FINAL EXAM

Course # 171042
Balance Sheet: Stockholders' Equity

based on the electronic .pdf file(s):

Balance Sheet: Stockholders' Equity
by: Delta CPE, 2014, 54 pages

3 CPE Credit Hours
Accounting & Auditing

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Instructions are provided at the end of this document.

Chapter 0 - Course Material

1. Direct costs incurred to sell stock such as underwriting costs should be accounted for as: I) a reduction of additional paid-in capital; II) an expense of the period in which the stock is issued; III) an intangible asset.
   - ______ I only
   - ______ II only
   - ______ III only
   - ______ II or III

2. On February 1, Hyde Corp., a newly formed company, had the following stock issued and outstanding: Common stock, no par, $1 stated value, 10,000 shares originally issued for $15 per share; and Preferred stock, $10 par value, 3,000 shares originally issued for $25 per share. Hyde's February 1 statement of equity should report:
   - ______ $150,000 Common Stock, $30,000 Preferred Stock, $45,000 Additional Paid-in Capital
   - ______ $150,000 Common Stock, $75,000 Preferred Stock, $0 Additional Paid-in Capital
   - ______ $10,000 Common Stock, $75,000 Preferred Stock, $140,000 Additional Paid-in Capital
   - ______ $10,000 Common Stock, $30,000 Preferred Stock, $185,000 Additional Paid-in Capital

3. The residual interest in a corporation belongs to the
   - ______ Management.
   - ______ Creditors.
   - ______ Common stockholders.
   - ______ Preferred stockholders.

4. Grid Corp. acquired some of its own common shares at a price greater than both their par value and original issue price but less than their book value. Grid uses the cost method of accounting for treasury stock. What is the impact of this acquisition on total equity and the book value per common share?
   - ______ Increase in Total Equity; Increase in Book Value per Share
   - ______ Increase in Total Equity; Decrease in Book Value per Share
   - ______ Decrease in Total Equity; Increase in Book Value per Share
   - ______ Decrease in Total Equity; Decrease in Book Value per Share

5. The acquisition of treasury stock will cause the number of shares outstanding to decrease if the treasury stock is accounted for by the:
   - ______ Cost Method, but not the Par Value Method
   - ______ Neither the Cost Method nor the Par Value Method
   - ______ Both the Cost Method and the Par Value Method
   - ______ The Par Value Method, but not the Cost Method

6. The par value method of accounting for treasury stock differs from the cost method because
   - ______ Any gain is recognized upon repurchase of stock, but a loss is treated as an adjustment to retained earnings.

- [ ] No gains or losses are recognized on the issuance of treasury stock using the par value method.
- [ ] It reverses the original entry to issue the common stock, with any difference between carrying amount and purchase price adjusted through paid-in capital or retained earnings. It treats a subsequent reissuance as a new issuance of common stock.
- [ ] It reverses the original entry to issue the common stock, with any difference between carrying amount and purchase price being shown as an ordinary gain or loss. It does not recognize any gain or loss on a subsequent resale of the stock.

7. Posy Corp. acquired treasury shares at an amount greater than their par value, but less than their original issue price. Compared with the cost method of accounting for treasury stock, does the par value method report a greater amount for additional paid-in capital and a greater amount for retained earnings?

- [ ] Yes for both the Additional Paid-in Capital and the Retained Earnings
- [ ] Yes for the Additional Paid-in Capital, but no for the Retained Earnings
- [ ] No for both the Additional Paid-in Capital and the Retained Earnings
- [ ] No for the Additional Paid-in Capital, but yes for the Retained Earnings

8. A corporation declared a dividend, a portion of which was liquidating. How does this declaration affect each of the following?

- [ ] Decrease in the Additional Paid-in Capital and no effect in the Retained Earnings
- [ ] Decrease in the Additional Paid-in Capital and decrease in the Retained Earnings
- [ ] No effect in the Additional Paid-in Capital and decrease in the Retained Earnings
- [ ] No effect in the Additional Paid-in Capital and no effect in the Retained Earnings

9. Stock dividends on common stock should be recorded at their fair market value by the investor when the related investment is accounted for under which of the following methods?

- [ ] Yes under both the Cost Method and the Equity Method
- [ ] Yes under the Cost Method, but not under the Equity Method
- [ ] Not under the Cost Method, but yes under the Equity Method
- [ ] Not under the Cost Method, and not under the Equity Method

10. On December 1, 2X13, Pott Co. declared and distributed a property dividend when the fair value exceeded the carrying amount. As a consequence of the dividend declaration and distribution, what are the accounting effects?

- [ ] Property Dividends recorded at Fair Value, and Retained Earnings are decreased.
- [ ] Property Dividends recorded at Fair Value, and Retained Earnings are increased.
- [ ] Property Dividends recorded at Cost, and Retained Earnings are increased.
- [ ] Property Dividends recorded at Cost, and Retained Earnings are decreased.

11. An appropriated retained earnings account can be used to

- [ ] Absorb a fire loss when a company is self-insured.
- [ ] Provide for a contingent loss that is probable and reasonable.
- [ ] Smooth periodic income.
- [ ] Restrict earnings available for dividends.

12. Bal Corp. declared a $25,000 cash dividend on May 8 to shareholders of record on May 23, payable on June 3. As a result of this cash dividend, working capital

- [ ] Was not affected.
- [ ] Decreased on June 3.

______ Decreased on May 23.

______ Decreased on May 8.

13. What effect does the issuance of a 2-for-1 stock split have on each of the following?

    ______ No effect on Par Value per Share, and No effect on Retained Earnings

    ______ Increase Par Value per Share, and No effect on Retained Earnings

    ______ Decrease Par Value per Share, and No effect on Retained Earnings

    ______ Decrease Par Value per Share, and Decrease Retained Earnings

14. Blue Co. issued preferred stock with detachable common stock warrants at a price that exceeded both the par value and the fair value of the preferred stock. At the time the warrants are exercised, Blue's total equity is increased by the

    ______ The cash received upon exercise of the warrants

    ______ Both the cash received upon exercise of the warrants and the carrying amount of the warrants.

    ______ Neither the cash received upon exercise of the warrants, nor the carrying amount of the warrants.

    ______ The carrying amount of the warrants

15. An entity issued rights to its existing shareholders without consideration. The rights allowed the recipients to purchase unissued common stock for an amount in excess of par value. When the rights are issued, which of the following accounts will be increased?

    ______ Both the Common Stock and the Additional Paid-in Capital

    ______ Only the Common Stock

    ______ Neither Common Stock, nor Additional Paid-in Capital

    ______ Only the Additional Paid-in Capital

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