Assignment 2

1)

Many of the important ideas and concepts discussed in Chapter 15 are reflected in the following list of key terms. Test your understanding of these terms by matching the appropriate definitions with the terms. Record the number identifying the most appropriate definition in the blank space next to each term.

________ Book value of a share
________ Call price of a preferred share
________ Callable preferred shares
________ Common shares
________ Common Shares Subscribed
________ Convertible preferred shares
________ Cumulative preferred shares
________ Dividend in arrears
________ Financial leverage
________ Noncumulative preferred shares
________ No-par value shares
________ Organization costs
________ Par value
________ Participating preferred shares
________ Preemptive right
________ Preferred shares
________ Premium on shares
________ Proxy
________ Stated value of no-par value shares
________ Share subscription

1. The amount of consideration received for the no par value shares; this amount is credited to the no-par share account when the shares are issued.
2. Preferred shares that the issuing corporation, at its option, may retire by paying a specified amount (the call price) to the preferred shareholders plus any dividends in arrears.
3. The right of common shareholders to protect their proportionate interest in a corporation by having the first opportunity to buy additional common shares issued by the corporation.
4. The amount that must be paid to call and retire a preferred share.
5. A class of shares that does not have a par value; no-par shares can be issued at any price without creating a premium on shares.

6. A legal document that gives an agent of a shareholder the power to exercise the voting rights of that shareholder's shares.
7. A shareholders' equity account in which a corporation records the par or stated value of unissued common shares that investors have contracted to purchase.
8. The costs of bringing a corporation into existence, including legal fees, promoters' fees, and amounts paid to secure incorporation.
9. Preferred shares that can be exchanged for the issuing corporation's common shares at the option of the preferred shareholder.
10. Preferred shares on which undeclared dividends accumulate until they are paid; common shareholders cannot receive a dividend until all cumulative dividends have been paid.
11. One share's portion of the issuing corporation's net assets recorded in its accounts.
12. Shares that give its owners a priority status over common shareholders in one or more ways, such as the payment of dividends or the distribution of assets upon liquidation.
13. The difference between the par value of shares and their issue price when they are issued at a price above par value.
14. An unpaid dividend on cumulative preferred shares; it must be paid before any regular dividends on the preferred shares and before any dividends on the common shares.
15. Preferred shares that give its owners the right to share in dividends in excess of the stated amount or percentage.
16. A contractual commitment by an investor to purchase unissued shares and become a shareholder.
17. Shares of a corporation that has only one class of shares, or if there is more than one class, the class that has no preferences over the corporation's other classes of shares.
18. Preferred shares on which the right to receive dividends is forfeited for any year that the dividends are not declared.
19. 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.
20. An arbitrary value assigned to a share then the shares are authorized.

2)

The shareholders' equity section from Sonar Corporation's balance sheet shows the following:

SHARE CAPITAL AND RETAINED EARNINGS

Preferred $8, cumulative and nonparticipating, issued and outstanding 2,000 shares	$200,000	
Common no par value, issued and outstanding 25,000 shares	250,000	
Total contributed capital		$450,000
Retained earnings		230,000
Total shareholders' equity		$680,000

1. If there are no dividends in arrears, the book value per share of the corporation's preferred is $ ________________ , and the book value per share of its common is $ ________________ .

2. If a total of two years' dividends are in arrears on the preferred shares, the book value per share of the preferred is $ ________________________ , and the book value per share of the common is $ ________________________ .

3)

A corporation accepted subscriptions to 25,000 shares of no par value common at $5.50 per share. The subscription contracts called for 20% down payments with the balance in 30 days. The explanations for several entries involving these shares follow. Complete the entries.

DATE	ACCOUNT TITLES AND EXPLANATION	P.R.	DEBIT	CREDIT
Sept. 5				
	Accepted subscriptions to 25,000 shares of			
	common at $5.50 per share.			
5				
	Received $27,500 from the common share			
	subscribers as down payments on their shares.			
Oct. 5				
	Received payment in full of the balance due on			
	the September 5 common share subscriptions.			
5				
	Issued the common shares of the fully paid			
	subscribers.			

4)

The May 31 balance sheet of Eastwood Corporation carried the following shareholders' equity section:

Shareholders' Equity

Common shares, no par value, 25,000 shares authorized, 20,000 shares issued	$200,000
Retained earnings	44,000
Total shareholders' equity	$244,000

On the balance sheet date, with the common selling at $12 per share, the corporation's board of directors voted a 2,000-share stock dividend distributable on June 30 to the June 20 shareholders of record.

1. In the space below give without explanations the entries to record the declaration and distribution of the dividend.

DATE	ACCOUNT TITLES AND EXPLANATION	P.R.	DEBIT	CREDIT

2. Harold Jax owned 2,000 of the corporation's common shares before the declaration and distribution of the stock dividend; as a result, his portion of the dividend was ______________ shares. The total book value of Jax's 2,000 shares before the dividend was $ ______________ ; the total book value of his shares after the dividend was $ ______________ ; consequently, Jax gained $ ______________ in the book value of his interest in the corporation.

5)

On August 10 Mainline Corporation purchased for cash 2,000 of its own shares at $27 per share. The shares were immediately retired. The average stated value of the outstanding shares was $20 per share. Complete the entries below to record the purchase and retirement of the shares.

DATE	ACCOUNT TITLES AND EXPLANATION	P.R.	DEBIT	CREDIT
Aug. 10				
	Retired 2,000 common shares.			
10				
	Restricted retained earnings equal to			
	the cost of the retired shares.			

6)

The Precision Company of Canada Inc. began 2001 with the following balances in its shareholders' equity accounts:

Contributed capital:	
Common shares, 500,000 shares authorized;	
200,000 shares issued and outstanding	$3,000,000
Retained earnings	5,000,000
Total shareholders' equity	$8,000,000

All of the outstanding shares were issued for $15.

Required

Prepare journal entries to account for the following transactions during 2001:

Feb. 15	Repurchased and retired 20,000 common shares at $15 per share.
Apr. 15	Repurchased and retired 15,000 common shares at $13 per share.
May 1	Repurchased and retired 5,000 common shares at $19 per share.

7)

Carefree Footware Inc. reported $261,400 net income in 2001 and declared preferred dividends of $43,000. The following changes in common shares outstanding occurred during the year:

Jan. 1	60,000 common shares were outstanding.
June 30	Sold 20,000 common shares.
Sept. 1	Declared and issued a 20% common share dividend.

Calculate the weighted-average number of common shares outstanding during the year and earnings per share.

8)

A company reported $1,350,000 of net income for 2002. It also declared $195,000 of dividends on preferred shares for the same year. At the beginning of 2002, the company had 270,000 outstanding common shares. These two events changed the number of outstanding shares during the year:

Apr. 30	Sold 180,000 common shares for cash.
Oct. 31	Purchased and cancelled 108,000 common shares.

a. What is the amount of net income available for distribution to the common shareholders?
b. What is the weighted-average number of common shares for the year?
c. What is the basic earnings per share for the year?

9)

Allar Corporation showed the following balances at December 31, 2001:

Contributed capital:	
Common shares, unlimited shares authorized, 70,000 shares issued and outstanding	$680,000
Retained earnings	94,000
Total shareholders' equity	$774,000

Allar Corporation issued long-term debt during 2002 that requires a retained earnings restriction of $60,000. Share dividends declared but not distributed during 2002 totalled 7,000 shares capitalized for a total of $70,000.

a. Prepare a statement of retained earnings for the year ended December 31, 2002, assuming net income earned during the year was $104,000.
b. Prepare the shareholders' equity section at December 31, 2002.
c. What is the maximum amount of dividends that Allar Corporation can declare during 2003?

10)

The income statement for Davidson Inc.'s year-ended December 31, 2001, was prepared by an inexperienced bookkeeper. As the new accountant, your immediate priority is to correct the statement. All amounts included in the statement are before tax (assume a rate of 30%). Davidson Inc. had 100,000 common shares issued and outstanding throughout the year as well as 20,000 shares of $0.50 cumulative preferred shares issued and outstanding. Retained earnings at December 31, 2000, was $137,000.

Davidson Inc.
Income Statement
December 31, 2001

Revenues:		
Sales	$480,000	
Gain on sale of equipment	6,000	
Interest revenue	2,800	
Extraordinary gain	59,000	
Operating income on discontinued operation	12,100	$559,900
Expenses:		
Cost of goods sold	$145,000	
Selling and administrative expenses	75,000	
Sales discounts	4,900	
Loss on sale of discontinued operation	15,000	
Dividends	50,000	289,900
Net income		$270,000
Earnings per share		$2.70

Required

Prepare a corrected Statement of Income and Retained Earnings including earnings per share information. Round earnings per share calculations to the nearest whole cent.