Test Bank for Fundamental Accounting Principles
Volume 2 Canadian 15th Edition by Larson Jensen Dieckmann ISBN 1259087360 9781259
Full link download:
Test Bank:
https://testbankpack.com/p/test-bank-for-fundamental-accounting-principles-volume-2-canadian-15th-edition-by-larson-jensen-dieckmann-isbn-1259087360-9781259087363/
Solution Manual:
https://testbankpack.com/p/solution-manual-for-fundamental-accounting-principles-volume-2-canadian-15th-edition-by-larson-jensen-dieckmann-isbn-1259087360-9781259087363/

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

1) Reporting procedures are the same for private and public corporations.
Answer: True ● False

2) A limited liability company is a corporation for professionals such as lawyers and accountants.
Answer: True ● False

3) A corporation is a legal entity separate from its owners.
Answer: ● True False

4) Corporations can be either public or limited.
Answer: True ● False

5) A privately held corporation has a limited life because it is tied to the physical lives of its owners.
Answer: True ● False

6) Shares are attractive to investors because shareholders are not liable for the corporation's actions and debts and because shares are easily transferred.
Answer: ● True False

7) The income of a corporation is taxed twice, first as corporate income and then as personal income to shareholders who receive cash dividends.
Answer: ● True False

8) Authorized shares are the total number of shares outstanding.
Answer: True ● False

9) Organization costs may be paid for by giving shares to promoters of a corporation in exchange for their services in organizing the corporation.
Answer: ● True False

10) An underwriter keeps shareholder records and prepares official lists of shareholders and dividend payments.

Answer: True ● False

11) The statement of changes in equity for a corporation shows both how retained earnings and share capital have changed during the accounting period.

Answer: ● True False

12) Profits or losses are recorded in a share capital account.

Answer: True ● False

13) The equity of a corporation changes because of profits or losses, distributions of incomes (dividends) and shareholder investments.

Answer: ● True False

14) Income tax expense is recorded with the operating expenses on the income statement for a corporation.

Answer: True ● False

15) The equity section of a corporation's balance sheet is called Corporation Equity.

Answer: True ● False

16) The two main areas of the equity section of a corporation's balance sheet are share capital and retained earnings.

Answer: ● True False

17) The equity section for the single proprietorship can be called owner's equity because the equity belongs to the owner. The equity section for a corporation can be called shareholders' equity because the equity belongs to a group of owners known as shareholders.

Answer: ● True False

18) Whether a business is organized as a corporation or as a proprietorship, the profit reported on the income statement will be the same.

Answer: True ● False

19) The main differences between profit reported by a proprietorship and a corporation are income tax expense and salaries paid to owners.

Answer: ● True False

20) When a corporation sells shares directly, it pays a brokerage house to issue the shares.

Answer: True ● False

21) A corporation can issue two general types of shares: common and preferred.

Answer: ● True False

22) Common shares usually carry a preference for dividends.

Answer: True ● False

23) Special rights for preferred shares may include a preference in receiving dividends and in the distribution of assets if the corporation is liquidated.

Answer: ● True False

24) One of the preference rights for preferred shares is the right to vote.

Answer: True ● False

25) If a corporation is authorized to issue 1,000 preferred shares, which have a current market value of $80 per share, it has $80,000 worth of shares outstanding.

Answer: True ● False

26) Shares are most commonly issued for cash.

Answer: ● True False

27) If shares are issued for non-cash assets, the assets are always recorded at the current market value of the shares.

Answer: True ● False

28) Whenever the dividend rate on preferred shares is higher than the rate the corporation earns on its assets, the effect of issuing preferred shares is to increase the dividend rate earned by common shareholders.

Answer: True ● False

29) Corporations issue preferred shares in order to raise capital without sacrificing control of the corporation and to increase the return earned by common shareholders.

Answer: ● True False

30) The use of preferred shares to increase return to common shareholders is an example of financial leverage.

Answer: ● True False

31) When preferred shares are issued, this will always cause an increase in the future return to common shareholders.

Answer: True ● False

32) Preferred shares are seen by some investors as being less risky and having a greater dividend rate than common shares.

Answer: ● True False

33) When issuing shares, the initial investment is credited to Retained Earnings.

Answer: True ● False

34) When issuing common shares, the initial investment is credited to Common Shares.

Answer: ● True False

35) Dividends represent the distribution of profits to the shareholders of a corporation.

Answer: ● True False

36) Dividends represent the distribution of profits to the managers of a corporation.

Answer: True ● False

37) The shareholders can vote to pay themselves a dividend.

Answer: True ● False

38) The liability for preferred dividends declared is recorded on the date of record.

Answer: True ● False

39) The date of record is the date the directors vote to pay a dividend to shareholders.

Answer: True ● False

40) The declaration of cash dividends reduces retained earnings.

Answer: ● True False

41) Cumulative preferred shares carry the right to be paid both current and all prior periods' unpaid dividends before any dividends are paid to common shareholders.

Answer: ● True False

42) Unpaid preferred dividends are called dividends in arrears.

Answer: ● True False

43) Callable preferred shares give the shareholders the option of exchanging their preferred shares into common shares at a specified rate.

Answer: True ● False

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

44) Dillon Snowboards Ltd issued 60 no-par-value common shares for $10,000. The amount of contributed capital arising from this transaction is:

A) $6,000. B) $100. C) $600. D) $10,000. E) $1,000.

Answer: D

45) Quality Cleaning Corp. issued 50 no-par-value common shares for land with a market value of $4,000. Dillon had originally issued common shares at $100 two years ago, but there is currently no market value available for their shares. The amount of contributed capital arising from this transaction is:

A) $1,000. B) $4,000. C) $6,000. D) $600. E) $100.

Answer: B

46) Dallas Sports Ltd has 100 shares of $15, noncumulative, preferred shares outstanding, and $160,000 of common shares outstanding. In the company's first year of operation, no dividends were paid, but during the second year Dallas Sports paid dividends of $24,000. The dividend should be distributed as follows:

A) $3,000 preferred; $21,000 common.
B) $7,000 preferred; $7,000 common.
C) $1,400 preferred; $12,600 common.
D) $1,500 preferred; $22,500 common.
E) $12,000 preferred; $12,000 common.

Answer: D

47) Zach Sports Ltd has 1,000 shares of $5.50, cumulative preferred shares and 10,000 common shares issued and outstanding. In the previous year (which was the first year of operations), the company paid total dividends of $1,000. The amount that must be paid to the preferred shareholders in the current year before any dividend is paid to common shareholders is:

A) $3,500. B) $12,000. C) $10,000. D) $1,000. E) $4,500.

Answer: C

48) Tech Inc's board of directors voted to declare a common cash dividend of $.0.75 per share. The company has 15,000 common shares authorized, with 10,000 issued and outstanding. The amount of the dividend is:

A) $7,125. B) $375. C) $5,625. D) $7,500. E) $3,750.

Answer: D

49) A new corporation ended its first year of operations with assets of $100,000, liabilities of $75,000, and contributed capital (common shares) of $10,000. What was the corporation's profit for the year?

A) $90,000. B) $65,000. C) $25,000. D) $15,000. E) $75,000.

Answer: D

50) Barb Inc issued 500 common shares in payment of a $1,900 bill from its accountant for assistance in filing its charter. The entry to record this transaction will include:

A) A $1,900 credit to Common Shares.
B) A $1,900 debit to Legal Expense.
C) A $1,900 debit to Accounting Expense.
D) A $1,900 debit to Common Shares.
E) A $1,900 credit to Organization Costs.

Answer: A

51) Buying shares in a corporation is attractive to investors because:

A) Shares are easily transferred.
B) Shareholders are not liable for the corporation's actions and debts.
C) A corporation has unlimited life.
D) Shareholders are not agents of the corporation.
E) All of these answers are correct.

Answer: E

52) Pam Corporation sold 10,000 common shares at $25 per share cash. The entry to record this transaction would include:

A) A debit to Contributed Capital for $250,000.
B) A credit to Common Shares for $25,000.
C) A debit to Common Shares for $250,000.
D) A credit to Cash for $250,000.
E) A credit to Common Shares for $250,000.

Answer: E

53) Bruce Corporation issued 8,000 common shares in exchange for land that has a fair market value of $184,000. The entry to record this transaction would include:

A) A credit to Common Shares for $184,000.
B) A debit to Common Shares for $184,000.
C) A debit to Land for $8,000.
D) A credit to Land for $184,000.
E) A debit to Common Shares for $8,000.

Answer: A

54) Lucie Corporation was formed on January 1 of the current year. The corporate charter authorized the company to issue 100,000 common shares. During the first month of operation, the corporation issued 300 shares to its lawyer in payment of a $5,600 bill for preparing the articles of incorporation. The entry to record this transaction would include:

A) A debit to Organization Costs for $5,600.
B) A debit to Organization Costs for $3,000.
C) A debit to Common Shares for $5,600.
D) A credit to Organization Costs for $5,600.
E) A credit to Common Shares for $3,300.

Answer: A

55) Common shares:

A) Always represent total contributed capital.
B) Make shareholders liable for acts of the corporation because they share in ownership.
C) Allow shareholders to bind the corporation to contracts because they share in ownership.
D) Are usually redeemable.
E) Represent residual equity in a corporation.

Answer: E

56) A proxy is:

A) A legal document that gives an agent of a shareholder the power to exercise the voting rights of that shareholder's shares.
B) A contractual commitment by an investor to purchase unissued shares and become a shareholder.
C) An amount of assets defined by law that shareholders must invest and leave invested in a corporation.
D) An arbitrary value a corporation places on each of the corporation's shares.
E) The right of common shareholders to protect their proportionate interests in a corporation by having the first opportunity to purchase additional shares of common shares issued by the corporation.

Answer: A

57) All of the following are given as possible motivations for a corporation to issue preferred shares except:

A) Increase the return of common shareholders.
B) Preferred dividends are paid before common dividends.
C) If the preferred shares are convertible, they are more attractive to potential investors.
D) Appeal to investors who do not want to invest in common shares.
E) Raise capital without sacrificing voting control.

Answer: B

58) The accounting equation for a corporation is:

A) Assets = Liabilities + Equity.
B) Assets = Equity + Liabilities.
C) Assets - Liabilities = Equity.
D) All of these answers are correct.
E) None of these answers is correct.

Answer: D

59) Ken Corp declared a 0.60 per share common dividend. The company has 20,000 common shares authorized, with 6,000 shares issued and outstanding. A possible journal entry to record the declaration is:

A)

Common Dividends Payable	3,600	
Cash		3,600

B)

Common Dividends Payable	3,600	
Cash Dividends		3,600

C)

Retained Earnings	3,600	
Common Dividend Payable		3,600

D)

Common Dividends	3,600	
Retained Earnings		3,600

E)

Cash Dividends	3,900	
Common Dividends Payable		3,900

Answer: C

60) When a corporation issues only one class of shares they are:

A) Preferred shares.
B) Special shares.
C) Common shares.
D) Private shares.
E) Public shares.

Answer: C

61) The total amount of cash and other assets received by a corporation from its shareholders in exchange for common shares is included in:

A) Equity.
B) Contributed capital.
C) Private held shares.
D) Organization costs.
E) Retained earnings.

Answer: B

62) If a corporation that has only one class of shares, or if there is more than one class, the class that has no preference over the other classes of shares, is called:

A) Preferred shares.
B) Participating preferred shares.
C) Common shares.
D) Convertible preferred shares.
E) Cumulative preferred shares.

Answer: C

63) A preferred share on which the right to receive dividends is lost for any year that the dividends are not declared is a:

A) Callable preferred share.
B) Cumulative preferred share.
C) Noncumulative preferred share.
D) Participating preferred share.
E) Convertible preferred share.

Answer: C

64) Preferred shares that give the shareholders the option of exchanging their preferred shares for common shares at a specified rate are known as:

A) Callable preferred shares.
B) Convertible preferred shares.
C) Participating preferred shares.
D) Noncumulative preferred shares.
E) Cumulative preferred shares.

Answer: B

65) The date a board of directors votes to pay a dividend is called the:

A) Date of payment.
B) Liquidating date.
C) Date of record.
D) Date of declaration.
E) Date of the annual shareholders meeting.

Answer: D

66) A dividend preference for preferred shares means that:

A) Dividends are paid quarterly.

B) Only preferred shareholders will receive dividends.

C) Preferred shareholders are allocated their dividends before any dividends are allocated to common shareholders.

D) Preferred shareholders are guaranteed dividends.

E) All of these answers are correct.

Answer: C

67) The payment of a dividend will reduce the following two accounts:

A) Equity and cash.

B) Cash and dividends payable.

C) Retained earnings and dividends payable.

D) Equity and retained earnings.

E) Common shares and cash.

Answer: B

68) For preferred shares to increase the return earned by common shareholders, the preferred dividend rate as a percentage of the capital raised must be:

A) Lower than the rate of return on common and preferred equity combined.

B) Both equal to and lower than the rate of return on common and preferred equity combined.

C) Equal to the rate of return on common and preferred equity combined.

D) Higher than the rate of return on common and preferred equity combined.

E) None of these answers is correct.

Answer: A

69) The financial statement that shows the changes to a corporation's contributed capital is called:

A) Statement of Contributed Capital.

B) Income Statement.

C) Statement of Changes in Equity.

D) Balance Sheet.

E) None of these answers is correct.

Answer: C

70) The largest number of shares specified by a corporation are known as:

A) Convertible.

B) Outstanding.

C) Issued.

D) Non-convertible.

E) Authorized.

Answer: E

71) The achievement of an increased return on common shares by paying dividends on preferred shares or interest at a rate that is less than the rate of return earned with the assets invested in the corporation by the preferred shareholders or creditors is called:

A) Capital gain.
B) Contributed capital.
C) Preemptive right.
D) No par value.
E) Financial leverage.

Answer: E

72) The costs of bringing a corporation into existence, including legal fees, promoters' fees, and amounts paid to the government are called:

A) Prepaid expenses.
B) Minimum legal capital.
C) Contributed capital.
D) Financial leverage.
E) Organization costs.

Answer: E

73) Legal costs incurred to get a corporation up and running should be accounted for by debiting:

A) Common shares.
B) Retained earnings.
C) Cash.
D) Share capital.
E) Organization costs.

Answer: E

74) The total amount of shares that a corporation's charter allows it to issue is:

A) Common.
B) Issued.
C) Preferred.
D) Outstanding.
E) Authorized.

Answer: E

75) Owners of preferred shares often do not have:

A) Rights in liquidation.
B) The right to sell their shares.
C) Ownership rights to assets of the corporation.
D) Voting rights.
E) Preference to dividends.

Answer: D

76) Brian's Stereo Ltd issued preferred shares that have a $10 dividend. This means that:
A) The market price is $10 per share.
B) Preferred shareholders are entitled to 10% of the annual profit.
C) The market price is $100 per share.
D) Preferred shareholders have a guaranteed dividend.
E) The amount of the dividend is $10 per year per share.

Answer: E

77) Preferred shares that the issuing corporation, at its option, may retire by paying a specified amount to the preferred shareholders plus any dividends in arrears are called:
A) Participating preferred shares.
B) Convertible preferred shares.
C) Private shares.
D) Cumulative preferred shares.
E) Callable preferred shares.

Answer: E

78) The type of share that can be bought back by the company at a specified time and price is:
A) Callable common share.
B) Participating preferred share.
C) Redeemable preferred share.
D) Cumulative preferred share.
E) Convertible preferred share.

Answer: C

79) The category of equity for a corporation which represents the cumulative profits less losses and dividends is called:
A) Retained earnings.
B) The income statement.
C) Preferred shares.
D) Contributed capital.
E) Financial leverage.

Answer: A

80) The right of common shareholders to protect their proportionate interest in a corporation by having the first opportunity to buy additional shares of common shares issued by the corporation is called:
A) Voting right.
B) Preemptive right.
C) Proxy.
D) Financial leverage.
E) Right to call.

Answer: B

81) The preemptive right is the right of preferred shareholders to:

A) Share in the profits and losses of the company.

B) Share proportionately in any new sale of shares.

C) Receive dividends before the common shareholders receive.

D) Actively participate in the company decision making process.

E) None of the choices are correct.

Answer: E

82) Which of the following occurs at the date of record?

A) The board of directors declares the dividend.

B) A list of shareholders entitled to receive the dividend is prepared.

C) The company accrues the dividend to be paid.

D) The company pays the dividend.

E) None of the choices occurs at the date of record.

Answer: B

83) The par value of a share is:

A) Another name for the call price of a share.

B) An arbitrary value a corporation places on each of the corporation's shares.

C) The market value of the shares on the date of issuance.

D) A type of callable share.

E) An unpaid dividend.

Answer: B

84) Preferred shares may be issued instead of common shares:

A) To increase financial leverage.

B) To appeal to investors who believe that common shares are too risky.

C) To increase the return earned by common shareholders.

D) To prevent dilution of voting ownership.

E) All of these answers are correct.

Answer: E

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

85) Discuss the characteristics of corporations.

Answer: Corporations are legal entities separate and distinct from their owners. Ownership of corporations is represented by shares. Owners of the shares are called shareholders. Shares issued by corporations are usually transferable and shareholders are not personally liable for acts or debts of the corporation. Corporations are regulated by provincial and federal governments and are subject to income tax.

86) Explain the difference between an income statement for a corporation and an income statement for a sole proprietorship, and discuss why the difference arises.

Answer: The two statements are identical except that the corporate income statement includes income tax expense, because a corporation is legally a separate entity whose profit is taxed. Sole proprietors declare profit from their business on their personal income tax forms.

87) Describe the components of shareholders' equity.

Answer: Shareholders' equity is composed of two parts, contributed capital and retained earnings. Contributed capital consists of funds raised by the issuance of shares, either common or preferred. Retained earnings consist of current and prior periods' earnings not distributed to shareholders as dividends.

88) Discuss the differences between common and preferred shares.

Answer: Both common and preferred shares represent ownership in a corporation. Preferred shares have a priority (senior) status relative to common shares in one or more areas. The most common preference items are dividends and distribution of assets in the event of liquidation. When cash dividends are declared, preferred shareholders receive them before common shareholders. Preferred shareholders usually do not have the voting rights that are assigned to common shareholders. Preferred shares may be convertible to common shares, and may be subject to a call provision which allows the corporation to buy them back under specified conditions.

89) Explain the type of information used to prepare the journal entries to record the issuance of no par value shares.

Answer: If shares have no par value, the entire amount of proceeds from the issuance is credited to the appropriate share account.

90) Explain the procedure for preparing journal entries for the declaration and distribution of cash dividends.

Answer: When the board of directors declares a dividend, on the declaration date, Cash Dividends (or Retained Earnings) is debited and Common Dividends Payable is credited. No journal entry is required on the date of record. On the payment date, Common Dividends Payable is debited and Cash is credited.

91) Discuss the effect of the dividend preference for preferred shares.

Answer: Preferred shareholders have the right to receive dividends before common shareholders. When preferred shares are cumulative and in arrears, the preferred shareholders will receive any amount in arrears plus the current dividend before any dividend is distributed to common shareholders.

92) The following account balances for Mackenzie Corporation are for the year ended December 31, 2015. Complete an Income Statement for the year assuming the income tax rate is 20%.

Revenues	600.00
Operating Expense	200.00
Gain on Sale of Assets	25.00
Interest Expense	8.00

Answer:

Mackenzie Corporation
Income Statement
For the Year Ended December 31, 2015

Revenues		$600.00
Operating Expenses		200.00
Income from Operations		400.00
Other Revenues and Expenses		
Gain on Sale of Assets	25.00	
Interest Expense	(8.00)	17.00
Income Before Tax		417.00
Income Tax Expense (20% x 417)		83.60
Net Income		$333.40

93) The following account balances for Katherine Corporation are for the year ended October 31, 2015. Complete an Income Statement for the year assuming the income tax rate is 20%.

Revenues	2,680.00
Operating Expense	976.00
Loss on Sale of Assets	56.00
Interest Expense	14.00

Answer:

Katherine Corporation
Income Statement
For the Year Ended October 31, 2015

Revenues		$2,680.00
Operating Expenses		976.00
Income from Operations		1,704.00
Other Revenues and Expenses		
Loss on Sale of Assets	(56.00)	
Interest Expense	(14.00)	(70.00)
Income Before Tax		1,634.00
Income Tax Expense (20% x 1,634)		326.80
Net Income		$1,307.20

94) Sheryl Inc. is authorized to issue 70,000, $9, cumulative preferred shares, and 750,000 common shares. Prepare journal entries to record the following transactions that occurred during the first year of operations:

Jan-10	Sold 85,000 common shares for $6 per share cash.
Jan-15	Exchanged 5,000 preferred shares for equipment with a fair market value of $65,000.
Feb-01	Exchanged 500 common shares for $3,000 in legal fees incurred during organization.

Answer:

Jan-10	Cash (85,000 x $6)	510,000	
	Common Shares		510,000
Jan-15	Equipment	65,000	
	Preferred Shares		65,000
Feb-01	Organization Costs	3,000	
	Common Shares		3,000

95) Susan Inc. is authorized to issue 70,000, $5, cumulative, preferred shares, and an unlimited number o common shares. Prepare journal entries to record the following transactions that occurred during the first 3 months of operations:

May-05	Exchanged 3,000 preferred shares for a building with a fair market value of $165,000.
Jun-16	Sold 4,000 preferred shares for $52 per share.
Jul-23	Sold 6,000 common shares and $23 per share.

Answer:

May-05	Building	165,000	
	Preferred Shares		165,000
Jun-16	Cash (4,000 x $52)	208,000	
	Preferred Shares		208,000
Jul-23	Cash (6,000 x $23)	138,000	
	Common Shares		138,000

96) Adam Corporation received its charter and began business in 2015. The company was authorized to issue 100,000, $4, noncumulative, preferred shares and 500,000 common shares. Prepare journal entries to record the following transactions that occurred during 2015:

Apr-05	Sold 350 preferred shares for $34 per share, cash.
May-14	Issued 750 common shares in exchange for legal services worth $7,500 relating to organization of the corporation.
Jun-23	Sold 4,000 common shares and $11 per share.

Answer:

Apr-05 Cash (350 x $34/share)	11,900	
Preferred Shares		11,900
May-14 Organization Costs	7,500	
Common Shares		7,500
Jun-23 Cash (4,000 x $11)	44,000	
Common Shares		44,000

97) Justine Corp received its charter and began business in 2015. The company was authorized to issue 20,000, $5, noncumulative preferred shares and an unlimited number of common shares. Prepare journal entries to record the following transactions that occurred during 2015:

Aug-01	Sold 3,500 preferred shares for $70 per share, cash.
Sep-12	Honoured a $35,000, 12%, 120 note payable, in exchange for 500 preferred shares.
Oct-03	Sold 4,000 common shares at $32 per share.

Answer:

Aug-01 Cash (3,500 x $70/share)	245,000	
Preferred Shares		245,000
Sep-12 Notes Payable	35,000	
Interest Expense	1,381	
Preferred Shares		36,381
Oct-03 Cash (4,000 x $32)	128,000	
Common Shares		128,000

98) TJ Inc. received its charter and began business in 2015. The company was authorized to issue 28,000 $5, noncumulative preferred shares, and 500,000 common shares. Prepare journal entries to record th following transactions that occurred during 2015:

Mar-01	Sold 1,000 common shares for $45 per share, cash.
May-06	Exchanged 3,000 preferred shares for equipment and inventory with a fair market value of $65,000 and $30,000 respectively.

Answer:

Mar-01	Cash (1,000 x $45/share)	45,000	
	Common Shares		45,000
May-06	Equipment	65,000	
	Inventory	30,000	
	Preferred Shares		95,000

Mar-01	Cash (1,000 x $45)	45,000	
	Common Shares		45,000
May-06	Equipment	65,000	
	Inventory	30,000	
	Preferred Shares		95,000

99) On August 1, Gary Corporation issued 20,000 common shares in exchange for land with a fair market value of $205,000. Prepare the journal entry to record the transaction.

Answer:

Aug-01	Land	205,000	
	Common Shares		205,000

100) On January 1, Sharon Ltd's equity was as follows: common shares, unlimited shares authorized and 75,000 shares issued and outstanding.

Prepare journal entries to record the following transactions:

Mar-01	A cash dividend of $1.20 per share was declared by the board of directors to the shareholders of record on May 20th, payable on June 3.
Jun-03	Paid the cash dividend.

Answer:

Mar-01	Cash Dividends or Retained Earnings (75,000 x $1.20/share)	90,000	
	Common Dividends Payable		90,000
Jun-03	Common Dividends Payable	90,000	
	Cash		90,000

101) Kim Corporation had the following shares outstanding when the board of directors declared a $103,000 cash dividend:

$5, Preferred shares, 5,000 shares issued and outstanding	$250,000
Common shares, 50,000 shares issued and outstanding	500,000
Total	$750,000

Allocate the dividend between the preferred and common shareholders assuming the preferred shares are cumulative and are one year in arrears.

Answer:

	Preferred Dividend	Common Dividend
Dividends in arrears (5,000 x $5)	$25,000	
Current Dividend (5,000 x $5)	25,000	
Remainder ($103,000 - 25,000 -25,000)		53,000
Totals	$50,000	$53,000

102) Parker Corp has 1,000 $5, noncumulative, preferred shares outstanding, and $250,000 worth of common shares outstanding. During Parker's first year of operation, no dividends were paid, but during the second year, the company paid dividends of $45,000. How should the dividends be distributed?

Answer: Preferred: 1,000 x $5 = $5,000 (noncumulative - one year only)
Common: $45,000 - $5,000 = $40,000

103) Sanders Limited, since it was organized in January 2014, has had outstanding 1,200, $15, preferred shares, and 15,000 common shares. The corporation declared and paid dividends each year as shown below. Calculate the total dividends distributed to each class of shares under each of the assumptions given.

	Dividends Declared	Assume Preferred Shares are Non-Cumulative: Preferred Dividend	Common Dividend	Assume Preferred Shares are Cumulative: Preferred Dividend	Common Dividend
2014	$12,000				
2015	30,000				
2016	50,000				

Answer:

	Dividends Declared	Assume Preferred Shares are Non-Cumulative: Preferred Dividend	Common Dividend	Assume Preferred Shares are Cumulative: Preferred Dividend	Common Dividend
2014	$12,000	$12,000	0	$12,000	0
2015	30,000	18,000	12,000	24,000	6,000
2016	50,000	18,000	32,000	18,000	32,000
		$30,000	$32,000	$36,000	$32,000

104) On July 31, Crispy Corp declared a dividend of $0.55 per common share outstanding to the shareholders of record on August 15. The dividend will be paid on August 25. Crispy Corp has unlimited shares authorized and 100,000 shares issued and outstanding. Prepare the journal entry to record the declaration of the dividend.

Answer:

Jul-31	Cash Dividends or Retained Earnings	55,000	
	(100,000 x $0.55/share)		
	Common Dividends Payable		55,000

105) The following information and transactions took place during 2015:

Mar-25	Declared a $6 per share cash dividend on 30,000 common shares issued and outstanding.
Apr-20	Paid the cash dividends declared on March 25.
Dec-31	Preparing closing entries. The balance in the income summary is $65,000 credit.

Prepare journal entries for the above transactions.

Answer:

Mar-25	Cash Dividends or Retained Earnings	180,000	
	(30,000 x $6.00/share)		
	Common Dividends Payable		180,000
Apr-20	Common Dividends Payable	180,000	
	Cash		180,000
Dec-31	Income Summary	65,000	
	Retained Earnings		65,000
31	Retained Earnings	180,000	
	Cash Dividends		180,000
	(if Retained Earnings was not debited on March 25)		

106) During 2015, Lee Corporation reported revenues of $527,000 and expenses of $330,000, and declared cash dividends of $45,000. Retained Earnings on January 1, 2015 was $168,000.

Prepare closing entries at December 31, 2015.

Calculate the balance in Retained Earnings on December 31, 2015.

Answer:

(1)

Dec-31	Revenues	527,000	
	Retained Earnings		527,000
Dec-31	Retained Earnings	330,000	
	Expenses		330,000
Dec-31	Income Summary	197,000	
	Retained Earnings		197,000
31	Retained Earnings	45,000	
	Cash Dividends		45,000
	(if Retained Earnings was not debited on declaration)		

(2)

Retained Earnings January 1, 2015	$	168,000
Add:		
Net Income		197,000
		365,000
Less		
Cash Dividends		45,000
Retained Earnings December 31, 2015	$	320,000

107) During 2015, Moore Corporation had Revenues of $525,000 and Expenses of $423,000 and declared cash dividends of $22,000. Retained Earnings on January 1, 2015 was $210,000.

Prepare closing entries on December 31, 2015.

Calculate the balance in Retained Earnings on December 31, 2015.

Answer:

(1)

Dec-31	Revenues	525,000	
	Retained Earnings		525,000
Dec-31	Retained Earnings	423,000	
	Expenses		423,000
Dec-31	Income Summary	102,000	
	Retained Earnings		102,000
31	Retained Earnings	102,000	
	Cash Dividends		102,000
	(if Retained Earnings was not debited on declaration)		

(2)

Retained Earnings January 1, 2015	$	210,000
Add:		
Net Income		102,000
		312,000
Less		
Cash Dividends		22,000
Retained Earnings December 31, 2015	$	290,000

Jekyll Corporation showed the following amounts in the equity section of its balance sheet at January 1, 2017:

Preferred Shares, $2 cumulative (in arrears for 2016), 12,000 shares issued	$ 500,000
Common shares 40,000 shares issued	$ 800,000
Retained Earnings	$ 500,000

In 2017:

On Jan. 20, 2017, 10,000 common shares were issued for $250,000.

On Nov. 1, 2017, Cash dividends of $60,000 were declared. Dividends will be paid on January 18, 2018.

On Dec. 31, 2017 Jekyll reported revenues of $350,000 and expenses of 275,000 for the year.

108) What is the amount of dividend per share owing to preferred shareholders?

Answer: $2 per share

109) Prepare journal entries for 2017. Use an Income Summary account and Cash Dividends account as required

Answer:

Jan. 20, 2017	Cash	250,000	
	Common Shares		250,000
Nov. 1, 2017	Cash Dividends	60,000	
	Common Share Dividends Payable		12,000
	Preferred Share Dividends Payable		48,000
Dec. 31, 2017	Revenues	350,000	
	Income Summary		350,000
	Income Summary	275,000	
	Expenses		275,000
	Income Summary	75,000	
	Retained Earnings		75,000
	Retained Earnings	60,000	
	Cash Dividends		60,000

110) What is the average issue price per common share for 2006?

Answer: $21 per common share

111) Prepare the statement of changes in shareholders equity for the year ended Dec 31, 2017.

Answer:

Jekyll Corporation					
Statement of Changes in Equity					
For the year ended December 31, 2017					
		Preferred Shares	Common Shares	Retained Earnings	Total
Balances at January 1, 2017		$500,000	$800,000	$500,000	$1,800,000
Changes in Equity, 2017					
	Issuance of share capital		250,000		250,000
	Profit (Loss)			75,000	75,000
	Dividends			(60,000)	(60,000)
Balances at December 31, 2017		$500,000	$1,050,000	$515,000	$2,065,000

112) Prepare the balance sheet (partial) at Dec 31, 2017.

Answer:

Jekyll Corporation		
Balance Sheet		
At December 31, 2017		
Contributed Capital:		
	Preferred Shares, authorization unlimited, $2 noncumulative 12,000 shares issued	$ 500,000
	Common Shares, authorization unlimited, 50,000 shares issued	1,050,000
Total Contributed Capital		$1,550,000
Retained Earnings		515,000
Total Shareholders' Equity		$2,065,000