess of Stated Value—Common Stock (75,000 X $3)		225,000
	Aug. 1	Organization Expense	50,000	
		Common Stock (10,000 X $1)		10,000
		Paid-in Capital in Excess of Stated Value—Common Stock ($50,000 – $10,000)		40,000
	Sept. 1	Cash (5,000 X $6)	30,000	
		Common Stock (5,000 X $1)		5,000
		Paid-in Capital in Excess of Stated Value—Common Stock (5,000 X $5)		25,000

Nov. 1	Cash (2,000 X $60)	120,000	
	Preferred Stock (2,000 X $50)		100,000
	Paid-in Capital in Excess of Par Value—Preferred Stock (2,000 X $10)		20,000

(b)

Preferred Stock

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 1		J1		500,000	500,000
Nov. 1		J1		100,000	600,000

Common Stock

Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 10		J1		100,000	100,000
Apr. 1		J1		25,000	125,000
May 1		J1		75,000	200,000
Aug. 1		J1		10,000	210,000
Sept. 1		J1		5,000	215,000

Paid-in Capital in Excess of Par Value—Preferred Stock

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 1		J1		50,000	50,000
Nov. 1		J1		20,000	70,000

Paid-in Capital in Excess of Stated Value—Common Stock

Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 10		J1		200,000	200,000
Apr. 1		J1		50,000	250,000
May 1		J1		225,000	475,000
Aug. 1		J1		40,000	515,000
Sept. 1		J1		25,000	540,000

PROBLEM 13-1B (Continued)

(c) **SCRIBNER CORPORATION**

Paid-in capital		
Capital stock		
6% Preferred stock, $50 par value, 20,000 shares authorized, 12,000 shares issued and outstanding		**$ 600,000**
Common stock, no par, $1 stated value, 500,000 shares authorized, 215,000 shares issued and outstanding		**215,000**
Total capital stock		**815,000**
Additional paid-in capital		
In excess of par value—preferred stock	**$ 70,000**	
In excess of stated value—common stock	**540,000**	
Total additional paid-in capital		**610,000**
Total paid-in capital		**$1,425,000**

PROBLEM 13-2B

(a)	Mar. 1	Treasury Stock (5,000 X $8)...........................	40,000	
		Cash		40,000
	June 1	Cash (1,000 X $10)	10,000	
		Treasury Stock (1,000 X $8)..................		8,000
		Paid-in Capital from Treasury		
		Stock (1,000 X $2)...............................		2,000
	Sept. 1	Cash (2,000 X $9)	18,000	
		Treasury Stock (2,000 X $8)..................		16,000
		Paid-in Capital from Treasury		
		Stock (2,000 X $1)...............................		2,000
	Dec. 1	Cash (1,000 X $5)	5,000	
		Paid-in Capital from Treasury Stock	3,000	
		(1,000 X $3)		
		Treasury Stock (1,000 X $8)..................		8,000
	31	Income Summary..	50,000	
		Retained Earnings		50,000

(b)

Paid-in Capital from Treasury Stock

Date		Explanation	Ref.	Debit	Credit	Balance
June	1		J12		2,000	2,000
Sept.	1		J12		2,000	4,000
Dec.	1		J12	3,000		1,000

Treasury Stock

Date		Explanation	Ref.	Debit	Credit	Balance
Mar.	1		J12	40,000		40,000
June	1		J12		8,000	32,000
Sept.	1		J12		16,000	16,000
Dec.	1		J12		8,000	8,000

PROBLEM 13-2B (Continued)

Retained Earnings

Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 1	Balance	✓			100,000
Dec. 31		J12		50,000	150,000

(c) **INWOOD CORPORATION**

Stockholders' equity		
Paid-in capital		
Capital stock		
Common stock, $1 par, 400,000 shares issued and 399,000 outstanding		$ 400,000
Additional paid-in capital		
In excess of par value	$500,000	
From treasury stock	1,000	
Total additional paid-in capital		501,000
Total paid-in capital		901,000
Retained earnings		150,000
Total paid-in capital and retained earnings		1,051,000
Less: Treasury stock (1,000 shares at cost)		(8,000)
Total stockholders' equity		$1,043,000

PROBLEM 13-3B

(a)

Feb. 1	Cash	24,000	
	Common Stock (3,000 X $5)		15,000
	Paid-in Capital in Excess of Stated Value—Common Stock		9,000
Mar. 20	Treasury Stock—Common (1,500 X $7)	10,500	
	Cash		10,500
June 14	Cash	36,000	
	Paid-in Capital from Common Treasury Stock—Common		8,000
	Treasury Stock—Common (4,000 X $7)		28,000
Sept. 3	Patent	17,000	
	Common Stock (2,000 X $5)		10,000
	Paid-in Capital in Excess of Stated Value—Common Stock		7,000
Dec. 31	Income Summary	320,000	
	Retained Earnings		320,000

(b)

Preferred Stock

Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 1	Balance	✓			300,000

Common Stock

Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 1	Balance	✓			1,000,000
Feb. 1		J1		15,000	1,015,000
Sept. 3		J1		10,000	1,025,000

PROBLEM 13-3B (Continued)

Paid-in Capital in Excess of Par Value—Preferred Stock

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			20,000

Paid-in Capital in Excess of Stated Value—Common Stock

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			425,000
Feb.	1		J1		9,000	434,000
Sept.	3		J1		7,000	441,000

Paid-in Capital from Treasury Stock—Common

Date		Explanation	Ref.	Debit	Credit	Balance
June	14		J1		8,000	8,000

Retained Earnings

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			488,000
Dec.	31		J1		320,000	808,000

Treasury Stock—Common

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			35,000
Mar.	20		J1	10,500		45,500
June	14		J1		28,000	17,500

PROBLEM 13-3B (Continued)

(c) **LITKE CORPORATION**

Stockholders' equity		
Paid-in capital		
Capital stock		
10% Preferred stock, $100 par value, noncumulative, 5,000 shares authorized, 3,000 shares issued and outstanding		**$ 300,000**
Common stock, no par, $5 stated value, 300,000 shares authorized, 205,000 shares issued and 202,500 shares outstanding		**1,025,000**
Total capital stock		**1,325,000**
Additional paid-in capital		
In excess of par value—preferred stock	**$ 20,000**	
In excess of stated value—common stock	**441,000**	
From treasury stock—common	**8,000**	
Total additional paid-in capital		**469,000**
Total paid-in capital		**1,794,000**
Retained earnings		**808,000**
Total paid-in capital and retained earnings		**2,602,000**
Less: Treasury stock (2,500 common shares)		**(17,500)**
Total stockholders' equity		**$2,584,500**

PROBLEM 13-4B

			Debit	Credit
(a)	Feb. 1	Land	65,000	
		Preferred Stock (1,000 X $50)		50,000
		Paid-in Capital in Excess of Par Value—Preferred Stock ($65,000 – $50,000)		15,000
	Mar. 1	Cash (2,000 X $60)	120,000	
		Preferred Stock (2,000 X $50)		100,000
		Paid-in Capital in Excess of Par Value—Preferred Stock (2,000 X $10)		20,000
	July 1	Cash (20,000 X $5.80)	116,000	
		Common Stock (20,000 X $2)		40,000
		Paid-in Capital in Excess of Par Value—Common Stock ($116,000 – $40,000)		76,000
	Sept. 1	Patent (800 X $65)	52,000	
		Preferred Stock (800 X $50)		40,000
		Paid-in Capital in Excess of Par Value—Preferred Stock (800 X $15)		12,000
	Dec. 1	Cash (10,000 X $6)	60,000	
		Common Stock (10,000 X $2)		20,000
		Paid-in Capital in Excess of Par Value—Common Stock ($60,000 – $20,000)		40,000
	Dec. 31	Income Summary	210,000	
		Retained Earnings		210,000

PROBLEM 13-4B (Continued)

(b)

Preferred Stock

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			200,000
Feb.	1		J2		50,000	250,000
Mar.	1		J2		100,000	350,000
Sept.	1		J2		40,000	390,000

Common Stock

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			140,000
July	1		J2		40,000	180,000
Dec.	1		J2		20,000	200,000

Paid-in Capital in Excess of Par Value—Preferred Stock

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			60,000
Feb.	1		J2		15,000	75,000
Mar.	1		J2		20,000	95,000
Sept.	1		J2		12,000	107,000

Paid-in Capital in Excess of Par Value—Common Stock

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			700,000
July	1		J2		76,000	776,000
Dec.	1		J2		40,000	816,000

PROBLEM 13-4B (Continued)

Retained Earnings

Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 1	Balance	✓			300,000
Dec. 31		J2		210,000	510,000

(c)

MENDEZ CORPORATION

Stockholders' equity		
Paid-in capital		
Capital stock		
Preferred stock, $50 par value, 10%, 10,000 shares authorized, 7,800 shares issued and outstanding		$ 390,000
Common stock, $2 par value, 200,000 shares authorized, 100,000 shares issued and outstanding		200,000
Total capital stock		590,000
Additional paid-in capital		
In excess of par value—preferred	$107,000	
In excess of par value—common	816,000	
Total additional paid-in capital		923,000
Total paid-in capital		1,513,000
Retained earnings		510,000
Total stockholders' equity		$2,023,000

PROBLEM 13-5B

PARNELL CORPORATION

Stockholders' equity		
Paid-in capital		
Capital stock		
8% Preferred stock, $100 par value, noncumulative, 4,000 shares issued and outstanding		**$ 400,000**
Common stock, no par, $10 stated value, 120,000 shares issued, and 112,000 outstanding		**1,200,000**
Total capital stock		**1,600,000**
Additional paid-in capital		
In excess of par value—preferred stock..............................	**$288,400**	
In excess of stated value—common stock	**690,000**	
From treasury stock	**6,000**	
Total additional paid-in capital......................................		**984,400**
Total paid-in capital		**2,584,400**
Retained earnings		**876,000**
Total paid-in capital and retained earnings		**3,460,400**
Less: Treasury stock (8,000 common shares)...		**(88,000)**
Total stockholders' equity		**$3,372,400**

PROBLEM 13-6B

(a)	(1) Land	296,000	
	Preferred Stock (2,400 X $100)		240,000
	Paid-in Capital in Excess of Par Value—Preferred Stock		56,000
	(2) Cash (400,000 X $18)	7,200,000	
	Common Stock (400,000 X $5)		2,000,000
	Paid-in Capital in Excess of Stated Value—Common Stock		5,200,000
	(3) Treasury Stock—Common (1,500 X $24)	36,000	
	Cash		36,000
	(4) Cash (500 X $28)	14,000	
	Treasury Stock—Common (500 X $24)		12,000
	Paid-in Capital from Treasury Stock		2,000

PROBLEM 13-6B (Continued)

(b) **COLYER CORPORATION**

Stockholders' equity		
Paid-in capital		
Capital stock		
8% Preferred stock, $100 par value, noncumulative, 40,000 shares authorized, 2,400 shares issued and outstanding		**$ 240,000**
Common stock, no par, $5 stated value, 2,000,000 shares authorized, 400,000 shares issued, and 399,000 outstanding		**2,000,000**
Total capital stock		**2,240,000**
Additional paid-in capital		
In excess of par value—preferred stock	**$ 56,000**	
In excess of stated value—common stock	**5,200,000**	
From treasury stock—common	**2,000**	
Total additional paid-in capital		**5,258,000**
Total paid-in capital		**7,498,000**
Retained earnings		**560,000**
Total paid-in capital and retained earnings		**8,058,000**
Less: Treasury stock (1,000 common shares)		**(24,000)**
Total stockholders' equity		**$8,034,000**

BYP 13-1 FINANCIAL REPORTING PROBLEM

(a) The common stock of PepsiCo has a par value of 1 2/3 cents per share.

(b) Per Note 12, there are 3.6 billion shares authorized of which 1.782 billion are issued. The percentage is 49.5% (1.782 ÷ 3.6).

(c) The outstanding shares were:

	2005	2004
Shares issued	1,782,000,000	1,782,000,000
Less: Treasury shares	126,000,000	103,000,000
Shares outstanding	1,656,000,000	1,679,000,000

(d) Book value per share was:

	2005	2004
Total stockholders' equity	$14,320,000,000	$13,572,000,000
Shares outstanding	÷ 1,656,000,000	÷ 1,679,000,000
Book value per share	$8.65	$8.08

(e) The high and low market price per share in the fourth quarter of fiscal 2005 was $60.34 and $53.55.

BYP 13-2 COMPARATIVE ANALYSIS PROBLEM

(a)

	PepsiCo	Coca-Cola
Book value per share	$14,320,000,000 ÷ 1,656,000,000 = $8.65	$16,355,000,000 ÷ 2,369,000,000 = $6.90

(b)

	PepsiCo	Coca-Cola
Market value per share	$59.08	$40.31
Book value per share	$ 8.65	$ 6.90

PepsiCo's common stock per share was selling at 6.8 ($59.08 ÷ $8.65) times book value while Coca-Cola was selling for 5.8 ($40.31 ÷ $6.90) times book value.

(c) The market value of stock is dependent more on earnings and earnings potential while book value is a per-share computation based on the net historical cost of assets capitalized.

BYP 13-3 EXPLORING THE WEB

Answers will vary depending on company chosen by student.

BYP 13-4 DECISION MAKING ACROSS THE ORGANIZATION

(a) The cumulative provision means that preferred stockholders must be paid both current-year dividends and unpaid prior-year dividends before common stockholders receive any dividends. When preferred stock is cumulative, preferred dividends not declared in a given period are called dividends in arrears.

(b) The market price of a share of stock is caused by many factors. Among the factors to be considered are: (1) the corporation's anticipated future earnings, (2) its expected dividend rate per share, (3) its current financial position, (4) the current state of the economy, and (5) the current state of the securities markets.

Par value is the amount assigned to each share of stock in the corporate charter. Par value may be any amount selected by the corporation. Generally, the amount of par value is quite low because states often levy a tax on the corporation based on par value.

Par value is not indicative of the worth or market value of the stock. The significance of par value is a legal matter. Par value represents the legal capital per share that must be retained in the business for the protection of corporate creditors.

(c) A corporation may acquire treasury stock to:

(1) Reissue the shares to officers and employees under bonus or stock compensation plans.
(2) Increase trading of the company's stock in the securities market in hope of enhancing its market value.
(3) Have additional shares available for use in the acquisition of other companies.
(4) Reduce the number of shares outstanding and thereby increase earnings per share.
(5) To rid the company of disgruntled investors.

BYP 13-4 (Continued)

Treasury stock is not an asset. If treasury stock was reported as an asset, then unissued stock should also be shown as an asset, also an erroneous conclusion. Rather than being an asset, treasury stock reduces stockholder claims on corporate assets. This effect is correctly shown by reporting treasury stock as a deduction from total paid-in capital and retained earnings.

(d) It is important to distinguish between legal capital and total paid-in capital. Par value represents the legal capital per share that must be retained in the business for the protection of corporate creditors. Additional paid-in capital is not legal capital, and therefore a distinction between par value and additional paid-in capital must be maintained.

BYP 13-5 COMMUNICATION ACTIVITY

Dear Uncle Sid:

Thanks for your recent letter and for asking me to explain four terms.

Here are my explanations:

(1) Authorized stock is the total amount of stock that a corporation is given permission to sell as indicated in its charter. If all authorized stock is sold, a corporation must obtain consent of the state to amend its charter before it can issue additional shares.

(2) Issued stock is the amount of stock that has been sold either directly to investors or indirectly through an investment banking firm.

(3) Outstanding stock is capital stock that has been issued and is being held by stockholders.

(4) Preferred stock is capital stock that has contractual preferences over common stock in certain areas.

I really enjoy my accounting classes and especially like the accounting instructors. I hope your corporation does well, and I wish you continued success with your inventions.

Regards,

BYP 13-6 ETHICS CASE

(a) The stakeholders in this situation are:

- The director of Marco's R & D division.
- The president of Marco.
- The shareholders of Marco.
- Those who live in the environment to be sprayed by the new (untested) chemical.

(b) The president is risking the environment and everything and everybody in it that is exposed to this new chemical in order to enhance his company's sales and to preserve his job. Presidents and entrepreneurs frequently take risks in performing their leadership functions, but this action appears to be irresponsible and unethical.

(c) A parent company may protect itself against loss and most reasonable business risks by establishing separate subsidiary corporations but whether it can insulate itself against this type of action is a matter of state corporate law and criminal law.

BYP 13-7 ALL ABOUT YOU ACTIVITY

(a) KPMG was the CPA firm that audited PepsiCo's financial statements.

(b) PepsiCo's basic earnings per share was $2.43 and its diluted earnings per share was $2.39.

(c) PepsiCo's net sales to foreign countries were $12,625 million.

(d) Net sales in 2001 were $23,512 million.

(e) PepsiCo held 126 million shares of treasury stock at the end of 2005.

(f) Capital expenditures (spending) totaled $1,736 million in 2005.

(g) Buildings are depreciated over a 20–44 year average useful life by PepsiCo.

(h) Dividends paid in 2005 totaled $1,642 million.