# Learning Objectives

Identify characteristics of corporations and their organization

Describe and contrast the specialized components of corporate financial statements

Record the issuance of common and preferred shares and describe their presentation in shareholder's equity on the balance sheet.

Describe and accounts for cash dividends.

Distribute dividends between common and preferred shares.

Record closing entries for a corporation

## Characteristics of corporations

### Separate legal entity

That conducts its affairs with the same rights , duties and responsibilities as a person. A corporation take actions through its agents, who are its officers and managers.

### Limited liability of shareholders

Because it is a separate legal entity, it is responsible for its own acts and its own debt. If the business fails, the amount contributed by shareholders is the maximum loss to the shareholders. Creditors have no claim on shareholders’ personal assets.

### Ownership rights are transferable

The transfer of shares from one shareholder to another usually has no effect on the corporation or its operations. (but a transfer of ownership can create significant effects if it brings about a change in who controls the company’s activities.)

Continuous life

A corporation's life can continue indefinitely because it is not tied to the physical lives of its owners.

Shareholders are not corporate agents

A corporation acts through its agents, who are the officers or managers. Shareholders who are not officers or managers of the corporation do not have the power to bind the corporation to contracts. (lack of mutual agency)

Ease of capital accumulation

Buying shares in a corporation is attractive to investors and make it possible for some corporations to accumulate large amounts of capital.

Governmental regulation

Any publicly traded company with gross revenues of $ 10 million or assets exceeding $ 5 million must make public its financial statements, which have been prepared according to GAAP.

Corporate taxation

Corporation are subject to property, payroll, and corporation taxes. In addition corporation are subject to an income tax expense. Corporate income tax is an expense that appears on the income statement. However, it is not an operating expense because income tax is determined by government rather than by how the business operates.

| Advantages | disadvantages |
|---|---|
| Limited liability of shareholders | Government regulation |
| Ownership rights are easily transferable | Corporate taxation |
| Continuous life | Separation of management and ownership |
| Lack of mutual agency | |
| Ease of capital accumulation | |

## Organizing a corporation

The costs of organizing a corporation are organization costs. They include legal fees, promoter's fees, and amounts paid to obtain a charter.

| | | | |
|---|---|---|---|
| April 15 2002 | Organization costs | 15000 | |
| | Cash | | 15000 |
| | To record payment of costs regarding the organization of the corporation | | |

## Management of a corporation

Ultimate control of a corporation rests with its shareholders through election of the board of directors. Individual shareholders' rights to affect management are limited to a vote in shareholders' meetings, where each share holder has one vote for each common share owned.

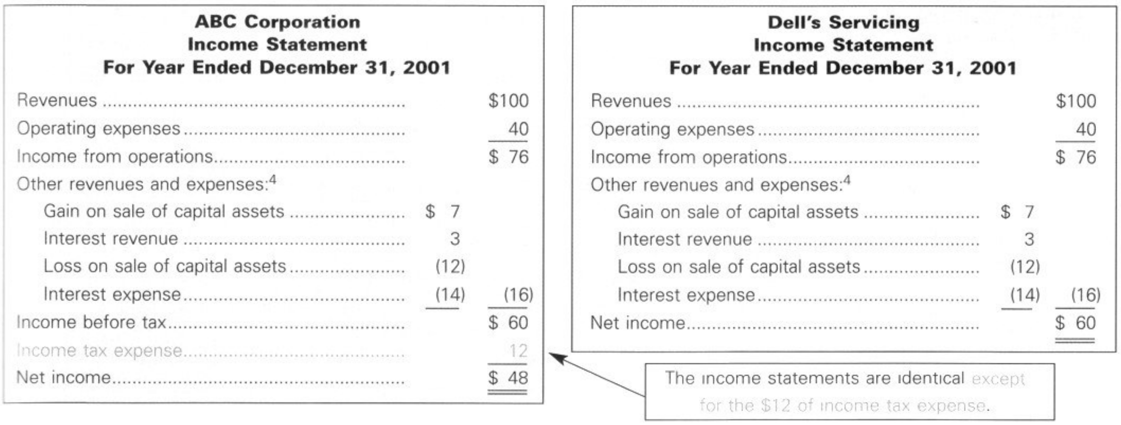
Shareholders have three rights: the right to vote, to receive dividends that have been declared, the right to receive property of the corporation after its closure.

# Corporate financial statements

## Income statement

Assume a 20% flat tax rate. The 20% tax rate is applied to income before tax(20% x $60 = $12)

The resulting tax expense of $12 is subtracted from income before tax to arrive at net income. Therefore, the term net income for a corporation means income after tax. Not so with sole proprietorship and partnership forms of business. These are not taxed: the owners are taxed.



**ABC Corporation**
**Income Statement**
**For Year Ended December 31, 2001**

| | | |
|---|---|---|
| Revenues | | $100 |
| Operating expenses | | 40 |
| Income from operations | | $ 76 |
| Other revenues and expenses:[4] | | |
| Gain on sale of capital assets | $ 7 | |
| Interest revenue | 3 | |
| Loss on sale of capital assets | (12) | |
| Interest expense | (14) | (16) |
| Income before tax | | $ 60 |
| Income tax expense | | 12 |
| Net income | | $ 48 |

**Dell's Servicing**
**Income Statement**
**For Year Ended December 31, 2001**

| | | |
|---|---|---|
| Revenues | | $100 |
| Operating expenses | | 40 |
| Income from operations | | $ 76 |
| Other revenues and expenses:[4] | | |
| Gain on sale of capital assets | $ 7 | |
| Interest revenue | 3 | |
| Loss on sale of capital assets | (12) | |
| Interest expense | (14) | (16) |
| Net income | | $ 60 |

The income statements are identical except for the $12 of income tax expense.

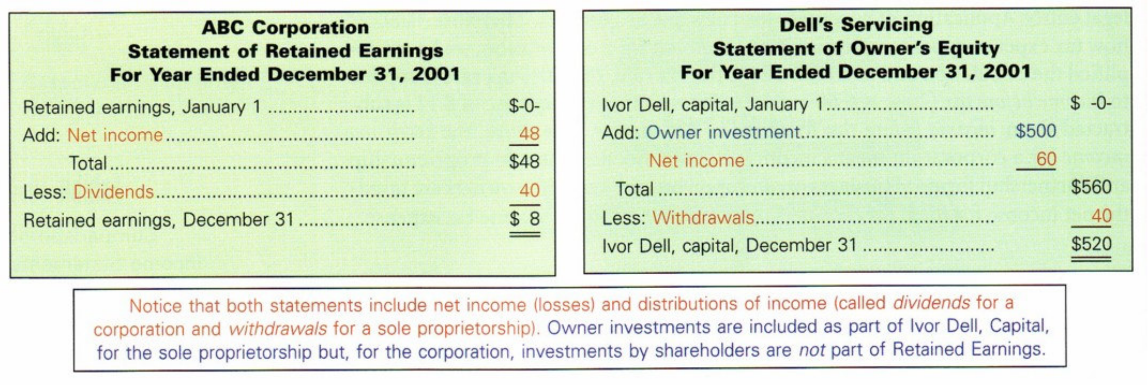
# Statement of retained earnings

A sole proprietorship prepares a Statement of owner's equity to show how equity changed during the accounting period. The equity of the owners, regardless of the form of business organization, changes because of:

- Net income or losses
- Distributions of income
- Owner investments.

The equity of a corporation also changes because of net incomes or losses, distributions of income(called dividends), and owner investments.

However, those changes are recorded in Retained earnings.



**ABC Corporation**
**Statement of Retained Earnings**
**For Year Ended December 31, 2001**

| | |
|---|---|
| Retained earnings, January 1 | $-0- |
| Add: Net income | 48 |
| Total | $48 |
| Less: Dividends | 40 |
| Retained earnings, December 31 | $ 8 |

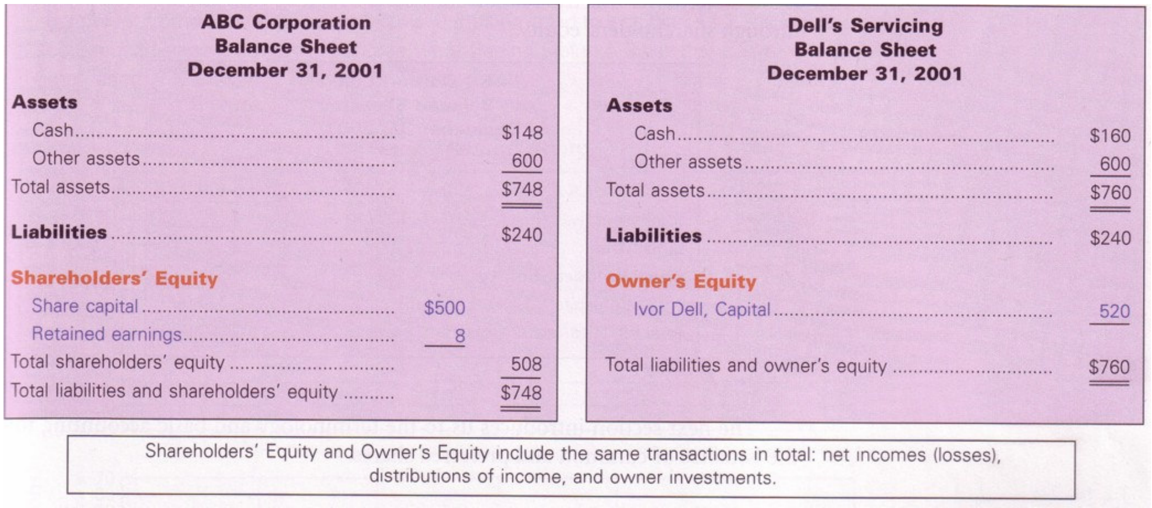
**Dell's Servicing**
**Statement of Owner's Equity**
**For Year Ended December 31, 2001**

| | | |
|---|---|---|
| Ivor Dell, capital, January 1 | | $ -0- |
| Add: Owner investment | $500 | |
| Net income | 60 | |
| Total | | $560 |
| Less: Withdrawals | | 40 |
| Ivor Dell, capital, December 31 | | $520 |

Notice that both statements include net income (losses) and distributions of income (called *dividends* for a corporation and *withdrawals* for a sole proprietorship). Owner investments are included as part of Ivor Dell, Capital, for the sole proprietorship but, for the corporation, investments by shareholders are *not* part of Retained Earnings.

## Balance sheet

The balance sheets for both the corporation and the sole proprietorship are identical except for the equity section. The equity section is called Shareholders' equity for a corporation.



**ABC Corporation**
**Balance Sheet**
**December 31, 2001**

| | | |
|---|---|---|
| **Assets** | | |
| Cash | | $148 |
| Other assets | | 600 |
| Total assets | | $748 |
| **Liabilities** | | $240 |
| **Shareholders' Equity** | | |
| Share capital | $500 | |
| Retained earnings | 8 | |
| Total shareholders' equity | | 508 |
| Total liabilities and shareholders' equity | | $748 |

**Dell's Servicing**
**Balance Sheet**
**December 31, 2001**

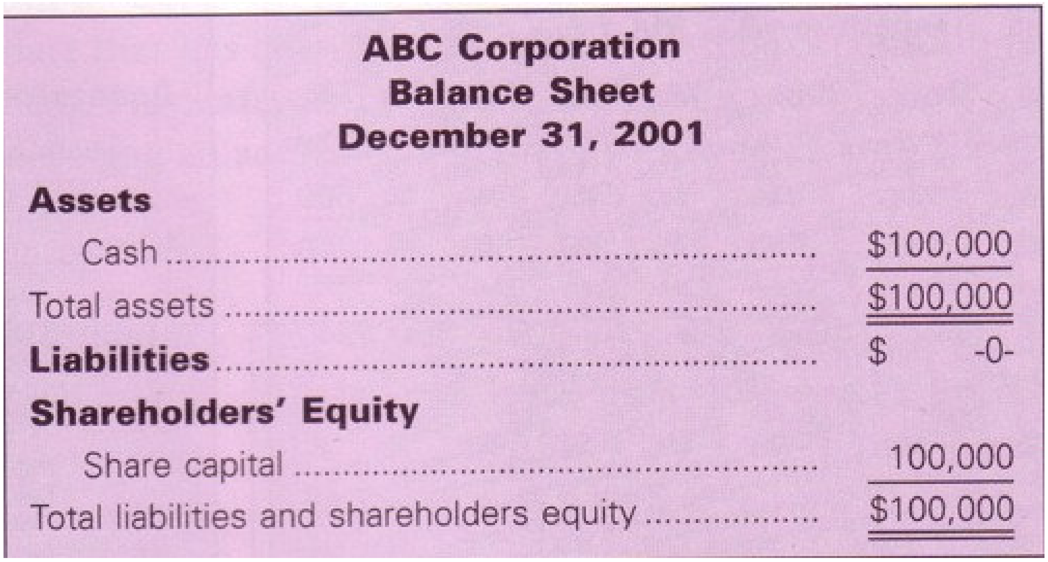
| | |
|---|---|
| **Assets** | |
| Cash | $160 |
| Other assets | 600 |
| Total assets | $760 |
| **Liabilities** | $240 |
| **Owner's Equity** | |
| Ivor Dell, Capital | 520 |
| Total liabilities and owner's equity | $760 |

Shareholders' Equity and Owner's Equity include the same transactions in total: net incomes (losses), distributions of income, and owner investments.

## Issuing share capital

A corporation must have a registrar who keeps shareholder records and prepares official lists of shareholders for shareholders' meetings and dividend payments.

The selling or issuing of shares by a corporation is referred to as equity financing because assets are increased (financed) through shareholder (equity) investment.



**ABC Corporation**
**Balance Sheet**
**December 31, 2001**

| | |
|---|---|
| **Assets** | |
| Cash | $100,000 |
| Total assets | $100,000 |
| **Liabilities** | $ -0- |
| **Shareholders' Equity** | |
| Share capital | 100,000 |
| Total liabilities and shareholders equity | $100,000 |

Selling shares

Corporations can either sell shares directly of indirectly to shareholders at the market value per share.

To sell shares directly, a corporation advertises its shares issuance directly to potential buyers.

To sell shares indirectly, a corporation pays a brokerage house to underwrite the issuance.

## Common shares

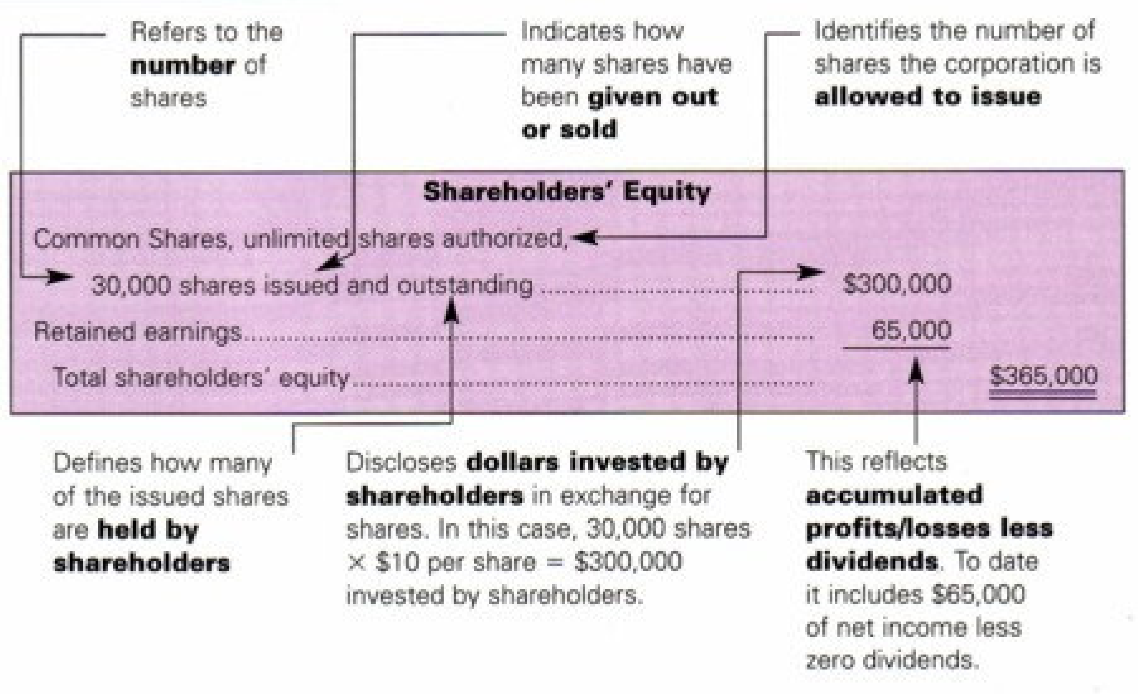
Common shares represent residual equity, or what is leftover after creditors and other shareholders (if any) are paid when a corporation is liquidated.

Shares are most commonly issued in exchange for cash.

i.e. the entry to record Dillon Snowboards' immediate issuance of 30,000 common shares for $300 000 on June 5, 2001 is:

| | | |
|---|---|---|
| 2001 | Cash | 300 000 |
| June 5 | Common shares | 300 000 |
| | Sold and issued common shares at $10 per share | |

Many important terms and phrases are used in the shareholders' equity section of a balance sheet.



Refers to the **number** of shares

Indicates how many shares have been **given out or sold**

Identifies the number of shares the corporation is **allowed to issue**

**Shareholders' Equity**

| | | |
|---|---|---|
| Common Shares, unlimited shares authorized, | | |
| 30,000 shares issued and outstanding | $300,000 | |
| Retained earnings | 65,000 | |
| Total shareholders' equity | | $365,000 |

Defines how many of the issued shares are **held by shareholders**

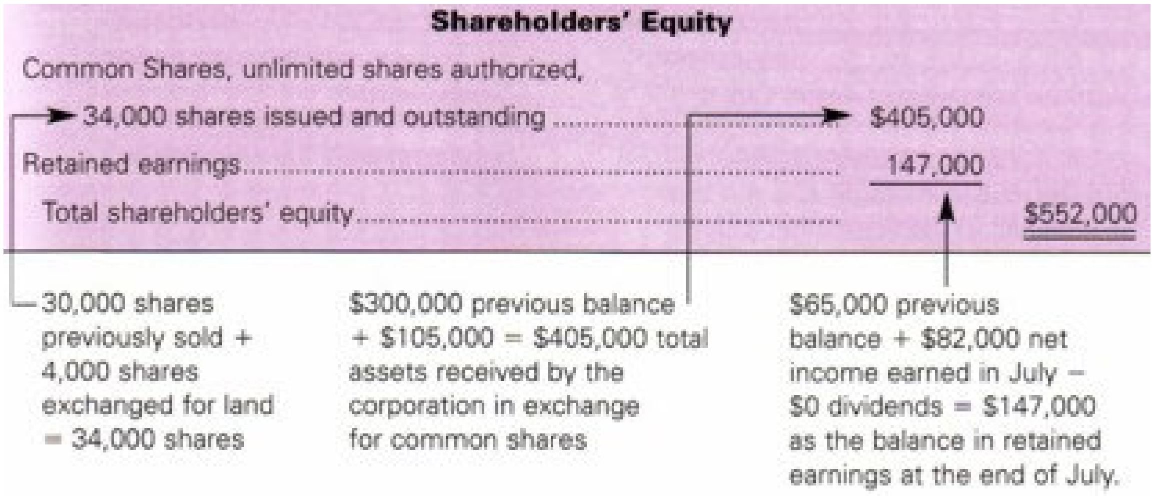
Discloses **dollars invested by shareholders** in exchange for shares. In this case, 30,000 shares × $10 per share = $300,000 invested by shareholders.

This reflects **accumulated profits/losses less dividends**. To date it includes $65,000 of net income less zero dividends.

Issuing common shares for noncash assets

| | | | |
|---|---|---|---|
| 2001 | Land | 105 000 | |
| July 2 | Common shares | | 105 000 |
| | Exchanged 4 000 commons shares for land | | |

The following shows shareholders' equity of Dillon Snowboards at July 31 2001, assuming net income earned during July of $82 000.



**Shareholders' Equity**

| | |
|---|---|
| Common Shares, unlimited shares authorized, | |
| 34,000 shares issued and outstanding | $405,000 |
| Retained earnings | 147,000 |
| Total shareholders' equity | $552,000 |

30,000 shares previously sold + 4,000 shares exchanged for land = 34,000 shares

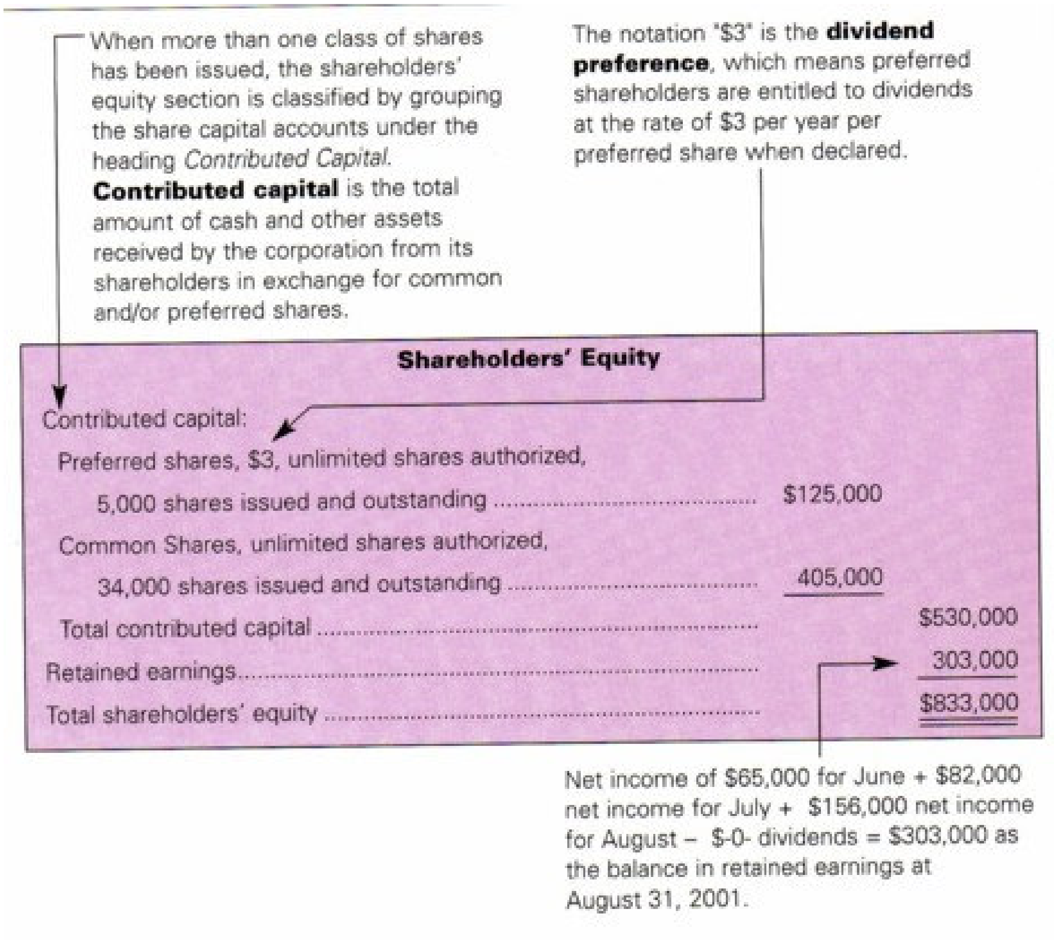
$300,000 previous balance + $105,000 = $405,000 total assets received by the corporation in exchange for common shares

$65,000 previous balance + $82,000 net income earned in July − $0 dividends = $147,000 as the balance in retained earnings at the end of July.

Preferred shares

Preferred shares have special rights that give them priority over common shares in one or more areas. Special rights typically include a preference for receiving dividends and for the distribution of assets if the corporation is liquidated. Most preferred do not have the right to vote.

| | | |
|---|---|---|
| 2001 | Cash | 125 000 |
| Aug. 3 | Preferred shares | 125 000 |
| | Issued 5 000 preferred shares for total cash of $125 000 | |



When more than one class of shares has been issued, the shareholders' equity section is classified by grouping the share capital accounts under the heading *Contributed Capital.* **Contributed capital** is the total amount of cash and other assets received by the corporation from its shareholders in exchange for common and/or preferred shares.

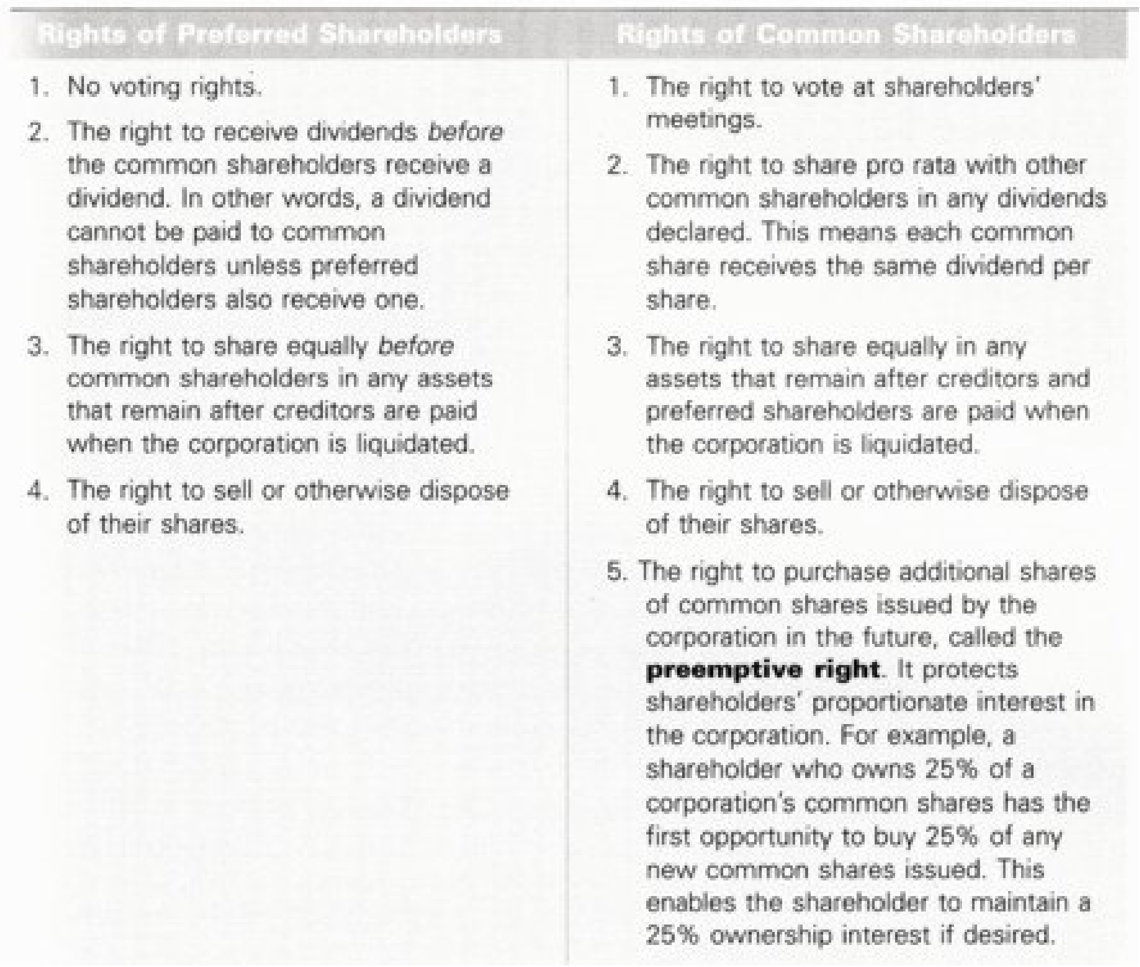
The notation "$3" is the **dividend preference**, which means preferred shareholders are entitled to dividends at the rate of $3 per year per preferred share when declared.

**Shareholders' Equity**

| | | |
|---|---|---|
| Contributed capital: | | |
| Preferred shares, $3, unlimited shares authorized, | | |
| 5,000 shares issued and outstanding | $125,000 | |
| Common Shares, unlimited shares authorized, | | |
| 34,000 shares issued and outstanding | 405,000 | |
| Total contributed capital | | $530,000 |
| Retained earnings | | 303,000 |
| Total shareholders' equity | | $833,000 |

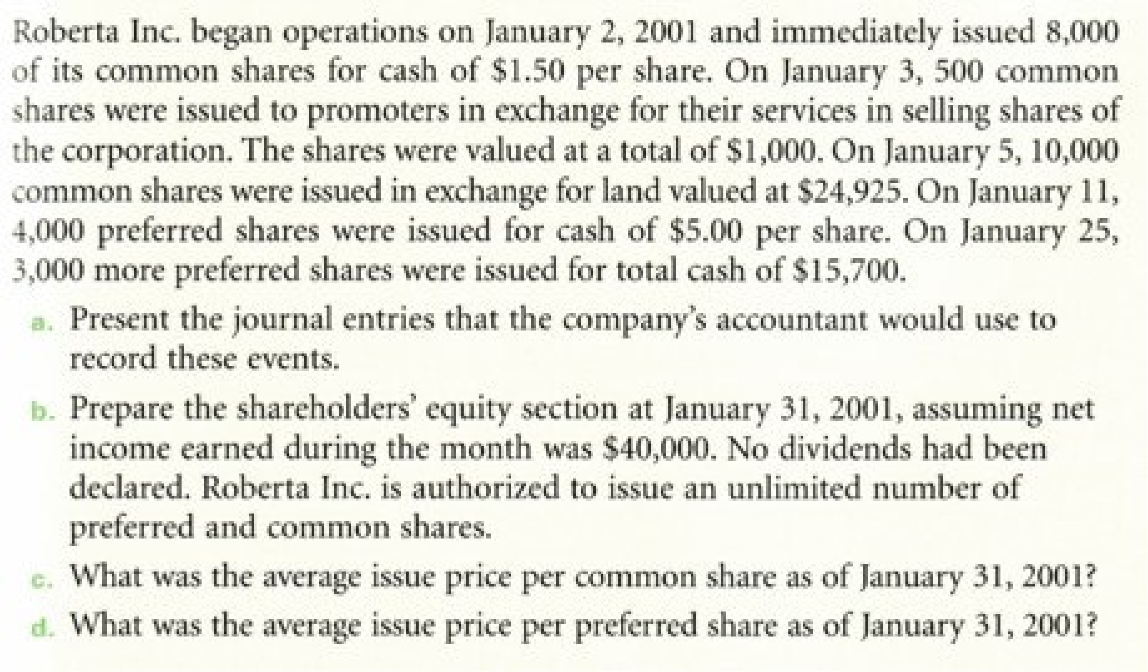
Net income of $65,000 for June + $82,000 net income for July + $156,000 net income for August – $-0- dividends = $303,000 as the balance in retained earnings at August 31, 2001.

# Rights of shareholders



| Rights of Preferred Shareholders | Rights of Common Shareholders |
|---|---|
| 1. No voting rights. | 1. The right to vote at shareholders' meetings. |
| 2. The right to receive dividends *before* the common shareholders receive a dividend. In other words, a dividend cannot be paid to common shareholders unless preferred shareholders also receive one. | 2. The right to share pro rata with other common shareholders in any dividends declared. This means each common share receives the same dividend per share. |
| 3. The right to share equally *before* common shareholders in any assets that remain after creditors are paid when the corporation is liquidated. | 3. The right to share equally in any assets that remain after creditors and preferred shareholders are paid when the corporation is liquidated. |
| 4. The right to sell or otherwise dispose of their shares. | 4. The right to sell or otherwise dispose of their shares. |
| | 5. The right to purchase additional shares of common shares issued by the corporation in the future, called the **preemptive right**. It protects shareholders' proportionate interest in the corporation. For example, a shareholder who owns 25% of a corporation's common shares has the first opportunity to buy 25% of any new common shares issued. This enables the shareholder to maintain a 25% ownership interest if desired. |

# Demonstration problem



Roberta Inc. began operations on January 2, 2001 and immediately issued 8,000 of its common shares for cash of $1.50 per share. On January 3, 500 common shares were issued to promoters in exchange for their services in selling shares of the corporation. The shares were valued at a total of $1,000. On January 5, 10,000 common shares were issued in exchange for land valued at $24,925. On January 11, 4,000 preferred shares were issued for cash of $5.00 per share. On January 25, 3,000 more preferred shares were issued for total cash of $15,700.

a. Present the journal entries that the company's accountant would use to record these events.

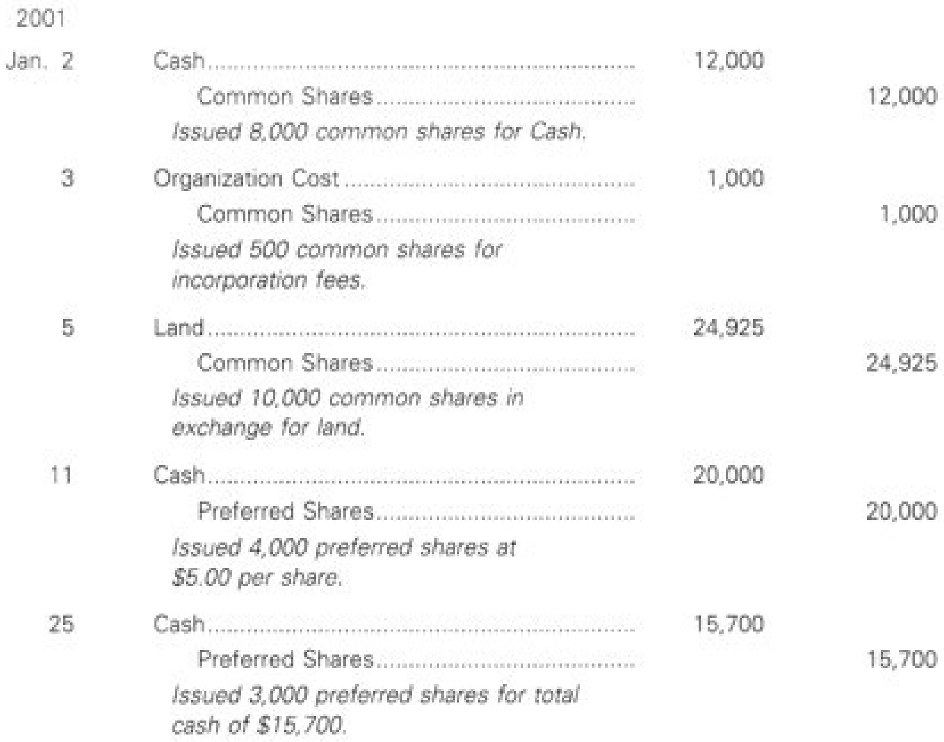
b. Prepare the shareholders' equity section at January 31, 2001, assuming net income earned during the month was $40,000. No dividends had been declared. Roberta Inc. is authorized to issue an unlimited number of preferred and common shares.

c. What was the average issue price per common share as of January 31, 2001?

d. What was the average issue price per preferred share as of January 31, 2001?

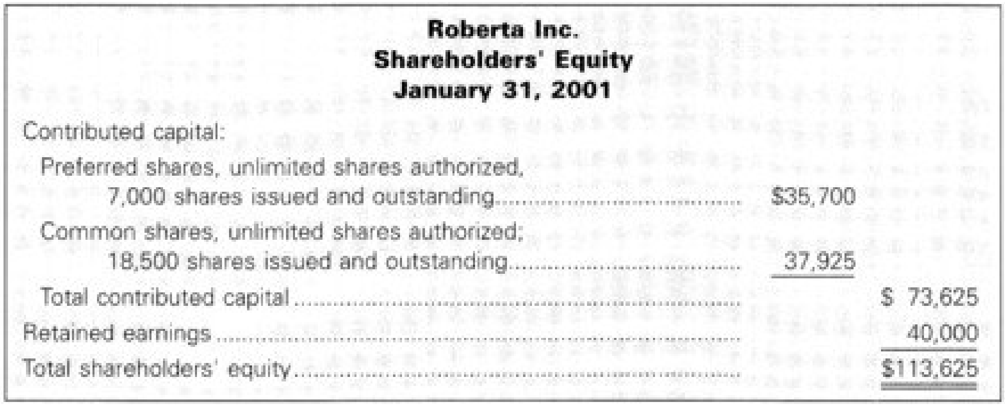
# answers

a.



| | | | |
|---|---|---|---|
| 2001 | | | |
| Jan. 2 | Cash | 12,000 | |
| | Common Shares | | 12,000 |
| | *Issued 8,000 common shares for Cash.* | | |
| 3 | Organization Cost | 1,000 | |
| | Common Shares | | 1,000 |
| | *Issued 500 common shares for incorporation fees.* | | |
| 5 | Land | 24,925 | |
| | Common Shares | | 24,925 |
| | *Issued 10,000 common shares in exchange for land.* | | |
| 11 | Cash | 20,000 | |
| | Preferred Shares | | 20,000 |
| | *Issued 4,000 preferred shares at $5.00 per share.* | | |
| 25 | Cash | 15,700 | |
| | Preferred Shares | | 15,700 |
| | *Issued 3,000 preferred shares for total cash of $15,700.* | | |

b.



**Roberta Inc.**
**Shareholders' Equity**
**January 31, 2001**

| | | |
|---|---|---|
| Contributed capital: | | |
| Preferred shares, unlimited shares authorized, 7,000 shares issued and outstanding | $35,700 | |
| Common shares, unlimited shares authorized; 18,500 shares issued and outstanding | 37,925 | |
| Total contributed capital | | $ 73,625 |
| Retained earnings | | 40,000 |
| Total shareholders' equity | | $113,625 |

c. $ 37,925/18,500 shares = $2.05 average issue price per common share

d. $ 35,700/7,000 shares = $5.10 average issue price per preferred share

## Dividends

Dividends are a distribution of earnings. Dividends cause retained earnings to decrease.

There are two basic types of dividends; cash dividend and share dividends (stock dividend).

### Cash dividends

Generally a corporation is permitted to pay cash dividends if retained earnings and cash exist.

Many corporation spay cash dividends to their shareholders in regular amounts at regular dates.

### Entries for cash dividends

The payment of dividends involves three important dates:
Declaration date
Record date
Payment date

Date of declaration is the date the directors vote to pay a dividend creating a legal liability of the corporation to its shareholders.

| | | | |
|---|---|---|---|
| Nov. 9 | Retained earnings | 5 000 | |
| | Common dividends payable | | 5 000 |
| | Declared a $1 per share cash dividend on common shares | | |

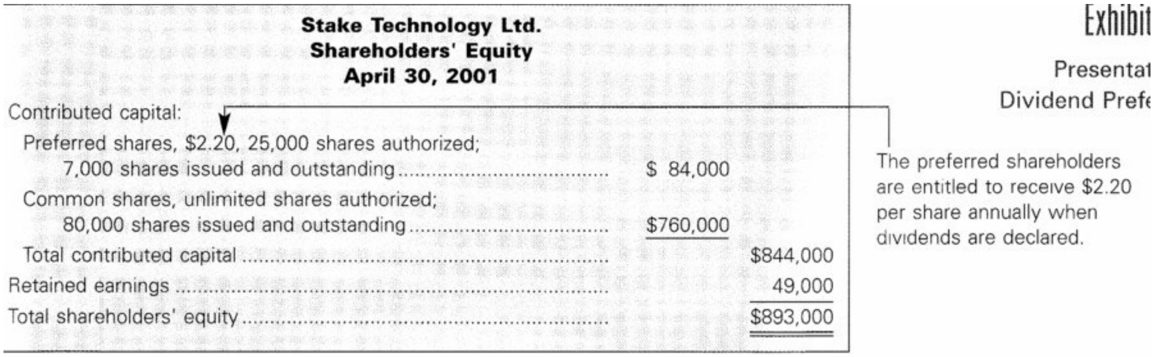
Date of record is the future date specified by the directors for identifying those shareholders listed in the corporation's records to receive dividends. Persons who own shares on the date of record receive dividends.

Date of payment is the date when shareholders receive payments. If a balance sheet is prepared between the date of declaration and date of payment, Common dividends payable is reported as a current liability.

## Special features of preferred shares

### Dividend preference

In exchange for voting rights, preferred shares usually carry a dividend preference, which means a dividend cannot be paid to common shareholders unless preferred shareholders are paid first.



**Stake Technology Ltd.**
**Shareholders' Equity**
**April 30, 2001**

| | | |
|---|---|---|
| Contributed capital: | | |
| Preferred shares, $2.20, 25,000 shares authorized; 7,000 shares issued and outstanding | $ 84,000 | |
| Common shares, unlimited shares authorized; 80,000 shares issued and outstanding | $760,000 | |
| Total contributed capital | | $844,000 |
| Retained earnings | | 49,000 |
| Total shareholders' equity | | $893,000 |

Exhibit

Presentat
Dividend Pref

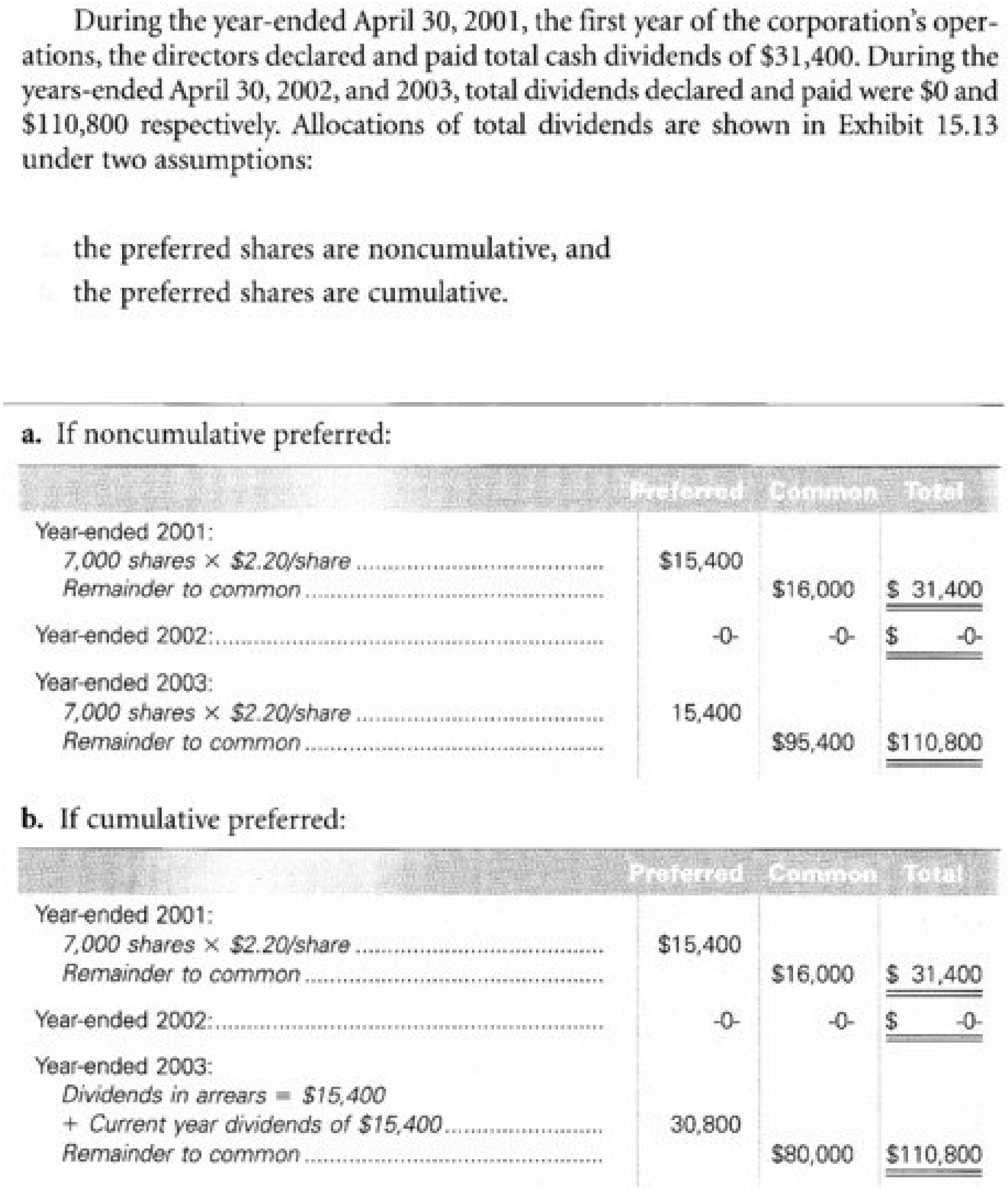
The preferred shareholders are entitled to receive $2.20 per share annually when dividends are declared.

### Cumulative of Noncumulative dividend

Cumulative preferred shares have a right to be paid both current and all prior periods' undeclared dividends before any dividend is paid to common shareholders.

The unpaid dividend amount is called dividend in arrears.

Noncumularive preferred shares have no right to prior periods' unpaid dividends if they were not declared.



During the year-ended April 30, 2001, the first year of the corporation's operations, the directors declared and paid total cash dividends of $31,400. During the years-ended April 30, 2002, and 2003, total dividends declared and paid were $0 and $110,800 respectively. Allocations of total dividends are shown in Exhibit 15.13 under two assumptions:

- the preferred shares are noncumulative, and
- the preferred shares are cumulative.

---

**a.** If noncumulative preferred:

| | Preferred | Common | Total |
|---|---|---|---|
| Year-ended 2001: | | | |
| *7,000 shares × $2.20/share* | $15,400 | | |
| *Remainder to common* | | $16,000 | $ 31,400 |
| Year-ended 2002: | -0- | -0- | $ -0- |
| Year-ended 2003: | | | |
| *7,000 shares × $2.20/share* | 15,400 | | |
| *Remainder to common* | | $95,400 | $110,800 |

**b.** If cumulative preferred:

| | Preferred | Common | Total |
|---|---|---|---|
| Year-ended 2001: | | | |
| *7,000 shares × $2.20/share* | $15,400 | | |
| *Remainder to common* | | $16,000 | $ 31,400 |
| Year-ended 2002: | -0- | -0- | $ -0- |
| Year-ended 2003: | | | |
| *Dividends in arrears = $15,400* | | | |
| *+ Current year dividends of $15,400* | 30,800 | | |
| *Remainder to common* | | $80,000 | $110,800 |

## Other features of preferred shares

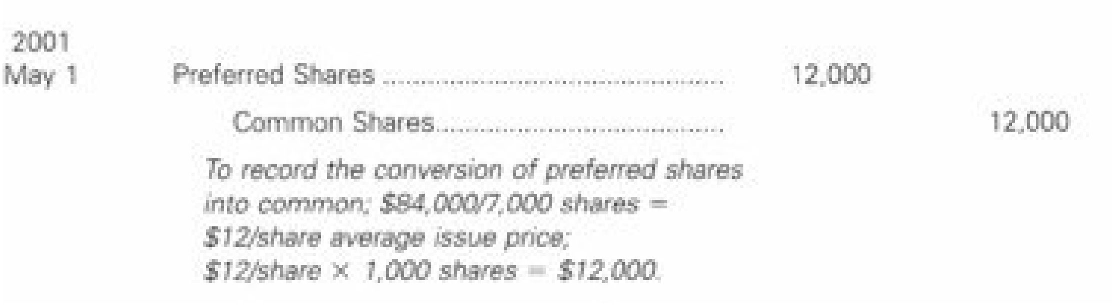
### Participating or non participating dividends on preferred shares

Nonparticipating preferred shares have dividends limited to a maximum amount each year.

Participating preferred shares have a feature where preferred shareholders share with common shareholders in any dividends paid in excess of the dollar amount specified for the preferred shares.

### Convertible preferred shares

Convertible preferred shares give holders the option of exchanging their preferred shares into common shares at a specified rate.



| | | | |
|---|---|---|---|
| 2001 | | | |
| May 1 | Preferred Shares | 12,000 | |
| | Common Shares | | 12,000 |
| | *To record the conversion of preferred shares into common; $84,000/7,000 shares = $12/share average issue price; $12/share × 1,000 shares = $12,000.* | | |

Motivation for preferred shares

For corporation:

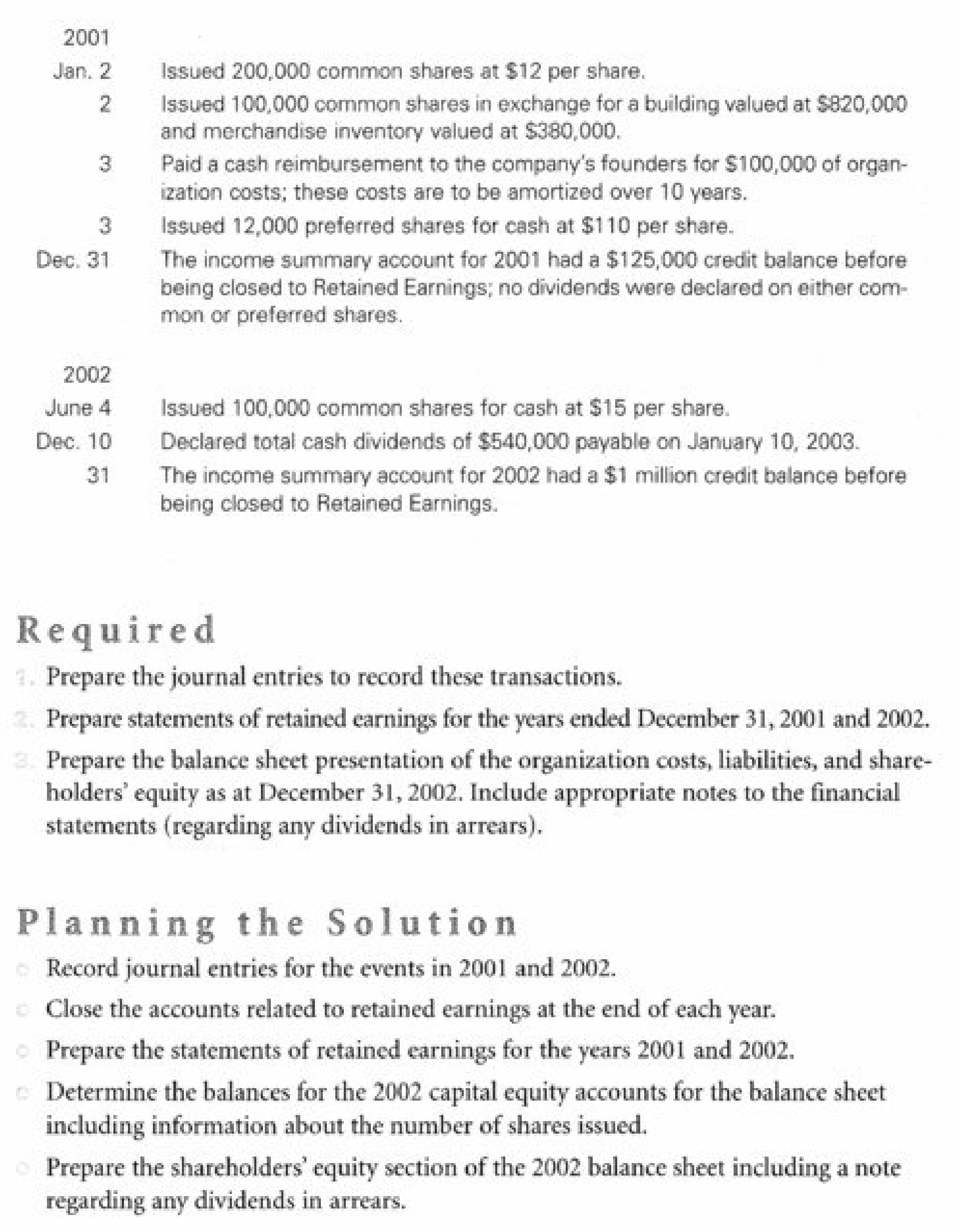
to raise capital without sacrificing control of the corporation.

To boost the return earned by common shareholders. To illustrate, let’s suppose a corporation’s organizers expect their new company to earn an annual net income of $24 000 on an investment of $200 000. If they sell and issue $200 000 worth of common shares, this income produces a 12% return on the $200 000 of common shareholders’ equity (24000/200000 = 12%). But if they issue 1 000 shares of $8 preferred shares to outsiders for $100 000 and $100 000 of common shares to themselves their own return increases to 16%.

How?

# Demonstration problem

Barton Corporation was created on January 1, 2002. Barton is authorized by its articles of incorporation to issue 100 000 shares of $10 cumulative preferred shares and an unlimited number of common shares. The following transactions relating to shareholders' equity occurred during the first two years of the company's operation.



| | |
|---|---|
| 2001 | |
| Jan. 2 | Issued 200,000 common shares at $12 per share. |
| 2 | Issued 100,000 common shares in exchange for a building valued at $820,000 and merchandise inventory valued at $380,000. |
| 3 | Paid a cash reimbursement to the company's founders for $100,000 of organization costs; these costs are to be amortized over 10 years. |
| 3 | Issued 12,000 preferred shares for cash at $110 per share. |
| Dec. 31 | The income summary account for 2001 had a $125,000 credit balance before being closed to Retained Earnings; no dividends were declared on either common or preferred shares. |
| 2002 | |
| June 4 | Issued 100,000 common shares for cash at $15 per share. |
| Dec. 10 | Declared total cash dividends of $540,000 payable on January 10, 2003. |
| 31 | The income summary account for 2002 had a $1 million credit balance before being closed to Retained Earnings. |

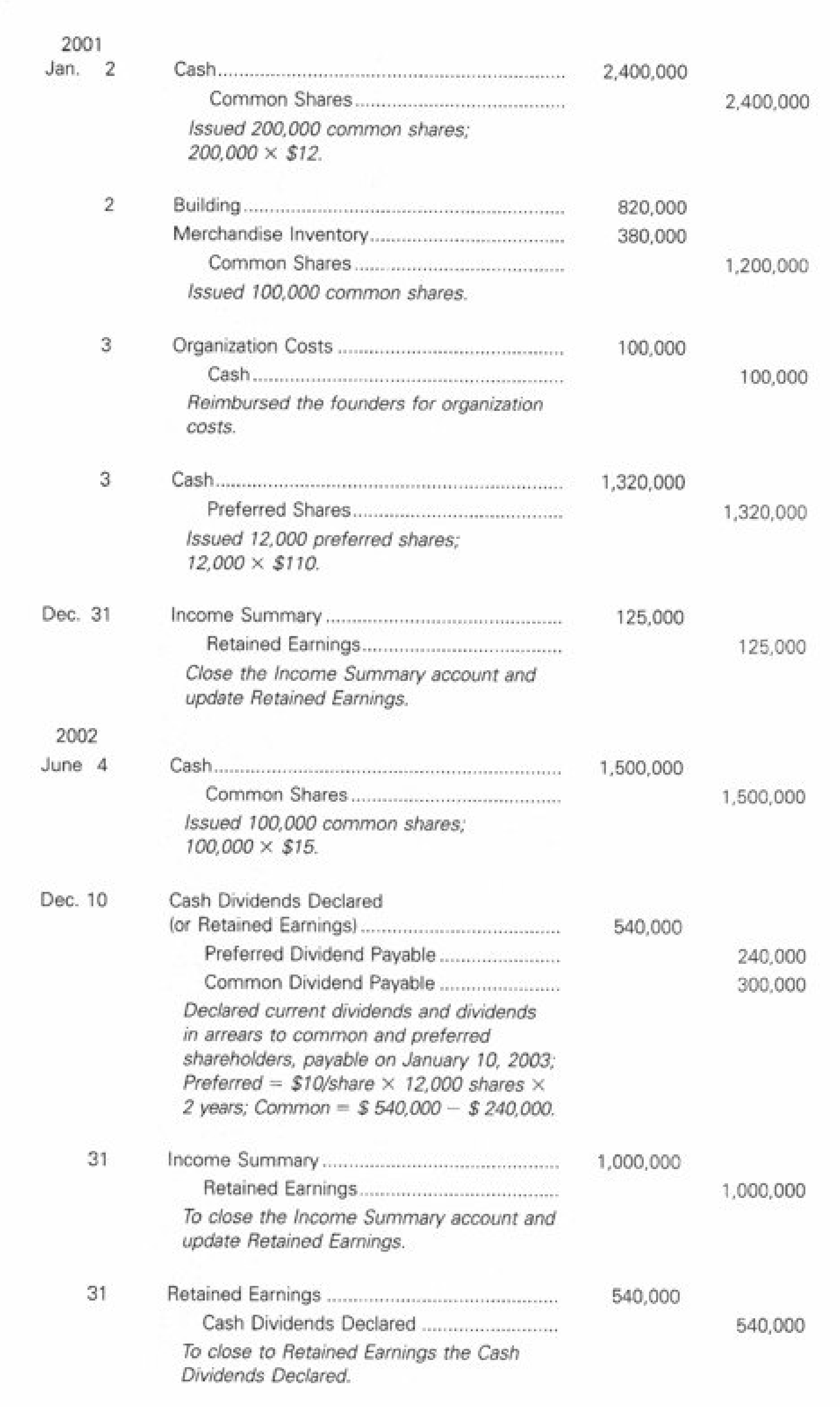
## Required

1. Prepare the journal entries to record these transactions.
2. Prepare statements of retained earnings for the years ended December 31, 2001 and 2002.
3. Prepare the balance sheet presentation of the organization costs, liabilities, and shareholders' equity as at December 31, 2002. Include appropriate notes to the financial statements (regarding any dividends in arrears).

## Planning the Solution

- Record journal entries for the events in 2001 and 2002.
- Close the accounts related to retained earnings at the end of each year.
- Prepare the statements of retained earnings for the years 2001 and 2002.
- Determine the balances for the 2002 capital equity accounts for the balance sheet including information about the number of shares issued.
- Prepare the shareholders' equity section of the 2002 balance sheet including a note regarding any dividends in arrears.

# Solution



| | | | |
|---|---|---|---|
| 2001 | | | |
| Jan. 2 | Cash | 2,400,000 | |
| | Common Shares | | 2,400,000 |
| | *Issued 200,000 common shares; 200,000 × $12.* | | |
| 2 | Building | 820,000 | |
| | Merchandise Inventory | 380,000 | |
| | Common Shares | | 1,200,000 |
| | *Issued 100,000 common shares.* | | |
| 3 | Organization Costs | 100,000 | |
| | Cash | | 100,000 |
| | *Reimbursed the founders for organization costs.* | | |
| 3 | Cash | 1,320,000 | |
| | Preferred Shares | | 1,320,000 |
| | *Issued 12,000 preferred shares; 12,000 × $110.* | | |
| Dec. 31 | Income Summary | 125,000 | |
| | Retained Earnings | | 125,000 |
| | *Close the Income Summary account and update Retained Earnings.* | | |
| 2002 | | | |
| June 4 | Cash | 1,500,000 | |
| | Common Shares | | 1,500,000 |
| | *Issued 100,000 common shares; 100,000 × $15.* | | |
| Dec. 10 | Cash Dividends Declared (or Retained Earnings) | 540,000 | |
| | Preferred Dividend Payable | | 240,000 |
| | Common Dividend Payable | | 300,000 |
| | *Declared current dividends and dividends in arrears to common and preferred shareholders, payable on January 10, 2003; Preferred = $10/share × 12,000 shares × 2 years; Common = $ 540,000 − $ 240,000.* | | |
| 31 | Income Summary | 1,000,000 | |
| | Retained Earnings | | 1,000,000 |
| | *To close the Income Summary account and update Retained Earnings.* | | |
| 31 | Retained Earnings | 540,000 | |
| | Cash Dividends Declared | | 540,000 |
| | *To close to Retained Earnings the Cash Dividends Declared.* | | |

**Barton Corporation**
**Statement of Retained Earnings**
**For Years Ended December 31,**

| | **2002** | **2001** |
|---|---|---|
| Retained earnings, January 1 | $ 125,000 | $ -0- |
| Add: Net income | 1,000,000 | 125,000 |
| Total | $1,125,000 | $125,000 |
| Less: Dividends | 540,000 | -0- |
| Retained earnings, December 31 | $ 585,000 | $125,000 |

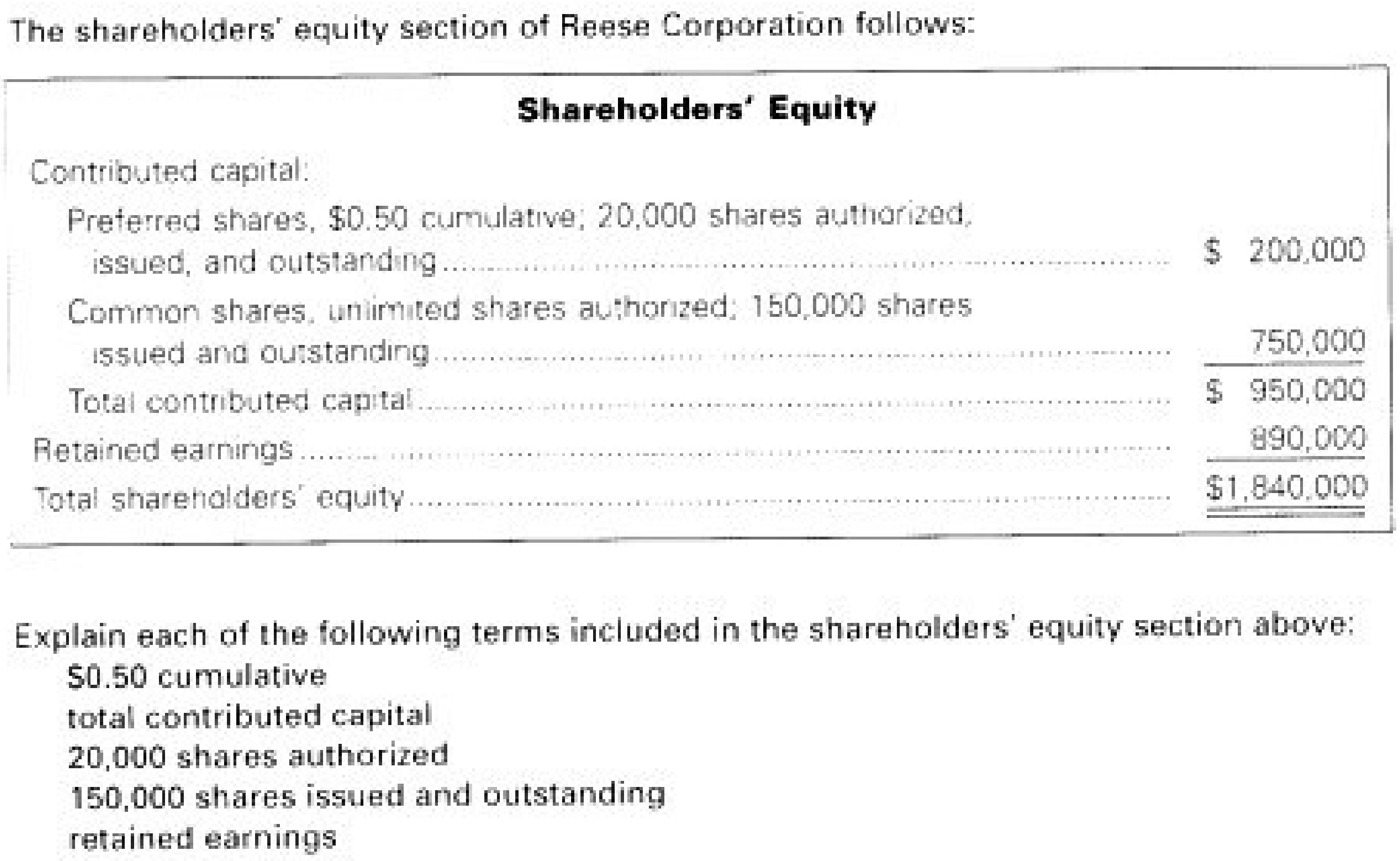
c. Balance sheet presentations:

**As of December 31,**

| | **2002** | **2001** |
|---|---|---|
| **Assets** | | |
| Organization costs | $ 80,000 | $ 90,000 |
| **Liabilities** | | |
| Preferred dividend payable | $ 240,000 | $ -0- |
| Common dividend payable | 300,000 | -0- |
| **Shareholders' Equity** | | |
| Contributed capital: | | |
| Preferred shares, $10 cumulative, 100,000 shares authorized; 12,000 shares issued and outstanding | $1,320,000 | $1,320,000 |
| Common shares, unlimited shares authorized; 400,000 shares issued and outstanding in 2002; 300,000 shares issued and outstanding in 2001 | 5,100,000 | 3,600,000 |
| Total contributed capital | $6,420,000 | $4,920,000 |
| Retained earnings (see Note 1) | 585,000 | 125,000 |
| Total shareholders' equity | $7,005,000 | $5,045,000 |

Note 1: As of December 31, 2001, there were $120,000 of dividends in arrears on the preferred shares

# Problems



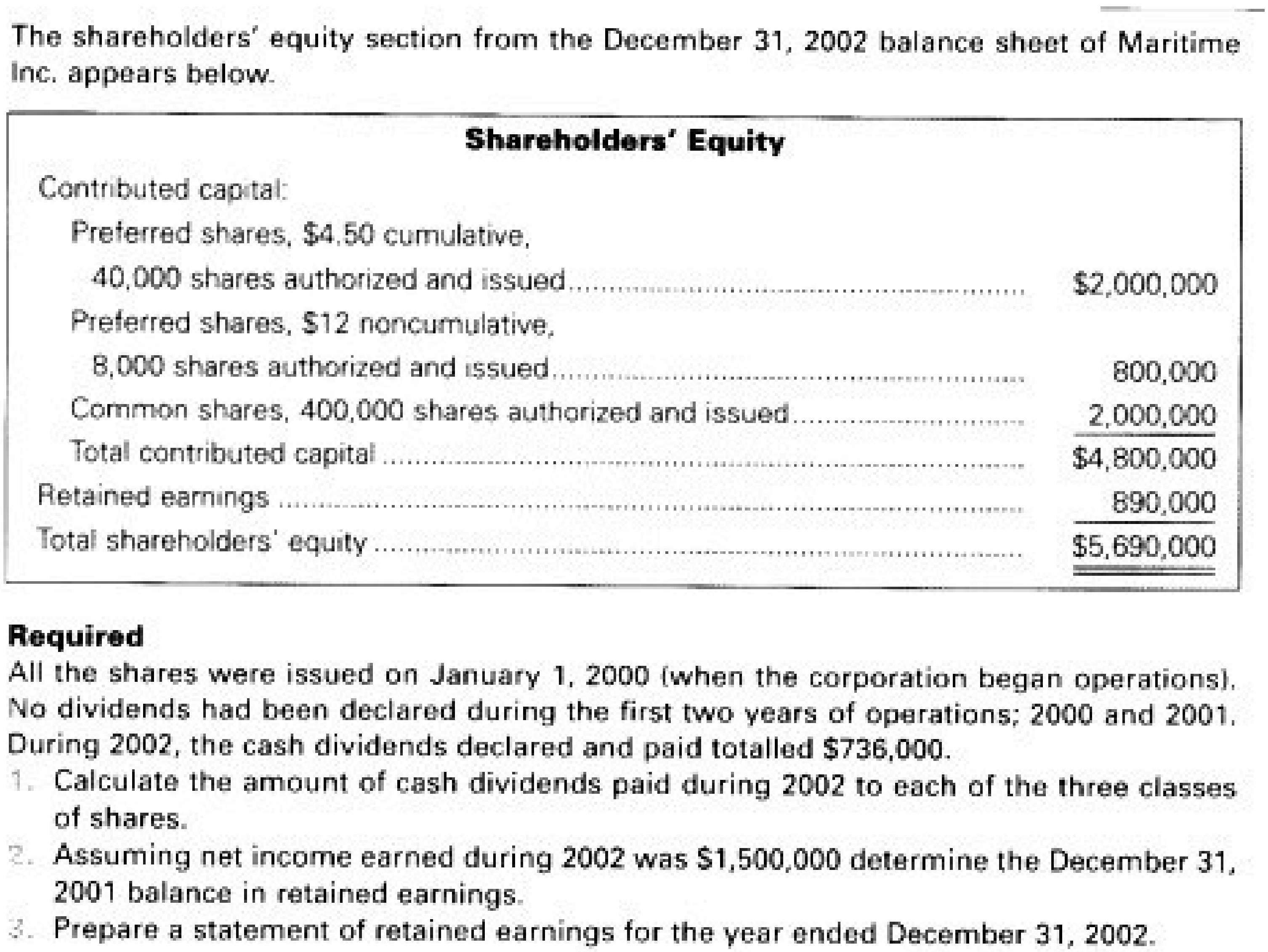
The shareholders' equity section of Reese Corporation follows:

**Shareholders' Equity**

| | |
|---|---|
| Contributed capital: | |
| Preferred shares, $0.50 cumulative; 20,000 shares authorized, issued, and outstanding | $ 200,000 |
| Common shares, unlimited shares authorized; 150,000 shares issued and outstanding | 750,000 |
| Total contributed capital | $ 950,000 |
| Retained earnings | 890,000 |
| Total shareholders' equity | $1,840,000 |

Explain each of the following terms included in the shareholders' equity section above:

$0.50 cumulative
total contributed capital
20,000 shares authorized
150,000 shares issued and outstanding
retained earnings



The shareholders' equity section from the December 31, 2002 balance sheet of Maritime Inc. appears below.

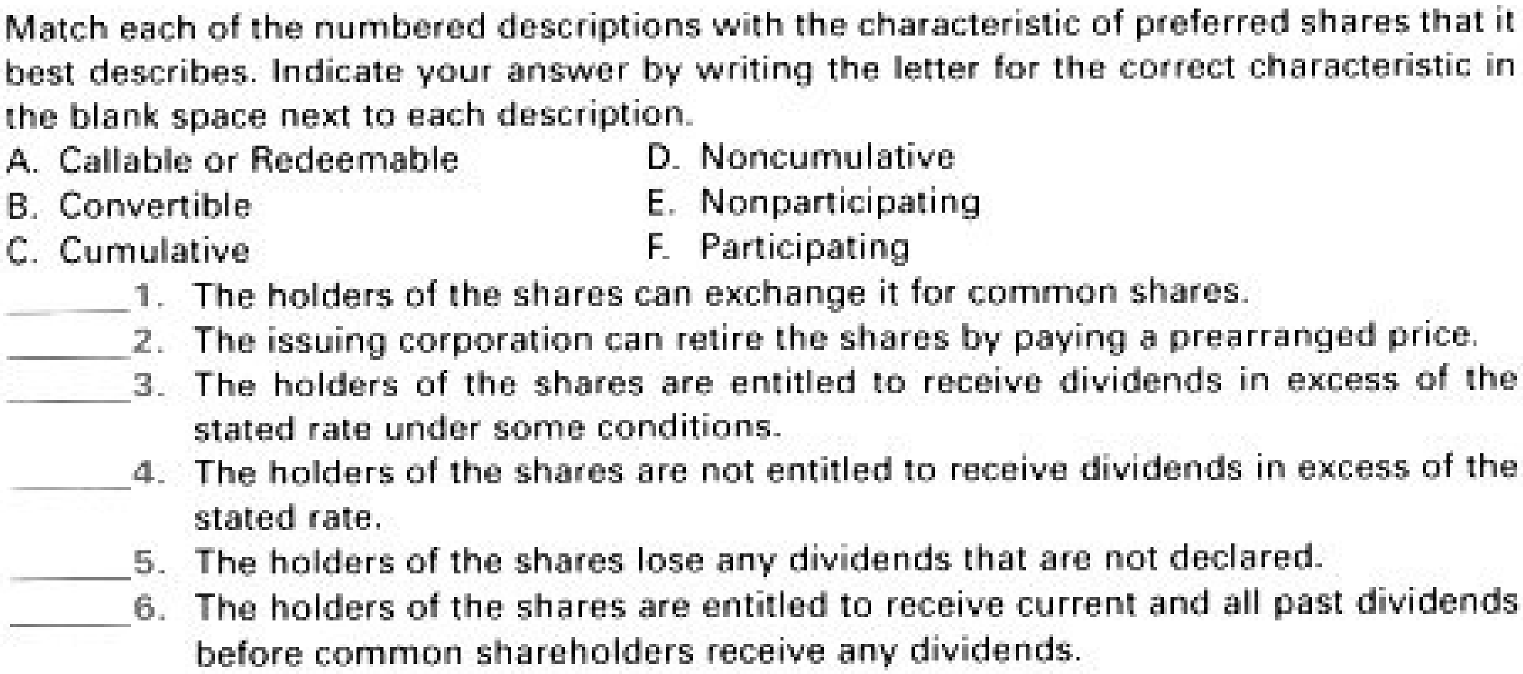
**Shareholders' Equity**

| | |
|---|---|
| Contributed capital: | |
| Preferred shares, $4.50 cumulative, 40,000 shares authorized and issued | $2,000,000 |
| Preferred shares, $12 noncumulative, 8,000 shares authorized and issued | 800,000 |
| Common shares, 400,000 shares authorized and issued | 2,000,000 |
| Total contributed capital | $4,800,000 |
| Retained earnings | 890,000 |
| Total shareholders' equity | $5,690,000 |

**Required**

All the shares were issued on January 1, 2000 (when the corporation began operations). No dividends had been declared during the first two years of operations; 2000 and 2001. During 2002, the cash dividends declared and paid totalled $736,000.

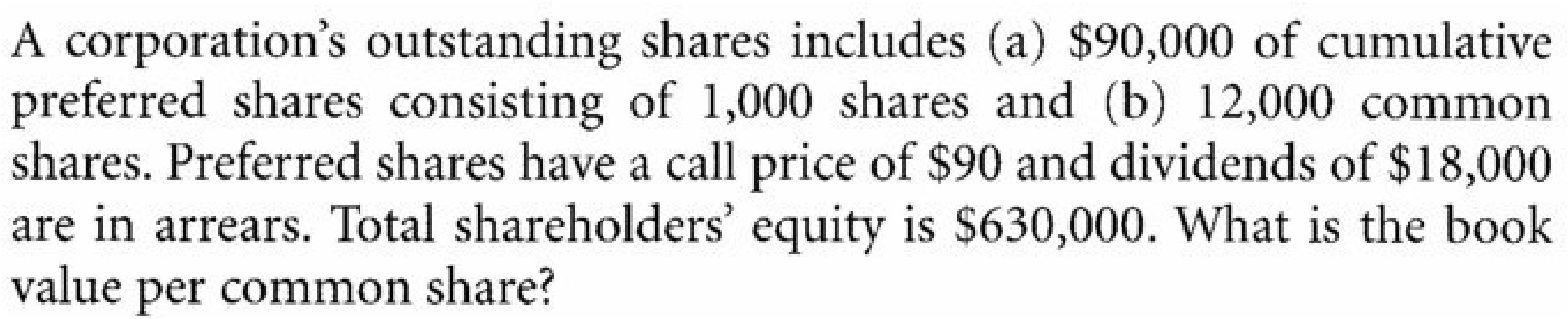
1. Calculate the amount of cash dividends paid during 2002 to each of the three classes of shares.
2. Assuming net income earned during 2002 was $1,500,000 determine the December 31, 2001 balance in retained earnings.
3. Prepare a statement of retained earnings for the year ended December 31, 2002.



Match each of the numbered descriptions with the characteristic of preferred shares that it best describes. Indicate your answer by writing the letter for the correct characteristic in the blank space next to each description.

A. Callable or Redeemable
B. Convertible
C. Cumulative
D. Noncumulative
E. Nonparticipating
F. Participating

_______1. The holders of the shares can exchange it for common shares.
_______2. The issuing corporation can retire the shares by paying a prearranged price.
_______3. The holders of the shares are entitled to receive dividends in excess of the stated rate under some conditions.
_______4. The holders of the shares are not entitled to receive dividends in excess of the stated rate.
_______5. The holders of the shares lose any dividends that are not declared.
_______6. The holders of the shares are entitled to receive current and all past dividends before common shareholders receive any dividends.



A corporation's outstanding shares includes (a) $90,000 of cumulative preferred shares consisting of 1,000 shares and (b) 12,000 common shares. Preferred shares have a call price of $90 and dividends of $18,000 are in arrears. Total shareholders' equity is $630,000. What is the book value per common share?