CHAPTER 11

Corporations: Organization, Share Transactions, Dividends, and Retained Earnings

ASSIGNMENT CLASSIFICATION TABLE

Learning Objectives	Questions	Brief Exercises	Do It!	Exercises	A Problems	B Problems
1. Identify the major characteristics of a corporation.	1, 2, 3, 4, 5, 6	1	1, 2	1, 2		
2. Record the issuance of ordinary shares.	7, 8, 9, 10, 11	2, 3, 4	3	2, 3, 4, 7, 8, 11, 12	1A, 3A, 6A	1B, 3B
3. Explain the accounting for treasury shares.	12, 13, 14	5	4	5, 7, 9 11, 12	2A, 3A, 6A	2B, 3B
4. Differentiate preference shares from ordinary shares.	15	6		6, 7, 10, 11, 12, 24	1A, 3A, 6A	1B, 3B
5. Prepare the entries for cash dividends and share dividends.	17, 18, 19, 20, 21, 22	7, 8, 9	5, 6	13, 14, 15, 16, 25	4A, 5A, 7A	4B, 6B
6. Identify the items reported in a retained earnings statement.	16, 23, 24	10, 11	7	17, 18	5A	5B, 6B
7. Prepare and analyze a comprehensive equity section.	17	12	8	10, 11, 19, 20, 21, 22, 23, 25	1A, 2A, 3A, 4A, 5A, 6A, 7A, 8A, 9A	1B, 2B, 3B, 4B, 5B, 6B, 7B
*8. Describe the use and content of the statement of changes in equity.					9A	
*9 Compute book value per share.	25, 26	13		23, 24, 25	8A	7B

***Note:** All **asterisked** Questions, Exercises, and Problems relate to material contained in the appendix to the chapter.

ASSIGNMENT CHARACTERISTICS TABLE

Problem Number	Description	Difficulty Level	Time Allotted (min.)
1A	Journalize share transactions, post, and prepare share capital section.	Simple	30–40
2A	Journalize and post treasury share transactions, and prepare equity section.	Moderate	25–35
3A	Journalize and post transactions, prepare equity section.	Moderate	40–50
4A	Prepare dividend entries and equity section.	Moderate	30–40
5A	Prepare retained earnings statement and equity section, and compute earnings per share.	Moderate	30–40
6A	Prepare entries for share transactions and prepare equity section.	Moderate	30–40
7A	Prepare dividend entries and equity section.	Moderate	30–40
*8A	Prepare equity section; compute book value per share.	Simple	20–30
*9A	Prepare statement of changes in equity.	Simple	20–30
1B	Journalize share transactions, post, and prepare share capital section.	Simple	30–40
2B	Journalize and post treasury share transactions, and prepare equity section.	Moderate	25–35
3B	Journalize and post transactions, prepare equity section.	Moderate	40–50
4B	Prepare dividend entries and equity section.	Moderate	30–40
5B	Prepare retained earnings statement and equity section.	Moderate	30–40
6B	Prepare retained earnings statement and equity section, and compute earnings per share.	Moderate	30–40
*7B	Prepare equity section; compute book value per share.	Simple	20–30

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CHAPTER 11
CORPORATIONS: ORGANIZATION, SHARE TRANSACTIONS, DIVIDENDS, AND RETAINED EARNINGS

Number	LO	BT	Difficulty	Time (min.)
BE1	1	K	Simple	4–6
BE2	2	AP	Simple	2–3
BE3	2	AP	Simple	2–3
BE4	2	AP	Simple	2–4
BE5	3	AP	Simple	4–6
BE6	4	AP	Simple	2–3
BE7	5	AP	Simple	2–4
BE8	5	AP	Simple	4–6
BE9	5	AP	Simple	6–8
BE10	6	AP	Simple	3–5
BE11	6	AP	Simple	4–6
BE12	7	AP	Simple	4–6
BE13	9	AP	Simple	2–4
DI1	1	K	Simple	2–4
DI2	1	AP	Simple	4–6
DI3	2	AP	Simple	4–6
DI4	3	AP	Simple	4–6
DI5	5	AP	Simple	6–8
DI6	5	AP	Simple	6–8
DI7	6	AP	Simple	4–6
DI8	7	AP	Simple	6–8
EX1	1	K	Simple	6–8
EX2	1, 2	K	Simple	6–8
EX3	2	AP	Simple	6–8
EX4	2	AP	Simple	8–10
EX5	3	AP	Simple	8–10
EX6	4	AP	Simple	6–8
EX7	2–4	AP	Simple	6–8
EX8	2	AP	Simple	4–6
EX9	3	AP	Simple	8–10
EX10	4, 7	AP	Simple	8–10
EX11	2–4, 7	C	Simple	6–8
EX12	2–4	AN	Moderate	8–10
EX13	5	AP	Simple	6–8
EX14	5	AP	Simple	4–6

CORPORATIONS: ORGANIZATION, SHARE TRANSACTIONS, DIVIDENDS, AND RETAINED EARNINGS

Number	LO	BT	Difficulty	Time (min.)
EX15	5	AP	Simple	6–8
EX16	5	AN	Moderate	5–7
EX17	6	AP	Simple	4–6
EX18	6	AP	Simple	4–6
EX19	7	C	Simple	4–6
EX20	7	AP	Simple	8–10
EX21	7	AP	Simple	6–8
EX22	7	AP	Simple	6–8
EX23	7, 9	AP	Simple	10–12
EX24	4, 9	AP	Simple	6–8
EX25	5, 7, 9	AP	Simple	8–10
P1A	2, 4, 7	AP	Simple	30–40
P2A	3, 7	AP	Moderate	25–35
P3A	2–4, 7	AP	Moderate	40–50
P4A	5, 7	AP	Moderate	30–40
P5A	5, 6, 7	AP	Simple	20–30
P6A	2–4, 7	AP	Moderate	20–30
P7A	5, 7	AP	Moderate	30–40
P8A	7, 9	AP	Simple	20–30
P9A	7, 8	AP	Simple	20–30
P1B	2, 4, 7	AP	Simple	30–40
P2B	3, 7	AP	Moderate	25–35
P3B	2–4, 7	AP	Moderate	40–50
P4B	5, 7	AP	Moderate	30–40
P5B	6, 7	AP	Moderate	30–40
P6B	5, 6, 7	AP	Moderate	30–40
P7B	7, 9	AP	Simple	20–30
BYP1	1	AP	Simple	10–15
BYP2	7, 9	AN	Simple	15–20
BYP3	3	AN	Simple	15–20
BYP4	1, 3, 4	S	Moderate	15–20
BYP5	1, 4	AP	Simple	10–15
BYP6	—	E	Simple	10–15

BLOOM'S TAXONOMY TABLE

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

Learning Objective	Knowledge	Comprehension	Application	Analysis	Synthesis	Evaluation
1. Identify the major characteristics of a corporation.	Q11-4 DI11-1 Q11-5 E11-1 Q11-6 E11-2 BE11-1	Q11-1 Q11-2 Q11-3 BE11-1	DI11-2			
2. Record the issuance of ordinary shares.	E11-2	Q11-8 Q11-9 Q11-10 Q11-11 E11-11	Q11-7 E11-3 P11-3A BE11-2 E11-4 P11-6A BE11-3 E11-7 P11-1B BE11-4 E11-8 P11-3B DI11-3 P11-1A	E11-12		
3. Explain the accounting for treasury shares.		Q11-12 Q11-13 Q11-14 E11-11	BE11-5 E11-9 P11-6A DI11-4 P11-2A P11-2B E11-5 P11-3A P11-3B E11-7	E11-12		
4. Differentiate preference shares from ordinary shares.		Q11-15 E11-11	BE11-6 E11-24 P11-1B E11-6 P11-1A P11-3B E11-7 P11-3A E11-10 P11-6A	E11-12		
5. Prepare the entries for cash dividends and share dividends.		Q11-17 Q11-21 Q11-18 Q11-22 Q11-19 Q11-20	BE11-7 E11-13 P11-4A BE11-8 E11-14 P11-5A BE11-9 E11-15 P11-7A DI11-5 E11-25 P11-4B DI11-6 P11-6B	E11-16		
6. Identify the items reported in a retained earnings statement.		Q11-16 Q11-23 Q11-24	BE11-10 E11-17 P11-5B BE11-11 E11-18 P11-6B DI11-7 P11-5A			
7. Prepare and analyze a comprehensive equity section.		Q11-17 E11-11 E11-19	BE11-12 P11-1A P11-9A DI11-8 P11-2A P11-1B E11-10 P11-3A P11-2B E11-20 P11-4A P11-3B E11-21 P11-5A P11-4B E11-22 P11-6A P11-5B E11-23 P11-7A P11-6B E11-25 P11-8A P11-7B			
*8. Describe the use and content of the statement of changes in equity.			P11-9A			
*9. Compute book value per share.	Q11-26	Q11-25	BE11-13 E11-25 E11-23 P11-8A E11-24 P11-7B			
Broadening Your Perspective		Real-World Focus	Financial Reporting Comparative Analysis Communication		Decision-Making Across the Organization	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 shareholders. In contrast to a partnership, the acts of the owners (shareholders) do not bind the corporation unless the owners are duly appointed agents of the corporation.

(b) Limited liability of shareholders. 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 shareholders is normally limited to their investment in the corporation.

(c) Transferable ownership rights. Ownership of a corporation is held in capital shares. The shares are transferable units. Shareholders may dispose of part or all of their interest by simply selling their shares. The transfer of ownership to another party is entirely at the discretion of the shareholder.

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 regulations. For example, securities laws govern the sale of shares to the general public. Corporations must pay income taxes. These taxes are substantial. In addition, shareholders must pay income taxes on cash dividends received.

3. (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 shareholders, directors, and officers of the corporation.

(3) Organization costs are costs incurred in the formation of a corporation. Organization costs are expensed as incurred.

4. In the absence of restrictive provisions, the basic ownership rights of ordinary shareholders are the rights to:

(1) vote in the election of the board of directors and on corporate actions that require shareholders' approval.

(2) share in corporate earnings.

(3) maintain the same percentage ownership when additional ordinary shares are issued (the preemptive right).

(4) share in assets upon liquidation.

5. Legally, a corporation is an entity, separate and distinct from its owners. As a legal entity, a corporation has most of the privileges and is subject to the same duties and responsibilities as a person. The corporation acts under its own name rather than under the names of its shareholders. A corporation may buy, own, and sell property, borrow money, enter into legally binding contracts, and sue or be sued.

6. (a) The two principal components of equity for a corporation are share capital (the investment of cash and other assets in the corporation by shareholders in exchange for share capital) and retained earnings. The principal source of retained earnings is net income.
(b) Share capital is the term used to describe the total amount paid-in for shares. Share capital may result through the sale of ordinary shares, preference shares, or treasury shares.

7. The maximum number of shares that a corporation is legally allowed to issue is the number authorized. Keller 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. Keller has 63,000 shares outstanding (70,000 issued less 7,000 treasury).

8. The par value of ordinary shares 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 can be issued. The market value of shares 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 shares 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 sale of ordinary shares below par value is rare and is not permitted in most jurisdictions.

11. When shares are issued for services or noncash assets, the cost should be measured at either the fair value of the consideration given up (in this case, the shares) or the fair value of the consideration received (in this case, the land), whichever is more clearly evident. In this case, the fair value of the shares is more objectively determinable than that of the land, since the shares are 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 share is the amount the shares were actually worth on the date of exchange. Therefore, the land should be recorded at $95,000, the share capital—ordinary at $10,000, and the excess ($85,000) as share premium—ordinary.

12. A corporation may acquire treasury shares: (1) to reissue the shares to officers and employees under bonus and share compensation plans, (2) to increase trading of the company's shares in the securities market in the hopes 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.

13. When treasury shares are purchased, Treasury Shares is debited and Cash is credited at cost (€9,000 in this example). Treasury Shares is a contra 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 retained earnings, and (d) decreases total equity.

14. When treasury shares are resold at a price above original cost, Cash is debited for the amount of the proceeds (€13,000), Treasury Shares is credited at cost (€9,000), and the excess (€4,000) is credited to Share Premium—Treasury. Cash is an asset, and the other two accounts are part of equity. Therefore, this transaction: (a) has no effect on net income, (b) increases total assets, (c) has no effect on retained earnings, and (d) increases total equity.

15. (a) Ordinary shares and preference shares both represent ownership of the corporation. Ordinary shares signify the basic residual ownership; preference shares are ownership with certain privileges or preferences. Preference shareholders typically have a preference as to dividends and as to assets in the event of liquidation. However, preference shareholders generally do not have voting rights.

(b) Some preference shares possess the additional feature of being cumulative. Most preference shares are cumulative—preference shareholders must be paid both current-year dividends and unpaid prior year dividends before ordinary shareholders receive any dividends.

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

16. The debits and credits to retained earnings are:

	Debits		Credits
1.	Net loss	1.	Net income
2.	Prior period adjustments for overstatements of net income	2.	Prior period adjustments for understatements of net income
3.	Cash and share dividends		
4.	Some disposals of treasury shares		

17. For a cash dividend to be paid, a corporation must have retained earnings, adequate cash, and a dividend declared by the board.

18. (a) The three dates are:
Declaration date is the date when the board of directors formally declares the cash dividend and announces it to shareholders. The declaration commits the corporation to a binding legal obligation that cannot be rescinded.
Record date is the date that marks the time when ownership of the outstanding shares is determined from the shareholder records maintained by the corporation. The purpose of this date is to identity the persons or entities that will receive the dividend.
Payment date is the date on which the dividend checks are mailed to the shareholders.

(b) The accounting entries and their dates are:
Declaration date—Debit Cash Dividends and Credit Dividends Payable.
No entry is made on the record date.
Payment date—Debit Dividends Payable and Credit Cash.

19. A cash dividend decreases assets, retained earnings, and total equity. A share dividend decreases retained earnings, increases share capital and share premium, and has no effect on total assets and total equity.

20. A corporation generally issues share dividends for one of the following reasons:
(1) To satisfy shareholders' dividend expectations without spending cash.
(2) To increase the marketability of its shares by increasing the number of shares outstanding and thereby decreasing the market price per share. Decreasing the market price of the shares makes the shares easier to purchase for smaller investors.
(3) To emphasize that a portion of shareholders' equity that had been reported as retained earnings has been permanently reinvested in the business and therefore is unavailable for cash dividends.

21. In a share split, the number of shares is increased in the same proportion that par value is decreased. Thus, in the Meloy Corporation the number of shares will increase to 90,000 = (30,000 X 3) and the par value will decrease to $3 = ($9 ÷ 3). The effect of a split on market value is generally inversely proportional to the size of the split. In this case, the market price would fall to approximately $40 per share ($120 ÷ 3).

22. The different effects of a share split versus a share dividend are:

Item	Share Split	Share Dividend
Total retained earnings	No change	Decrease
Total par value (ordinary shares)	No change	Increase
Par value per share	Decrease	No Change

23. A prior period adjustment is a correction of an error in reporting income of a prior period. The correction is reported in the current year's retained earnings statement as an adjustment of the beginning balance of retained earnings.

24. The purpose of a retained earnings restriction is to indicate that a portion of retained earnings is currently unavailable for dividends. Restrictions may result from the following causes: legal, contractual, or voluntary.

***25.** The formula for computing book value per share when a corporation has only ordinary share outstanding is:

$$\begin{array}{c} \text{Total} \\ \text{Ordinary Shareholders'} \\ \text{Equity} \end{array} \div \begin{array}{c} \text{Number of} \\ \text{Ordinary Shares} \\ \text{Outstanding} \end{array} = \begin{array}{c} \text{Book} \\ \text{Value} \\ \text{per Share} \end{array}$$

Book value per share represents the equity an ordinary shareholder has in the net assets of the corporation from owning one share.

***26.** 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 can be issued. Book value per share represents the equity an ordinary shareholder has in the net assets of the corporation from owning one share. If the corporation has been reinvesting some of its earnings over the years, or if the shares were 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 is only remotely related to book value. A share'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.

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 11-1

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 shareholders	Government regulations
Transferable ownership rights	Additional taxes
Ability to acquire capital	
Continuous life	
Corporation management—professional managers	

BRIEF EXERCISE 11-2

May 10	Cash (2,000 X $13)	26,000	
	Share Capital—Ordinary (2,000 X $6) ..		12,000
	Share Premium—Ordinary (2,000 X $7)..		14,000

BRIEF EXERCISE 11-3

June 1	Cash (4,000 X ¥6)	24,000	
	Share Capital—Ordinary (4,000 X ¥2) ..		8,000
	Share Premium—Ordinary(4,000 X ¥4)		16,000

BRIEF EXERCISE 11-4

Land (5,000 X $15)	75,000	
Share Capital—Ordinary (5,000 X $10)..................		50,000
Share Premium—Ordinary (5,000 X $5)		25,000

BRIEF EXERCISE 11-5

July 1	Treasury Shares (500 X HK$80)	40,000	
	Cash..		40,000
Sept. 1	Cash (300 X HK$90).......................................	27,000	
	Treasury Shares (300 X HK$80)		24,000
	Share Premium—		
	Treasury (300 X HK$10)		3,000

BRIEF EXERCISE 11-6

Cash (5,000 X $118)	590,000	
Preference Shares (5,000 X $100)...........................		500,000
Share Premium—Preference (5,000 X $18)...........		90,000

BRIEF EXERCISE 11-7

Nov. 1	Cash Dividends (80,000 X €2/share).............	160,000	
	Dividends Payable..................................		160,000
Dec. 31	Dividends Payable...	160,000	
	Cash..		160,000

BRIEF EXERCISE 11-8

Dec. 1	Share Dividends (5,600 X $16)	89,600	
	Ordinary Share Dividends		
	Distributable (5,600 X $10).................		56,000
	Share Premium—Ordinary (5,600 X $6)		33,600
31	Ordinary Share Dividends Distributable	56,000	
	Share Capital—Ordinary		56,000

BRIEF EXERCISE 11-9

		Before Dividend	After Dividend
(a)	Equity		
	Share Capital—		
	Ordinary, £10 par	£2,000,000	£2,300,000
	Share Premium—Ordinary	—	120,000 [(1)]
	Retained Earnings	500,000	80,000 [(2)]
	Total equity	£2,500,000	£2,500,000

[(1)] 30,000 X (£14 – £10)   [(2)] [£500,000 – (30,000 X £14)]

		Before Dividend	After Dividend
(b)	Outstanding shares	200,000	230,000
(c)	Par value per share	£10.00	£10.00

BRIEF EXERCISE 11-10

ABBOTT INC.
Retained Earnings Statement
For the Year Ended December 31, 2014

Balance, January 1	$220,000
Add: Net income	140,000
	360,000
Less: Dividends	55,000
Balance, December 31	$305,000

BRIEF EXERCISE 11-11

SANDRA INC.
Retained Earnings Statement
For the Year Ended December 31, 2014

Balance, January 1, as reported		$800,000
Correction for overstatement of net income in prior period (depreciation expense error)		(44,000)
Balance, January 1, as adjusted		756,000
Add: Net income		120,000
		876,000
Less: Cash dividends	$60,000	
Share dividends	8,000	68,000
Balance, December 31		$808,000

BRIEF EXERCISE 11-12

Equity	
Share capital—ordinary, €10 par value, 5,000 shares issued and 4,500 shares outstanding	€ 50,000
Share premium—ordinary	32,000
Retained earnings	45,000
Less: Treasury shares (500 shares)	9,000
Total equity	€118,000

*BRIEF EXERCISE 11-13

Book value per share = ($817,000 ÷ 38,000) = $21.50

SOLUTIONS FOR DO IT! REVIEW EXERCISES

DO IT! 11-1

1. True.
2. True.
3. False. Additional government regulation is a disadvantage of the corporate form of business.
4. True.
5. False. No-par value shares are is quite common today.

DO IT! 11-2

(a)	Income Summary	228,000	
	Retained Earnings		228,000
	(To close Income Summary and transfer net income to retained earnings)		

(b)	Equity		
	Share Capital—Ordinary	$1,000,000	
	Retained Earnings	228,000	
	Total equity		$1,228,000

DO IT! 11-3

Apr. 1	Cash	650,000	
	Share Capital—Ordinary		100,000
	Share Premium—Ordinary		550,000
	(To record issuance of 50,000 shares at CHF13 per share)		
Apr. 19	Organization Expense	27,500	
	Share Capital—Ordinary		4,000
	Share Premium—Ordinary		23,500
	(To record issuance of 2,000 shares for attorney's fees)		

DO IT! 11-4

Aug. 1	Treasury Shares	128,000	
	Cash		128,000
	(To record the purchase of 2,000 shares at $64 per share)		
Dec. 1	Cash	86,400	
	Treasury Shares		76,800
	Share Premium—Treasury		9,600
	(To record the sale of 1,200 shares at $72 per share)		

DO IT! 11-5

1. **The company has not missed past dividends and the preference shares are non-cumulative; thus, the preference shareholders are paid only this year's dividend. The dividend paid to preference shareholders would be €28,000 (4,000 X .07 X €100). The dividend paid to ordinary shareholders would be €82,000 (€110,000 – €28,000).**

2. **The preference shares are non-cumulative; thus, past unpaid dividends do not have to be paid. The dividend paid to preference shareholders would be €28,000 (4,000 X .07 X €100). The dividend paid to ordinary shareholders would be €82,000 (€110,000 – €28,000).**

3. **The preference shares are cumulative; thus, dividends that have been missed in the past (dividends in arrears) must be paid. The dividend paid to preference shareholders would be €84,000 (3 X 4,000 X .07 X €100). The dividend paid to ordinary shareholders would be €26,000 (€110,000 – €84,000).**

DO IT! 11-6

(a) 1. The share dividend amount is $2,940,000 [(400,000 X 15%) X $49]. The new balance in retained earnings is $9,060,000 ($12,000,000 – $2,940,000).

2. The retained earnings after the share split would be the same as it was before the split: $12,000,000.

(b) (1) and (2) The effects on the equity accounts are as follows:

	Original Balances	After Dividend	After Split
Share capital and share premium	$ 2,400,000	$ 5,340,000	$ 2,400,000
Retained earnings	12,000,000	9,060,000	12,000,000
Total equity	$14,400,000	$14,400,000	$14,400,000
Shares outstanding	400,000	460,000	800,000
Par value per share	$ 2	$ 2	$ 1

Total equity remains the same under both options.

DO IT! 11-7

RAYMOND CORPORATION
Retained Earnings Statement
For the Year Ended December 31, 2014

Balance, January 1, as reported	€3,100,000
Correction for understatement of net income in prior period (depreciation error)	86,000
Balance, January 1, as adjusted	3,186,000
Add: Net income	1,200,000
	4,386,000
Less: Cash dividends..	150,000
Balance, December 31	€4,236,000

DO IT! 11-8

	2013	2014
Return on ordinary shareholders' equity	$\frac{(\$200,000 - \$30,000)}{(\$600,000 + \$760,000)/2} = 25\%$	$\frac{(\$210,000 - \$30,000)}{(\$760,000 + \$830,000)/2} = 22.6\%$

SOLUTIONS TO EXERCISES

EXERCISE 11-1

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 shares from one owner to another *does not require* the approval of either the corporation or other shareholders; *it is entirely at the discretion of the shareholder.*
8. False. The board of directors of a corporation *manages* the corporation *for the shareholders, who legally own the corporation.*
9. True.
10. False. Corporations are subject to *more* government regulations than partnerships or proprietorships.

EXERCISE 11-2

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 ordinary shares.
7. False. Publicly held corporations usually issue shares *indirectly through an investment banking firm.*

EXERCISE 11-2 (Continued)

8. True.
9. False. The market value of ordinary shares *has no relationship with the* par value.
10. False. *Share capital* is the total amount of cash and other assets paid in to the corporation by shareholders in exchange for shares.

EXERCISE 11-3

(a)	Jan. 10	Cash (70,000 X Rs4)	280,000	
		Share Capital—Ordinary		280,000
	July 1	Cash (30,000 X Rs7)	210,000	
		Share Capital—Ordinary (30,000 X Rs4)		120,000
		Share Premium—Ordinary (30,000 X Rs3)		90,000
(b)	Jan. 10	Cash (70,000 X Rs4)	280,000	
		Share Capital—Ordinary (70,000 X Rs1)		70,000
		Share Premium—Ordinary (70,000 X Rs3)		210,000
	July 1	Cash (30,000 X Rs7)	210,000	
		Share Capital—Ordinary (30,000 X Rs1)		30,000
		Share Premium—Ordinary (30,000 X Rs6)		180,000

EXERCISE 11-4

(a)	Cash	48,000	
	Share Capital—Ordinary (1,000 X $5)		5,000
	Share Premium—Ordinary		43,000
(b)	Cash	48,000	
	Share Capital—Ordinary (1,000 X $5)		5,000
	Share Premium—Ordinary		43,000

EXERCISE 11-4 (Continued)

(c)	Cash	48,000	
	Share Capital—Ordinary		48,000
(d)	Organization Expense	48,000	
	Share Capital—Ordinary (1,000 X $5)		5,000
	Share Premium—Ordinary		43,000
(e)	Land	48,000	
	Share Capital—Ordinary (1,000 X $5)		5,000
	Share Premium—Ordinary		43,000

EXERCISE 11-5

Treasury Shares	250,000	
Cash		250,000
Cash (1,500 X ¥54)	81,000	
Treasury Shares (1,500 X ¥50)		75,000
Share Premium—Treasury		6,000
Cash (2,000 X ¥49)	98,000	
Share Premium—Treasury	2,000	
Treasury Shares (2,000 X ¥50)		100,000
Cash (1,500 X ¥40)	60,000	
Share Premium—Treasury (¥6,000 – ¥2,000)	4,000	
Retained Earnings	11,000	
Treasury Shares (1,500 X ¥50)		75,000

EXERCISE 11-6

(a)	Cash	2,080,000	
	Preference Shares (100,000 X $20)		2,000,000
	Share Premium—Preference		80,000

(b)	Total Dividend	$ 550,000
	Less: Preference Shares Dividend ($2,000,000 X 9%)	180,000
	Ordinary Shares Dividends	$ 370,000

(c)	Total Dividend	$ 550,000
	Less: Preference Shares Dividend [($2,000,000 X 9%) X 3]	540,000
	Ordinary Shares Dividends	$ 10,000

EXERCISE 11-7

Mar. 2	Organization Expense	38,000	
	Share Capital—Ordinary (5,000 X R$1)		5,000
	Share Premium—Ordinary		33,000
June 12	Cash	475,000	
	Share Capital—Ordinary (60,000 X R$1)		60,000
	Share Premium—Ordinary		415,000
July 11	Cash (1,000 X R$110)	110,000	
	Share Capital—Preference (1,000 X R$100)		100,000
	Share Premium—Preference (1,000 X R$10)		10,000
Nov. 28	Treasury Shares	18,000	
	Cash		18,000

EXERCISE 11-8

1.	Land	124,000	
	Share Capital—Ordinary (5,000 X $10)		50,000
	Share Premium—Ordinary		74,000
2.	Land (20,000 X $11)	220,000	
	Share Capital—Ordinary (20,000 X $10)		200,000
	Share Premium—Ordinary (20,000 X $1)		20,000

EXERCISE 11-9

(a)	Mar. 1	Treasury Shares (50,000 X ₤12)	600,000	
		Cash		600,000
	July 1	Cash (10,000 X ₤14)	140,000	
		Treasury Shares (10,000 X ₤12)		120,000
		Share Premium—Treasury (10,000 X ₤2)		20,000
	Sept. 1	Cash (8,000 X ₤11)	88,000	
		Share Premium—Treasury (8,000 X ₤1)	8,000	
		Treasury Shares (8,000 X ₤12)		96,000
(b)	Sept. 1	Cash (8,000 X ₤9)	72,000	
		Share Premium—Treasury	20,000	
		Retained Earnings	4,000	
		Treasury Shares (8,000 X ₤12)		96,000

EXERCISE 11-10

(a)	Feb. 1	Cash (12,000 X $53)	636,000	
		Share Capital—Preference (12,000 X $50)		600,000
		Share Premium—Preference (12,000 X $3)		36,000
	July 1	Cash (23,000 X $57)	1,311,000	
		Share Capital—Preference (23,000 X $50)		1,150,000
		Share Premium—Preference (23,000 X $7)		161,000

(b)

Share Capital—Preference

Date	Explanation	Ref.	Debit	Credit	Balance
Feb. 1				600,000	600,000
July 1				1,150,000	1,750,000

Share Premium—Preference

Date	Explanation	Ref.	Debit	Credit	Balance
Feb. 1				36,000	36,000
July 1				161,000	197,000

(c) Share Capital—Preference—listed first in the equity section.

Share Premium—Preference—listed first in a series of types of share premium.

EXERCISE 11-11

MEMO

To: President __________

From: _Your name_, Chief Accountant

Re: Questions about Equity Section

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

(a) Ordinary shares outstanding is 525,000 shares. (Issued shares 600,000 less treasury shares 75,000.)

(b) The stated value of the ordinary shares is €2 per share. (Ordinary shares issued €1,200,000 ÷ 600,000 shares.)

(c) The par value of the preference shares is €60 per share. (Preference shares €300,000 ÷ 5,000 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 11-12

May	2	Cash (10,000 X $13)	130,000	
		Share Capital—Ordinary (10,000 X $10)		100,000
		Share Premium—Ordinary (10,000 X $3)		30,000
	10	Cash	580,000	
		Share Capital—Preference (10,000 X $50)		500,000
		Share Premium—Preference (10,000 X $8)		80,000
	15	Treasury Shares	18,000	
		Cash		18,000
	31	Cash (500 X $16)	8,000	
		Treasury Shares (500 X $15)		7,500
		Share Premium—Treasury (500 X $1)		500

EXERCISE 11-13

(a)	June 15	Cash Dividends (123,000 X €1)	123,000	
		Dividends Payable		123,000
	July 10	Dividends Payable	123,000	
		Cash		123,000
	Dec. 15	Cash Dividends (125,000 X €1.20)	150,000	
		Dividends Payable		150,000

(b) In the retained earnings statement, dividends of €273,000 will be deducted. In the statement of financial position, Dividends Payable of €150,000 will be reported as a current liability.

EXERCISE 11-14

(a)	Share Dividends (24,750* X $18)	445,500	
	Ordinary Share Dividends Distributable (24,750 X $8)		198,000
	Share Premium—Ordinary (24,750 X $10)		247,500

*[($1,000,000 ÷ $8) + 40,000] X 15%.

(b)	Share Dividends (36,000* X $20)	720,000	
	Ordinary Share Dividends Distributable (36,000 X $5)		180,000
	Share Premium—Ordinary (36,000 X $15)		540,000

*[($1,000,000 ÷ 5) + 40,000] X 15%.

EXERCISE 11-15

	Before Action	After Share Dividend	After Share Split
Equity			
Share capital—ordinary	CHF 300,000	CHF 315,000	CHF 300,000
Share premium—ordinary	0	17,500(1)	0
Retained earnings	900,000	867,500(2)	900,000
Total equity	CHF1,200,000	CHF1,200,000	CHF1,200,000
Outstanding shares	50,000	52,500	100,000
Par value per share	CHF 6	CHF 6	CHF 3

(1)2,500 X (CHF13 – CHF6)

(2)CHF900,000 – (2,500 X CHF13)

EXERCISE 11-16

1.	Dec. 31	Cash Dividends	50,000	
		Interest Expense		50,000
2.	31	Share Dividends	8,400*	
		Dividends Payable	12,000	
		Ordinary Share Dividends Distributable		12,000
		Share Premium—Ordinary (€17 – €10) X 1,200		8,400

*(1,200 X €17) – €12,000

3.	31	Share Capital—Ordinary	2,000,000	
		Retained Earnings..................		2,000,000

EXERCISE 11-17

RICHARD CORPORATION
Retained Earnings Statement
For the Year Ended December 31, 2014

Balance, January 1, as reported		$550,000
Correction for overstatement of 2013 net income (depreciation error)		(40,000)
Balance, January 1, as adjusted.............................		510,000
Add: Net income		350,000
		860,000
Less: Cash dividends	$96,000	
Share dividends..	80,000	176,000
Balance, December 31		$684,000

EXERCISE 11-18

BINDRA COMPANY
Retained Earnings Statement
For the Year Ended December 31, 2014

Balance, January 1, as reported		ŧ340,000
Correction for understatement of 2012 net income		16,000
Balance, January 1, as adjusted		356,000
Add: Net income		285,000
		641,000
Less: Cash dividends	ŧ100,000[1]	
Share dividends	140,000[2]	240,000
Balance, December 31		ŧ401,000

[1](200,000 shares X ŧ.50/share) [2](200,000 shares X .05 X ŧ14/share)

EXERCISE 11-19

Account	Share Capital	Share Premium	Retained Earnings	Other
Share Capital—Ordinary	X			
Share Capital—Preference	X			
Treasury Shares				X
Share Premium—Preference		X		
Share Premium—Ordinary		X		
Share Premium—Treasury		X		
Retained Earnings			X	

EXERCISE 11-20

TIGER INC.
Statement of Financial Position (Partial)
December 31, 200X

Equity	
Share capital—preference, 8%, ¥5 par value, 40,000 shares authorized, 30,000 shares issued	¥ 150,000
Share capital—ordinary, no par, ¥1 stated value, 400,000 shares authorized, 300,000 shares issued and 290,000 outstanding	300,000
Ordinary share dividends distributable	30,000
Share premium—preference	50,000
Share premium—ordinary	1,200,000
Retained earnings (see Note R)	800,000
Less: Treasury shares (10,000 shares)	65,000
Total equity	¥2,465,000

<u>Note R</u>: Retained earnings is restricted for plant expansion, ¥150,000.

EXERCISE 11-21

PERRIN COMPANY
Statement of Financial Position (Partial)
December 31, 2014

Equity	
Share capital—preference	$ 125,000
Share capital—ordinary	400,000
Share premium—preference	40,000
Share premium—ordinary	220,000
Retained earnings	342,000*
Less: Treasury shares	40,000
Total equity	$ 1,087,000

*$250,000 + $140,000 – $48,000

EXERCISE 11-22

(a)

ORASCO CORPORATION
Income Statement
For the Year Ended December 31, 2014

Net sales	R$600,000
Cost of goods sold	360,000
Gross profit	240,000
Operating expenses	153,000
Income from operations	87,000
Interest expense	7,500
Income before income taxes	79,500
Income tax expense (25% X R$79,500)	19,875
Net income	R$ 59,625

(b) $$\frac{\text{Net income – Preference dividends}}{\text{Average ordinary shareholders' equity}} = \frac{\text{R\$59,625 – R\$12,000}}{\text{R\$180,000}} = \underline{\underline{26.5\%}}$$

*EXERCISE 11-23

ATRIO, INC.

(a) Equity (in millions of dollars)

Share capital—preference, €100 par value, €3.75, cumulative, 557,740 shares authorized, 557,649 shares issued and 546,024 shares outstanding	€	56
Share capital—ordinary, €1 par value, 1,800,000,000 shares authorized, 924,600,000 issued and 844,800,000 shares outstanding		925
Share premium		6,101
Retained earnings		7,428
Less: Treasury shares		2,828
Total equity		€11,682

(b)

Total equity	€11,682
Less: Preference share equity (par value)	56
Ordinary share equity	€11,626
Ordinary shares outstanding (in millions)	844.8
Book value per share (€11,626 ÷ 844.8)	€13.76

*EXERCISE 11-24

	(a)	(b)
Total equity	£3,200,000	£3,200,000
Less: Preference share equity		
Par value	(£500,000)	
Call price (10,000 X £60)		(600,000)
Dividends in arrears (10,000 X £4)		(40,000)
Ordinary share equity	£2,700,000	£2,560,000
Ordinary shares outstanding	200,000	200,000
Book value per share	£13.50	£12.80

*EXERCISE 11-25

(a) 1. Book value before the share dividend was $8.13 ($650,000 ÷ 80,000).

2. Book value after the share dividend is $7.07 ($650,000 ÷ 92,000).

(b)

Share capital—ordinary	
Balance before dividend	$400,000
Dividend shares (12,000 X $5)	60,000
New balance	$460,000
Share premium—ordinary	
Balance before dividend	$ 25,000
Excess over par of shares issued (12,000 X $10)	120,000
New balance	$145,000
Retained earnings	
Balance before dividend	$225,000
Dividend (12,000 X $15)	(180,000)
New balance	$ 45,000

SOLUTIONS TO PROBLEMS

PROBLEM 11-1A

(a)	Jan. 10	Cash (100,000 X HK$50)	5,000,000	
		Share Capital—Ordianry		
		(100,000 X HK$20)		2,000,000
		Share Premium—Ordinary		
		(100,000 X HK$30)		3,000,000
	Mar. 1	Cash (5,000 X HK$1,050)	5,250,000	
		Share Capital—Preference		
		(5,000 X HK$1,000)		5,000,000
		Share Premium—Preference		
		(5,000 X HK$50)		250,000
	Apr. 1	Land	920,000	
		Share Capital—Ordinary		
		(18,000 X HK$20)		360,000
		Share Premium—Ordinary		
		(HK$920,000 – HK$360,000)........		560,000
	May 1	Cash (80,000 X HK$45)	3,600,000	
		Share Capital—Ordinary		
		(80,000 X HK$20)		1,600,000
		Share Premium—Ordinary		
		(80,000 X HK$25)		2,000,000
	Aug. 1	Organization Expense	300,000	
		Share Capital—Ordinary		
		(10,000 X HK$20)		200,000
		Share Premium—Ordinary		
		(HK$300,000 – HK$200,000)........		100,000
	Sept. 1	Cash (10,000 X HK$50)	500,000	
		Share Capital—Ordinary		
		(10,000 X HK$20)		200,000
		Share Premium—Ordinary		
		(10,000 X HK$30)		300,000

PROBLEM 11-1A (Continued)

Nov. 1	Cash (1,000 X HK$1,080)	1,080,000	
	Share Capital—Preference (1,000 X HK$1,000)		1,000,000
	Share Premium—Preference (1,000 X HK$80)		80,000

(b)

Share Capital—Preference

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 1		J5		5,000,000	5,000,000
Nov. 1		J5		1,000,000	6,000,000

Share Capital—Ordinary

Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 10		J5		2,000,000	2,000,000
Apr. 1		J5		360,000	2,360,000
May 1		J5		1,600,000	3,960,000
Aug. 1		J5		200,000	4,160,000
Sept. 1		J5		200,000	4,360,000

Share Premium—Preference

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 1		J5		250,000	250,000
Nov. 1		J5		80,000	330,000

Share Premium—Ordinary

Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 10		J5		3,000,000	3,000,000
Apr. 1		J5		560,000	3,560,000
May 1		J5		2,000,000	5,560,000
Aug. 1		J5		100,000	5,660,000
Sept. 1		J5		300,000	5,960,000

PROBLEM 11-1A (Continued)

(c)

GÂO CORPORATION
Statement of Financial Position (Partial)
December 31, 2014

Equity	
Share capital—preference	
8%, HK$1,000 par value, 10,000 shares authorized, 6,000 shares issued and outstanding...................	HK$ 6,000,000
Share capital—ordinary, no par, HK$20 stated value, 500,000 shares authorized, 218,000 shares issued and outstanding...................	4,360,000
Share premium—preference...............	330,000
Share premium—ordinary...................	5,960,000
Total share capital........................	HK$16,650,000

PROBLEM 11-2A

(a)

Mar.	1	Treasury Shares (5,000 X $9)	45,000	
		Cash		45,000
June	1	Cash (500 X $12)	6,000	
		Treasury Shares (500 X $9)		4,500
		Premium—Treasury (500 X $3)		1,500
Sept.	1	Cash (2,500 X $10)	25,000	
		Treasury Shares (2,500 X $9)		22,500
		Share Premium—Treasury (2,500 X $1)		2,500
Dec.	1	Cash (1,000 X $6)	6,000	
		Share Premium—Treasury (1,000 X $3)	3,000	
		Treasury Shares (1,000 X $9)		9,000
	31	Income Summary	34,000	
		Retained Earnings		34,000

(b)

Share Premium—Treasury

Date		Explanation	Ref.	Debit	Credit	Balance
June	1		J10		1,500	1,500
Sept.	1		J10		2,500	4,000
Dec.	1		J10	3,000		1,000

Treasury Shares

Date		Explanation	Ref.	Debit	Credit	Balance
Mar.	1		J10	45,000		45,000
June	1		J10		4,500	40,500
Sept.	1		J10		22,500	18,000
Dec.	1		J10		9,000	9,000

PROBLEM 11-2A (Continued)

Retained Earnings

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			100,000
Dec.	31		J10		34,000	134,000

(c)

ELSTON CORPORATION
Statement of Financial Position (Partial)
December 31, 2014

Equity	
Share capital—ordinary, $5 par, 80,000 shares issued and 79,000 outstanding	$400,000
Share premium—ordinary	200,000
Share premium—treasury	1,000
Retained earnings	134,000
Less: Treasury shares (1,000 shares)	9,000
Total equity	$726,000

PROBLEM 11-3A

(a)

Feb.	1	Cash	120,000	
		Share Capital—Ordinary (25,000 X €1)		25,000
		Share Premium—Ordinary (€120,000 – €25,000)		95,000
Apr.	14	Cash	46,000	
		Share Premium—Treasury (€46,000 – €22,500)		23,500
		Treasury Shares (9,000 X €2.50)		22,500
Sept.	3	Patents	42,000	
		Share Capital—Ordinary (7,000 X €1)		7,000
		Share Premium—Ordinary (€42,000 – €7,000)		35,000
Nov.	10	Treasury Shares	6,000	
		Cash		6,000
Dec.	31	Income Summary	452,000	
		Retained Earnings		452,000

(b)

Share Capital—Preference

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

Share Capital—Ordinary

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			1,000,000
Feb.	1		J5		25,000	1,025,000
Sept.	3		J5		7,000	1,032,000

PROBLEM 11-3A (Continued)

Share Premium—Preference

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

Share Premium—Ordinary

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			1,450,000
Feb.	1		J5		95,000	1,545,000
Sept.	3		J5		35,000	1,580,000

Share Premium—Treasury

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	14		J5		23,500	23,500

Retained Earnings

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

Treasury Shares

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			50,000
Apr.	14		J5		22,500	27,500
Nov.	10		J5	6,000		33,500

(c)

TERRELL CORPORATION
Statement of Financial Position (Partial)
December 31, 2014

Equity	
Share capital—preference, 9% €50 par value, cumulative, 10,000 shares authorized, 8,000 shares issued and outstanding	€ 400,000
Share capital—ordinary, no par, €1 stated value, 2,000,000 shares authorized, 1,032,000 shares issued and 1,020,000 shares outstanding	1,032,000
Share premium—preference	100,000
Share premium—ordinary	1,580,000
Share premium—treasury	23,500
Retained earnings (see Note X)	2,268,000
Less: Treasury shares (12,000 shares)	33,500
Total equity	€5,370,000

Note X: Dividends on preference shares totaling €36,000 [8,000 X (9% X €50)] are in arrears.

SOLUTIONS TO PROBLEMS

PROBLEM 11-4A

(a)	Feb.	1	Cash Dividends (48,000 X $1)	48,000	
			Dividends Payable		48,000
	Mar.	1	Dividends Payable	48,000	
			Cash		48,000
	Apr.	1	Memo—five-for-one share split increases number of shares to 240,000 = (48,000 X 5) and reduces par value to $5 per share.		
	July	1	Share Dividends (24,000 X $7)	168,000	
			Ordinary Share Dividends Distributable (24,000 X $5)		120,000
			Share Premium—Ordinary (24,000 X $2)		48,000
		31	Ordinary Share Dividends Distributable	120,000	
			Share Capital—Ordinary		120,000
	Dec.	1	Cash Dividends (264,000 X $.40)	105,600	
			Dividends Payable		105,600
		31	Income Summary	350,000	
			Retained Earnings		350,000
			Retained Earnings	168,000	
			Share Dividends		168,000
			Retained Earnings	153,600	
			Cash Dividends		153,600

PROBLEM 11-4A (Continued)

(b)

Share Capital—Ordinary

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			1,200,000
Apr.	1	5 for 1 split—new par $5				
July	31				120,000	1,320,000

Ordinary Share Dividends Distributable

Date		Explanation	Ref.	Debit	Credit	Balance
July	1				120,000	120,000
	31			120,000		0

Share Premium—Ordinary

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			200,000
July	1				48,000	248,000

Retained Earnings

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			600,000
	31	Net income			350,000	950,000
		Share dividend		168,000		782,000
		Cash dividend		153,600		628,400

Cash Dividends

Date		Explanation	Ref.	Debit	Credit	Balance
Feb.	1			48,000		48,000
Dec.	1			105,600		153,600
Dec.	31				153,600	0

Share Dividends

Date		Explanation	Ref.	Debit	Credit	Balance
July	1			168,000		168,000
Dec.	31				168,000	0

PROBLEM 11-4A (Continued)

(c)

PRASAD CORPORATION
Statement of Financial Position (Partial)
December 31, 2014

Equity	
Share capital—ordinary, $5 par value, 264,000 shares issued and outstanding	$1,320,000
Share premium—ordinary	248,000
Retained earnings	628,400
Total equity	$2,196,400

PROBLEM 11-5A

(a)

Retained Earnings

Sept. 1	Prior Per. Adj.	56,000	Jan. 1	Balance	1,200,000
Dec. 31	Cash Dividends	250,000	Dec. 31	Net Income	585,000
Dec. 31	Share Dividends	425,000			
			Dec. 31	Balance	1,054,000

(b)

RUSSO CORPORATION
Retained Earnings Statement
For the Year Ended December 31, 2014

Balance, January 1, as reported		€1,200,000
Correction of overstatement of 2013 net income because of understatement of depreciation		(56,000)
Balance, January 1, as adjusted		1,144,000
Add: Net income		585,000
		1,729,000
Less: Cash dividends	€250,000	
Share dividends	425,000	675,000
Balance, December 31		€1,054,000

(c)

RUSSO CORPORATION
Partial Statement of Financial Position
December 31, 2014

Equity	
Share capital—preference 7%, €50 par value, cumulative, 20,000 shares authorized, 15,000 shares issued and outstanding	€ 750,000

PROBLEM 11-5A (Continued)

RUSSO CORPORATION (Continued)

Share capital—ordinary, €10 par value, 500,000 shares authorized, 250,000 shares issued and outstanding		€2,500,000
Ordinary share dividends distributable		250,000
Share premium—preference		250,000
Share premium—ordinary		425,000
Retained earnings (see Note X)		1,054,000
Total equity		€5,229,000

Note X: Retained earnings is restricted for plant expansion, €200,000.

(d)

Total cash dividend		€250,000
Allocated to preference shares		
Dividend in arrears—2013 [15,000 X (€50 X 7%)]	€52,500	
2014 dividend	52,500	105,000
Remainder to ordinary shares		€145,000

PROBLEM 11-6A

(a)	(1)	Land	132,000	
		Share Capital—Preference (1,200 X $100)		120,000
		Share Premium—Preference		12,000
	(2)	Cash (400,000 X $6.50).............................	2,600,000	
		Share Capital—Ordinary (400,000 X $2.50)		1,000,000
		Share Premium—Ordinary		1,600,000
	(3)	Treasury Shares (1,500 X $9)	13,500	
		Cash..		13,500
	(4)	Cash (500 X $11).......................................	5,500	
		Treasury Shares (500 X $9)		4,500
		Share Premium—Treasury		1,000

PROBLEM 11-6A (Continued)

(b)

JUDE CORPORATION
Statement of Financial Position (Partial)
December 31, 2014

Equity	
Share capital—preference 10%, $100 par value, non-cumulative, 20,000 shares authorized, 1,200 shares issued and outstanding	$ 120,000
Share capital—ordinary, no par, $2.50 stated value, 1,000,000 shares authorized, 400,000 shares issued, and 399,000 outstanding	1,000,000
Share premium—preference	12,000
Share premium—ordinary	1,600,000
Share premium—treasury	1,000
Retained earnings	82,000
Less: Treasury shares (1,000 shares)	9,000
Total equity	$2,806,000

PROBLEM 11-7A

(a)	Jan.	15	Cash Dividends (75,000 X £1).............	75,000	
			Dividends Payable........................		75,000
	Feb.	15	Dividends Payable...............................	75,000	
			Cash...		75,000
	Apr.	15	Share Dividends (7,500 X £14)	105,000	
			Ordinary Share Dividends		
			Distributable (7,500 X £10)...........		75,000
			Share Premium—Ordinary		
			(7,500 X £4)...................................		30,000
	May	15	Ordinary Share Dividends		
			Distributable	75,000	
			Share Capital—Ordinary (7,500 X £10)		75,000
	July	1	Memo—two-for-one share split increases the number of shares outstanding to 165,000, or (82,500 X 2) and reduces the par value to £5 per share.		
	Dec.	1	Cash Dividends (165,000 X £.60).........	99,000	
			Dividends Payable........................		99,000
		31	Income Summary	250,000	
			Retained Earnings		250,000
		31	Retained Earnings...............................	174,000	
			Cash Dividends............................		174,000
		31	Retained Earnings...............................	105,000	
			Share Dividends		105,000

PROBLEM 11-7A (Continued)

(b)

Share Capital—Ordinary

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			750,000
May	15				75,000	825,000
July	1	2 for 1 share split— new par value = $5				

Share Premium—Ordinary

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			200,000
Apr.	15				30,000	230,000

Retained Earnings

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			540,000
Dec.	31	Cash dividends		174,000		366,000
Apr.	31	Share dividends		105,000		261,000
	31	Net income			250,000	511,000

Cash Dividends

Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 1			75,000		75,000
Dec. 1			99,000		174,000
Dec. 31				174,000	0

Share Dividends

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 15			105,000		105,000
Dec. 31				105,000	0

Ordinary Share Dividends Distributable

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	15				75,000	75,000
May	15			75,000		0

PROBLEM 11-7A (Continued)

(c)

PRIMO CORPORATION
Statement of Financial Position (Partial)
December 31, 2014

Equity	
Share capital—ordinary, £5 par value, 165,000 shares issued and outstanding	£ 825,000
Share premium—ordinary	230,000
Retained earnings	511,000
Total equity	£1,566,000

PROBLEM 11-8A

(a)

WESTIN CORPORATION
Statement of Financial Position (Partial)
December 31, 2014

Equity	
Share capital—preference 8%, $100 par value, noncumulative, 3,600 shares issued and outstanding	$ 360,000
Share capital—ordinary, no par, $10 stated value, 150,000 shares issued, and 143,000 outstanding..	1,500,000
Share premium—preference	42,400
Share premium—ordinary	690,000
Share premium—treasury	6,000
Retained earnings	776,000
Less: Treasury shares (7,000 shares)	92,000
Total equity	$3,282,400

*(b) The book value of the ordinary shares is $20.18 computed as follows:

Total equity	$3,282,400
Less: Preference share equity	
Call price ($110 X 3,600)	396,000
Ordinary share equity	$2,886,400
Ordinary shares outstanding	143,000
Book value per share ($2,886,400 ÷ 143,000)................	$20.18

<u>Note</u>: No preference dividends are assigned to the preference shares equity because the preference shares are non-cumulative.

*PROBLEM 11-9A

CHAMBLIN INC.
Statement of Changes in Equity
For the Year Ending December 31, 2014
(in thousands, except shares)

	Share Capital— Ordinary	Share Premium— Ordinary	Ordinary Share Dividends Distributable	Treasury Shares	Retained Earnings	Total
Balances, Jan. 1	CHF 800	CHF 500	CHF 120	CHF 0	CHF 600	CHF 2,020
Issued 60,000 shares for share dividend	120		(120)			0
Issued 30,000 shares for cash	60	60				120
Purchased 25,000 treasury shares				(125)		(125)
Declared cash dividend					(111)	(111)
Sold 8,000 treasury shares				40		40
Net income for year					360	360
Balances, Dec. 31	CHF980	CHF560	CHF 0	CHF (85)	CHF849	CHF2,304

PROBLEM 11-1B

(a)	Jan. 10	Cash (80,000 X $3)	240,000	
		Share Capital—Ordinary (80,000 X $1).................................		80,000
		Share Premium—Ordinary (80,000 X $2).................................		160,000
	Mar. 1	Cash (10,000 X $45)	450,000	
		Share Capital—Preference (10,000 X $40)...............................		400,000
		Share Premium—Preference (10,000 X $5).................................		50,000
	Apr. 1	Land	75,000	
		Share Capital—Ordinary (25,000 X $1).................................		25,000
		Share Premium—Ordinary ($75,000 – $25,000)		50,000
	May 1	Cash (75,000 X $4)	300,000	
		Share Capital—Ordinary (75,000 X $1).................................		75,000
		Share Premium—Ordinary (75,000 X $3).................................		225,000
	Aug. 1	Organization Expense	44,000	
		Share Capital—Ordinary (10,000 X $1).................................		10,000
		Share Premium—Ordinary ($44,000 – $10,000)		34,000
	Sept. 1	Cash (5,000 X $6)	30,000	
		Share Capital—Ordinary (5,000 X $1)...................................		5,000
		Share Premium—Ordinary (5,000 X $5)...................................		25,000

PROBLEM 11-1B (Continued)

Nov. 1	Cash (2,000 X $48)	96,000	
	Share Capital—Preference (2,000 X $40)		80,000
	Share Premium—Preference		
	(2,000 X $8)		16,000

(b)

Share Capital—Preference

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 1		J1		400,000	400,000
Nov. 1		J1		80,000	480,000

Share Capital—Ordinary

Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 10		J1		80,000	80,000
Apr. 1		J1		25,000	105,000
May 1		J1		75,000	180,000
Aug. 1		J1		10,000	190,000
Sept. 1		J1		5,000	195,000

Share Premium—Preference

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 1		J1		50,000	50,000
Nov. 1		J1		16,000	66,000

Share Premium—Ordinary

Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 10		J1		160,000	160,000
Apr. 1		J1		50,000	210,000
May 1		J1		225,000	435,000
Aug. 1		J1		34,000	469,000
Sept. 1		J1		25,000	494,000

PROBLEM 11-1B (Continued)

(c)

WELLES CORPORATION
Statement of Financial Position (Partial)
December 31, 2014

Equity	
Share Capital—Preference	
6%, $40 par value,	
20,000 shares authorized,	
12,000 shares issued	
and outstanding	$ 480,000
Share Capital—Ordinary, no par,	
$1 stated value,	
500,000 shares authorized,	
195,000 shares issued	
and outstanding	195,000
Share Premium—Preference	66,000
Share Premium—Ordinary	494,000
Total Share Capital	$1,235,000

PROBLEM 11-2B

(a)	Mar. 1	Treasury Shares (5,000 X £7)	35,000	
		Cash		35,000
	June 1	Cash (800 X £10)	8,000	
		Treasury Shares (800 X £7)		5,600
		Share Premium—Treasury (800 X £3)		2,400
	Sept. 1	Cash (1,700 X £9)	15,300	
		Treasury Shares (1,700 X £7)		11,900
		Share Premium—Treasury (1,700 X £2)		3,400
	Dec. 1	Cash (1,000 X £5)	5,000	
		Share Premium—Treasury (1,000 X £2)	2,000	
		Treasury Shares (1,000 X £7)		7,000
	31	Income Summary	80,000	
		Retained Earnings		80,000

(b)

Share Premium—Treasury

Date	Explanation	Ref.	Debit	Credit	Balance
June 1		J12		2,400	2,400
Sept. 1		J12		3,400	5,800
Dec. 1		J12	2,000		3,800

Treasury Shares

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 1		J12	35,000		35,000
June 1		J12		5,600	29,400
Sept. 1		J12		11,900	17,500
Dec. 1		J12		7,000	10,500

PROBLEM 11-2B (Continued)

Retained Earnings

Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 1	Balance	✓			100,000
Dec. 31		J12		80,000	180,000

(c)

PLOVER CORPORATION
Statement of Financial Position (Partial)
December 31, 2014

Equity	
Share Capital—Ordinary	
£1 par, 400,000 shares issued and 398,500 outstanding	£ 400,000
Share Premium—Ordinary	500,000
Share Premium—Treasury	3,800
Retained Earnings	180,000
Less: Treasury Shares (1,500 shares)	10,500
Total Equity	£1,073,300

PROBLEM 11-3B

(a)

Feb.	1	Cash	19,500	
		Share Capital—Ordinary (3,000 X $3)		9,000
		Share Premium—Ordinary...........		10,500
Mar.	20	Treasury Shares (1,500 X $6)	9,000	
		Cash...		9,000
June	14	Cash	26,000	
		Share Premium—Treasury		2,000
		Treasury Shares (4,000 X $6)........		24,000
Sept.	3	Patents	14,000	
		Share Capital—Ordinary (2,000 X $3)		6,000
		Share Premium—Ordinary...........		8,000
Dec.	31	Income Summary	350,000	
		Retained Earnings		350,000

(b)

Share Capital—Preference

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

Share Capital—Ordinary

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			660,000
Feb.	1		J1		9,000	669,000
Sept.	3		J1		6,000	675,000

PROBLEM 11-3B (Continued)

Share Premium—Preference

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

Share Premium—Ordinary

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			396,000
Feb.	1		J1		10,500	406,500
Sept.	3		J1		8,000	414,500

Share Premium—Treasury

Date		Explanation	Ref.	Debit	Credit	Balance
June	14		J1		2,000	2,000

Retained Earnings

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			488,000
Dec.	31		J1		350,000	838,000

Treasury Shares

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			30,000
Mar.	20		J1	9,000		39,000
June	14		J1		24,000	15,000

(c)

MARYA CORPORATION
Statement of Financial Position (Partial)
December 31, 2014

Equity	
Share Capital—Preference	
9%, $100 par value, cumulative, 5,000 shares authorized, 3,000 shares issued and outstanding	**$ 300,000**
Share Capital—Ordinary, no par, $3 stated value, 300,000 shares authorized, 225,000 shares issued and 222,500 shares outstanding	**675,000**
Share Premium—Preference	**20,000**
Share Premium—Ordinary	**414,500**
Share Premium—Treasury	**2,000**
Retained Earnings	**838,000**
Less: Treasury Shares (2,500 shares)	**15,000**
Total Equity	**$2,234,500**

Note X: **Dividends on preference shares totaling $27,000 [3,000 X (9% X $100)] are in arrears.**

PROBLEM 11-4B

(a)	Jan. 15	Cash Dividends (250,000 X €1)	250,000	
		Dividends Payable		250,000
	Feb. 15	Dividends Payable	250,000	
		Cash		250,000
	Apr. 15	Share Dividends (25,000 X €11)...........	275,000	
		Ordinary Share Dividends Distributable (25,000 X €4)		100,000
		Share Premium—Ordinary (25,000 X €7)		175,000
	May 15	Ordinary Share Dividends Distributable	100,000	
		Share Capital—Ordinary (25,000 X €4)		100,000
	July 1	Memo—two-for-one share split increases the number of shares outstanding to 550,000, (275,000 X 2) and reduces par value to €2.00 per share.		
	Dec. 1	Cash Dividends (550,000 X €.50)..........	275,000	
		Dividends Payable		275,000
	31	Income Summary..................................	264,000	
		Retained Earnings..........................		264,000
		Retained Earnings	525,000	
		Cash Dividends		525,000
		Retained Earnings	275,000	
		Share Dividends.............................		275,000

PROBLEM 11-4B (Continued)

(b)

Share Capital—Ordinary

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			1,000,000
May	15				100,000	1,100,000
July	1	2 for 1 share split— new par value = $2.00				

Ordinary Share Dividends Distributable

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	15				100,000	100,000
May	15			100,000		0

Share Premium—Ordinary

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			200,000
Apr.	15				175,000	375,000

Retained Earnings

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			840,000
Dec.	31	Net income			264,000	1,104,000
	31	Cash dividends		525,000		579,000
	31	Share dividends		275,000		304,000

Cash Dividends

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	15			250,000		250,000
Dec.	1			275,000		525,000
	31				525,000	0

PROBLEM 11-4B (Continued)

Share Dividends

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	15			275,000		275,000
Dec.	31				275,000	0

(c)

BELGIUM CORPORATION
Statement of Financial Position (Partial)
December 31, 2014

Equity	
Share Capital—Ordinary	
€2.00 par value, 550,000	
shares issued and outstanding	€1,100,000
Share Premium—Ordinary..	375,000
Retained Earnings	304,000
Total Equity...	€1,779,000

PROBLEM 11-5B

(a)

ANDES COMPANY
Retained Earnings Statement
For the Year Ended December 31, 2014

Balance, January 1, as reported		$ 900,000
Correction for overstatement of net income in 2013 (depreciation error)		(65,000)
Balance, January 1, as adjusted		835,000
Add: Net income		3,600,000
		4,435,000
Less: Cash dividends—ordinary	$1,480,000*	
Cash dividends—preference	800,000	2,280,000
Balance, December 31		$2,155,000

*(1,500,000 – 20,000) X $1

(b)

ANDES COMPANY
Partial Statement of Financial Position
December 31, 2014

Equity	
Share Capital—Preference, $100 par value, 8%, cumulative, 100,000 shares issued and outstanding	$10,000,000
Share Capital—Ordinary, $10 par value, 1,500,000 shares issued and 1,480,000 shares outstanding	15,000,000
Share Premium—Preference	500,000
Share Premium—Ordinary	1,500,000
Retained earnings	2,155,000
Less: Treasury Shares (20,000 shares)	280,000
Total Equity	$28,875,000

PROBLEM 11-6B

(a)

Retained Earnings

Nov. 1	Cash Dividends	500,000	Jan. 1	Balance	2,450,000
Dec. 31	Share Dividends	400,000	Dec. 31	Net Income	970,000
			Dec. 31	Balance	2,520,000

(b)

FORTALEZA CORPORATION
Retained Earnings Statement
For the Year Ended December 31, 2014

Balance, January 1		R$2,450,000
Add: Net income		970,000
		3,420,000
Less: Cash dividends	R$500,000	
Share dividends	400,000	900,000
Balance, December 31		R$2,520,000

(c)

FORTALEZA CORPORATION
Partial Statement of Financial Position
December 31, 2014

Equity	
Share Capital—Preference 8%, R$100 par value, noncumulative, callable at R$125, 20,000 shares authorized, 8,000 shares issued and outstanding	R$800,000
Share Capital—Ordinary, no par, $5 stated value, 600,000 shares authorized, 400,000 shares issued and outstanding	2,000,000
Ordinary Share Dividends Distributable	200,000

FORTALEZA CORPORATION (Continued)

Share Premium—Preference..................	R$ 100,000
Share Premium—Ordinary	1,220,000
Retained Earnings (see Note A).............	2,520,000
Total Equity......................................	R$6,840,000

Note A: Retained earnings is restricted for plant expansion, R$100,000.

(d)	Total dividend..	R$500,000
	Allocated to preference shares—current year only............	64,000
	Remainder to ordinary shares	R$436,000

PROBLEM 11-7B

(a)

CRIVELLO CORPORATION
Statement of Financial Position (Partial)
December 31, 2014

Equity	
Share Capital—Preference	
8%, $50 par non-cumulative,	
16,000 shares issued........................	$ 800,000
Share Capital—Ordinary, no par, $3	
stated value, 800,000	
shares issued and 790,000	
outstanding	2,400,000
Share Premium—Preference	220,000
Share Premium—Ordinary	1,600,000
Share Premium—Treasury....................	10,000
Retained Earnings	1,448,000
Less: Treasury Shares (10,000 shares)	75,000
Total Equity	$6,403,000

PROBLEM 11-7B (Continued)

*(b) The book value of the ordinary shares is $6.89 computed as follows:

Total equity	$6,403,000
Less: Preference share equity	
Call price (16,000 X $60)	960,000
Ordinary share equity	$5,443,000
Ordinary shares outstanding	790,000
Book value per share ($5,443,000 ÷ 790,000)................	$6.89

Note: No preference dividends are assigned to the preference shares equity because the preference shares are non-cumulative.

COMPREHENSIVE PROBLEM SOLUTION

(a)

1.	Cash	33,000	
	Share Capital—Preference		30,000
	Share Premium—Preference		3,000
2.	Cash	6,300	
	Share Capital—Ordinary		900
	Share Premium—Ordinary		5,400
3.	Accounts Receivable	276,000	
	Service Revenue		276,000
4.	Cash	36,000	
	Unearned Service Revenue		36,000
5.	Cash	267,000	
	Accounts Receivable		267,000
6.	Supplies	26,100	
	Account Payable		26,100
7.	Accounts Payable	32,200	
	Cash		32,200
8.	Treasury Shares	3,200	
	Cash		3,200
9.	Other Operating Expenses	188,200	
	Cash		188,200
10.	Cash Dividends (€1,800 + €25,250*)	27,050	
	Dividends Payable		27,050
11.	Allowance for Doubtful Accounts	1,300	
	Accounts Receivable		1,300

*[(€50,000 ÷ €1) + 900 – 400] X €.50

Adjusting Entries

		Debit	Credit
1.	Supplies Expense (€4,400 + €26,100 – €5,900)	24,600	
	Supplies		24,600
2.	Unearned Service Revenue	27,000	
	Service Revenue (€36,000 X 9/12)		27,000
3.	Bad Debt Expense €3,500 – (€1,500 – €1,300)]	3,300	
	Allowance for Doubtful Accounts		3,300
4.	Depreciation Expense	4,000	
	Accumulated Depreciation—Buildings (€130,000 – €10,000) ÷ 30		4,000
5.	Income Tax Expense	24,870	
	Income Taxes Payable		24,870

(b)

VOLTAIRE CORPORATION
Adjusted Trial Balance
12/31/14

Account	Debit	Credit
Cash	€143,300	
Accounts Receivable	53,200	
Allowance for Doubtful Accounts		€ 3,500
Supplies	5,900	
Land	40,000	
Buildings	130,000	
Accum. Depreciation—Buildings		24,000
Accounts Payable		19,500
Income Taxes Payable		24,870
Unearned Service Revenue		9,000
Dividends Payable		27,050
Share Capital—Preference		30,000
Share Premium—Preference.		3,000
Share Capital—Ordinary		50,900
Share Premium—Ordinary		5,400
Retained Earnings		147,400
Cash Dividends	27,050	
Treasury Shares	3,200	
Service Revenue		303,000
Bad Debt Expense	3,300	
Depreciation Expense	4,000	
Supplies Expense	24,600	
Other Operating Expenses	188,200	
Income Tax Expense	24,870	
Total	€647,620	€647,620

(c) Optional T Accounts

Cash

Bal.	24,600		32,200
	33,000		3,200
	6,300		188,200
	36,000		
	267,000		
Bal.	143,300		

Accounts Receivable

Bal.	45,500		267,000
	276,000		1,300
Bal.	53,200		

Allowance for Doubtful Accounts

	1,300	Bal.	1,500
			3,300
		Bal.	3,500

Supplies

Bal.	4,400		24,600
	26,100		
Bal.	5,900		

Land

Bal.	40,000		

Buildings

Bal.	130,000		

Accum. Depreciation—Buildings

		Bal.	20,000
			4,000
		Bal.	24,000

Accounts Payable

	32,200	Bal.	25,600
			26,100
		Bal.	19,500

Income Taxes Payable

			24,870

Unearned Service Revenue

	27,000		36,000
		Bal.	9,000

Dividends Payable

			27,050

Share Capital—Preference

			30,000

Share Premium—Preference

			3,000

COMPREHENSIVE PROBLEM SOLUTION (Continued)

(c) (Continued)

Share Capital—Ordinary

	Bal.	50,000
		900
	Bal.	50,900

Share Premium—Ordinary

	5,400

Retained Earnings

	147,400

Cash Dividends

27,050	

Treasury Shares

3,200	

Service Revenue

		276,000
		27,000
	Bal.	303,000

Bad Debt Expense

3,300	

Depreciation Expense

4,000	

Supplies Expense

24,600	

Other Operating Expenses

188,200	

Income Tax Expense

24,870	

COMPREHENSIVE PROBLEM SOLUTION (Continued)

(d)

VOLTAIRE CORPORATION
Income Statement
For the Year ending 12/31/14

Service revenue		€303,000
Operating expenses		
Supplies expense	€ 24,600	
Depreciation expense	4,000	
Bad debt expense	3,300	
Other operating expenses	188,200	
Total operating expenses		220,100
Income before taxes		82,900
Income tax expense		24,870
Net income		€ 58,030

VOLTAIRE CORPORATION
Retained Earnings Statement
For the Year ending 12/31/14

Retained earnings, 1/1/14	€147,400
Add: Net income	58,030
	205,430
Less: Dividends	27,050
Retained earnings, 12/31/14	€178,380

VOLTAIRE CORPORATION
Statement of Financial Position
At 12/31/2014

Assets			
Property, plant, and equipment			
Land		$40,000	
Buildings	$130,000		
Accumulated depreciation-building	(24,000)	106,000	$146,000
Current assets			
Supplies		5,900	
Accounts receivable	53,200		
Allowance for doubtful accounts	(3,500)	49,700	
Cash		143,300	
Total current assets			198,900
Total assets			$344,900
Equity and Liabilities			
Equity			
Share capital—premium		$30,000	
Share capital—ordinary		50,900	
Share premium—preference		3,000	
Share premium—ordinary		5,400	
Retained earnings		178,380	
Less: Treasury shares (400 shares)		3,200	
Total equity			$264,480
Current liabilities			
Accounts payable		19,500	
Income taxes payable		24,870	
Dividends payable		27,050	
Unearned service revenue		9,000	
Total current liabilities			80,420
Total equity and liabilities			$344,900

BYP 11-1 FINANCIAL REPORTING PROBLEM

(a) The ordinary shares of Samsung Electronics Co. has a par value of ₩5,000 per share.

(b) There are 250,303,189 shares authorized of which 129,843,077 are issued. The percentage is 51.9% (129,843,077 ÷ 250,303,189).

(c) The outstanding shares were:

	2010	2009
Shares issued and outstanding...........	129,843,077	128,271,387*

*148,125,121−19,853,734 (preferred stock)

BYP 11-2 COMPARATIVE ANALYSIS PROBLEM

		Zetar	Nestlé
(a)	Basic earnings per share	£35.1	CHF10.16
(b)	Return on ordinary shareholders' equity	£4,482 / (£46,287 + £41,755)/2	CHF35,384 / CHF62,598 + CHF53,631)/2
		10.2%	60.9%

Nestlé's return on ordinary shareholders' equity is almost 6 times as great as Zetar's, indicating that it is significantly more profitable in terms of ordinary shareholders investment.

		Zetar	Nestlé
(c)	Total dividends paid in most recent fiscal years	£-0-	CHF5,443 million

BYP 11-3 REAL-WORLD FOCUS

Answers will vary depending on company chosen by student.

BYP 11-4 DECISION-MAKING ACROSS THE ORGANIZATION

(a) **The cumulative provision means that preference shareholders must be paid both current-year dividends and unpaid prior-year dividends before ordinary shareholders receive any dividends. When preference shares are cumulative, preference dividends not declared in a given period are called dividends in arrears.**

(b) **The market price of a share 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 in the corporate charter. Par value may be any amount selected by the corporation. Generally, the amount of par value is quite low because governments often levy a tax on the corporation based on par value.

Par value is not indicative of the worth or market value of the shares. 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 shares to:**

1. **Reissue the shares to officers and employees under bonus or share compensation plans.**
2. **Increase trading of the company's shares 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 11-4 (Continued)

Treasury shares are not an asset. If treasury shares were reported as an asset, then unissued shares should also be shown as an asset, also an erroneous conclusion. Rather than being an asset, treasury shares reduce shareholder claims on corporate assets. This effect is correctly shown by reporting treasury shares as a deduction from total share capital and retained earnings.

BYP 11-5 COMMUNICATION ACTIVITY

Dear Uncle Jerrod:

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

Here are my explanations:

1. **<u>Authorized shares</u> is the total amount of shares that a corporation is given permission to sell as indicated in its charter. If all authorized shares are sold, a corporation must obtain consent from the government to amend its charter before it can issue additional shares.**

2. **<u>Issued shares</u> is the amount of shares that have been sold either directly to investors or indirectly through an investment banking firm.**

3. **<u>Outstanding shares</u> are capital shares that have been issued and are being held by shareholders.**

4. **<u>Preference shares</u> are capital shares that have contractual preferences over ordinary shares 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 11-6 ETHICS CASE

(a) The stakeholders in this situation are:

- **The director of Hancock R&D division.**
- **The president of Hancock.**
- **The shareholders of Hancock.**
- **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 corporate law and criminal law.

GAAP EXERCISES

GAAP 11-1

May 10 Cash (1,000 X $18)	18,000	
Common Stock (1,000 X $10)		10,000
Paid-in Capital in Excess of Par–Common Stock (1,000 X $8)		8,000

GAAP 11-2

INGRAM CORPORATION
Balance Sheet (Partial)
December 31, 2014

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–common stock	10,000	
Total paid-in capital		$60,000
Retained earnings		45,000
Total paid-in capital and retained earnings		105,000
Less: Treasury stock (500 common shares)		11,000
Total stockholders' equity		$94,000

GAAP 11-3

Mar. 2	Organization Expense	30,000	
	Common Stock (5,000 X $1)........................		5,000
	Paid-in Capital in Excess of Par–Common Stock.....................................		25,000
June 12	Cash	375,000	
	Common Stock (60,000 X $1)......................		60,000
	Paid-in Capital in Excess of Par–Common Stock.....................................		315,000
July 11	Cash (1,000 X $110)...	110,000	
	Preferred Stock (1,000 X $100)		100,000
	Paid-in Capital in Excess of Par–Preferred Stock (1,000 X $10)..............		10,000
Nov. 28	Treasury Stock..	80,000	
	Cash		80,000

GAAP FINANCIAL REPORTING PROBLEM

GAAP 11-4

(a) The par value of both classes of common stock is $.69 4/9.

(b) Tootsie roll has issued 35% of the shares they are authorized

(c) At December 31, 2010 and December 31, 2009 there were 56,454 and 55,654 shares outstanding, respectively.

(d) At December 31, 2010:

Earnings per share	$53,714 ÷ 56,997 shares = $0.94
Return on common stockholders' equity	$53,714 ÷ [($668,954 + $655,139)/2] = 8.11%