

# Advanced Accounting 2

## bank of questions

### Question:1

During its first year of operations, Harlan Corporation had the following transactions pertaining to its common stock.

Jan. 10 Issued 70,000 shares for cash at \$5 per share.

July 1 Issued 40,000 shares for cash at \$7 per share.

#### Instructions

(a) Journalize the transactions, assuming that the common stock has a par value of \$5 per share.

(b) Journalize the transactions, assuming that the common stock is no-par with a stated value \$1 per share.

### Question:2

Grossman Corporation issued 1,000 shares of stock.

#### Instructions

Prepare the entry for the issuance under the following assumptions.

(a) The stock had a par value of \$5 per share and was issued for a total of \$52,000.

(b) The stock had a stated value of \$5 per share and was issued for a total of \$52,000.

(c) The stock had no par or stated value and was issued for a total of \$52,000.

(d) The stock had a par value of \$5 per share and was issued to attorneys for services during incorporation valued at \$52,000.

(e) The stock had a par value of \$5 per share and was issued for land worth \$52,000.

### Question:3

Franco Corporation was organized on January 1, 2010. It is authorized to issue 10,000 shares of 8%, \$100 par value preferred stock, and 500,000 shares of no-par common stock with a stated value of \$2 per share. The following stock transactions were completed during the first year.

Jan. 10 Issued 80,000 shares of common stock for cash at \$4 per share.

Mar. 1 Issued 5,000 shares of preferred stock for cash at \$105 per share.

Apr. 1 Issued 24,000 shares of common stock for land. The asking price of the land was \$90,000. The fair market value of the land was \$85,000.

May 1 Issued 80,000 shares of common stock for cash at \$4.50 per share.

Aug. 1 Issued 10,000 shares of common stock to attorneys in payment of their bill of \$30,000 for services provided in helping the company organize.

Sept. 1 Issued 10,000 shares of common stock for cash at \$5 per share.

Nov. 1 Issued 1,000 shares of preferred stock for cash at \$109 per share.

#### Instructions

(a) Journalize the transactions.

**(b) Post to the stockholders' equity accounts. (Use J5 as the posting reference.)**

**(c) Prepare the paid-in capital section of stockholders' equity at December 31, 2010.**

#### **Question:4**

Leone Co. had the following transactions during the current period.

Mar. 2 Issued 5,000 shares of \$5 par value common stock to attorneys in payment of a bill for \$30,000 for services provided in helping the company to incorporate.

June 12 Issued 60,000 shares of \$5 par value common stock for cash of \$375,000.

July 11 Issued 1,000 shares of \$100 par value preferred stock for cash at \$110 per share.

Nov. 28 Purchased 2,000 shares of treasury stock for \$80,000.

#### **Instructions**

**Journalize the transactions.**

#### **Question:5**

As an auditor for the CPA firm of Bunge and Dodd, you encounter the following situations in auditing different clients.

**1.** Desi Corporation is a closely held corporation whose stock is not publicly traded. On December 5, the corporation acquired land by issuing 5,000 shares of its \$20 par value common stock. The owners' asking price for the land was \$120,000, and the fair market value of the land was \$115,000.

**2.** Lucille Corporation is a publicly held corporation whose common stock is traded on the securities markets. On June 1, it acquired land by issuing 20,000 shares of its \$10 par value stock. At the time of the exchange, the land was advertised for sale at \$250,000. The stock was selling at \$12 per share.

#### **Instructions**

**Prepare the journal entries for each of the situations above**

#### **Question:6**

On January 1, 2010, the stockholders' equity section of Nunez Corporation shows: Common stock (\$5 par value) \$1,500,000; paid-in capital in excess of par value \$1,000,000; and retained earnings \$1,200,000. During the year, the following treasury stock transactions occurred.

Mar. 1 Purchased 50,000 shares for cash at \$15 per share.

July 1 Sold 10,000 treasury shares for cash at \$17 per share.

Sept. 1 Sold 8,000 treasury shares for cash at \$14 per share.

#### **Instructions**

**(a) Journalize the treasury stock transactions.**

**(b) Restate the entry for September 1, assuming the treasury shares were sold at \$12 per share.**

#### **Question:7**

Mad City Corporation purchased from its stockholders 5,000 shares of its own previously issued stock for \$250,000. It later resold 2,000 shares for \$54 per share, then 2,000 more shares for \$49 per share, and finally 1,000 shares for \$40 per share.

**Instructions**

**Prepare journal entries for the purchase of the treasury stock and the three sales of treasury stock.**

**Question:8**

Polzin Corporation is authorized to issue both preferred and common stock. The par value of the preferred is \$50. During the first year of operations, the company had the following events and transactions pertaining to its preferred stock.

Feb. 1 Issued 20,000 shares for cash at \$53 per share.

July 1 Issued 12,000 shares for cash at \$57 per share.

**Instructions**

**(a) Journalize the transactions.**

**(b) Post to the stockholders' equity accounts.**

**(c) Indicate the financial statement presentation of the related accounts.**

**Question:9**

AI Corporation issued 100,000 shares of \$20 par value, cumulative, 8% preferred stock on January 1, 2009, for \$2,100,000. In December 2011, AI declared its first dividend of \$500,000.

**Instructions**

**(a) Prepare AI's journal entry to record the issuance of the preferred stock.**

**(b) If the preferred stock is *not* cumulative, how much of the \$500,000 would be paid to common stockholders?**

**(c) If the preferred stock is cumulative, how much of the \$500,000 would be paid to common stockholders?**

**Question:10**

Roemer Corporation recently hired a new accountant with extensive experience in accounting for partnerships. Because of the pressure of the new job, the accountant was unable to review his textbooks on the topic of corporation accounting. During the first month, the accountant made the following entries for the corporation's capital stock.

May 2	Cash 130,000
	Capital Stock 130,000
	(Issued 10,000 shares of \$10 par value common stock at \$13 per share)
10	Cash 600,000
	Capital Stock 600,000
	(Issued 10,000 shares of \$50 par value preferred stock at \$60 per share)
15	Capital Stock 15,000
	Cash 15,000
	(Purchased 1,000 shares of common stock for the treasury at \$15 per share)
31	Cash 8,000

Capital Stock	5,000
Gain on Sale of Stock	3,000

(Sold 500 shares of treasury stock at \$16 per share)

### Instructions

**On the basis of the explanation for each entry, prepare the entry that should have been made for the capital stock transactions.**

### Question:11

Jacobsen Corporation had the following stockholders' equity accounts on January 1, 2010: Common Stock (\$5 par) \$500,000, Paid-in Capital in Excess of Par Value \$200,000, and Retained Earnings \$100,000. In 2010, the company had the following treasury stock transactions.

Mar. 1 Purchased 5,000 shares at \$9 per share.

June 1 Sold 1,000 shares at \$12 per share.

Sept. 1 Sold 2,000 shares at \$10 per share.

Dec. 1 Sold 1,000 shares at \$6 per share.

Jacobsen Corporation uses the cost method of accounting for treasury stock. In 2010, the company

reported net income of \$30,000.

### Instructions

**Journalize the treasury stock transactions, and prepare the closing entry at December 31, 2010, for net income.**

### Question:12

On January 1, Molini Corporation had 95,000 shares of no-par common stock issued and outstanding. The stock has a stated value of \$5 per share. During the year, the following occurred.

Apr. 1 Issued 25,000 additional shares of common stock for \$17 per share.

June 15 Declared a cash dividend of \$1 per share to stockholders of record on June 30.

July 10 Paid the \$1 cash dividend.

Dec. 1 Issued 2,000 additional shares of common stock for \$19 per share.

15 Declared a cash dividend on outstanding shares of \$1.20 per share to stockholders of record on December 31.

### Instructions

**(a) Prepare the entries, if any, on each of the three dividend dates.**

**(b) How are dividends and dividends payable reported in the financial statements prepared at December 31?**

### Question:13

Perez Corporation was organized on January 1, 2009. During its first year, the corporation issued 2,000 shares of \$50 par value preferred stock and 100,000 shares of \$10 par value

common stock. At December 31, the company declared the following cash dividends: 2009, \$6,000, 2010, \$12,000, and 2011, \$28,000.

**Instructions**

(a) Show the allocation of dividends to each class of stock, assuming the preferred stock dividend is 7% and not cumulative.

(b) Show the allocation of dividends to each class of stock, assuming the preferred stock dividend is 8% and cumulative.

(c) Journalize the declaration of the cash dividend at December 31, 2011, under part

**Question:14**

On January 1, 2010, Deweese Corporation had \$1,000,000 of common stock outstanding that was issued at par. It also had retained earnings of \$750,000. The company issued 40,000 shares of common stock at par on July 1 and earned net income of \$400,000 for the year.

**Instructions**

Journalize the declaration of a 15% stock dividend on December 10, 2010, for the following independent assumptions.

1. Par value is \$10, and market value is \$18.

2. Par value is \$5, and market value is \$20.

**Question:15**

On October 31, the stockholders' equity section of Huth Company consists of common stock \$300,000 and retained earnings \$900,000. Huth is considering the following two courses of action: (1) declaring a 5% stock dividend on the 30,000, \$10 par value shares outstanding, or (2) effecting a 2-for-1 stock split that will reduce par value to \$5 per share. The current market price is \$14 per share.

**Instructions**

Prepare a tabular summary of the effects of the alternative actions on the components of stockholders' equity, outstanding shares, and par value per share. Use the following column headings: Before Action, After Stock Dividend, and After Stock Split.

**Question:15**

On October 1, Kosko Corporation's stockholders' equity is as follows.

Common stock, \$5 par value	\$400,000
Paid-in capital in excess of par value	25,000
Retained earnings	<u>155,000</u>
Total stockholders' equity	\$580,000

On October 1, Kosko declares and distributes a 10% stock dividend when the market value of the stock is \$15 per share.

**Instructions**

(a) Compute the par value per share (1) before the stock dividend and (2) after the stock dividend.

(b) Indicate the balances in the three stockholders' equity accounts after the stock dividend shares have been distributed.

**Question:15**

Before preparing financial statements for the current year, the chief accountant for Reynolds Company discovered the following errors in the accounts.

1. The declaration and payment of \$50,000 cash dividend was recorded as a debit to Interest Expense \$50,000 and a credit to Cash \$50,000.
2. A 10% stock dividend (1,000 shares) was declared on the \$10 par value stock when the market value per share was \$18. The only entry made was: Retained Earnings (Dr.) \$10,000 and Dividend Payable (Cr.) \$10,000. The shares have not been issued.
3. A 4-for-1 stock split involving the issue of 400,000 shares of \$5 par value common stock for 100,000 shares of \$20 par value common stock was recorded as a debit to Retained Earnings \$2,000,000 and a credit to Common Stock \$2,000,000.

### **Instructions**

**Prepare the correcting entries at December 31.**

### **Question:16**

On January 1, 2010, Felter Corporation had retained earnings of \$550,000. During the year, Felter had the following selected transactions.

1. Declared cash dividends \$120,000.
2. Corrected overstatement of 2009 net income because of depreciation error \$40,000.
3. Earned net income \$350,000.
4. Declared stock dividends \$60,000.

### **Instructions**

**Prepare a retained earnings statement for the year.**

### **Question:17**

Sasha Company reported retained earnings at December 31, 2009, of \$310,000. Sasha had 200,000 shares of common stock outstanding throughout 2010.

The following transactions occurred during 2010.

1. An error was discovered: in 2008, depreciation expense was recorded at \$70,000, but the correct amount was \$50,000.
2. A cash dividend of \$0.50 per share was declared and paid.
3. A 5% stock dividend was declared and distributed when the market price per share was \$15 per share.
4. Net income was \$285,000.

### **Instructions**

**Prepare a retained earnings statement for 2010.**

### **Question:18**

Kelly Groucutt Company reported the following balances at December 31, 2009: common stock \$400,000; paid-in capital in excess of par value \$100,000; retained earnings \$250,000. During 2010, the following transactions affected stockholder's equity.

1. Issued preferred stock with a par value of \$125,000 for \$200,000.
2. Purchased treasury stock (common) for \$40,000.
3. Earned net income of \$140,000.
4. Declared and paid cash dividends of \$56,000.

## Instructions

Prepare the stockholders' equity section of Kelly Groucutt Company's December 31, 2010, balance sheet.

### Question:19

On January 1, 2010, Carolinas Corporation had the following stockholders' equity accounts.

Common Stock (\$20 par value, 60,000 shares issued and outstanding)	\$1,200,000
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Paid-in Capital in Excess of Par Value	200,000
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Retained Earnings	600,000
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During the year, the following transactions occurred.

Feb. 1 Declared a \$1 cash dividend per share to stockholders of record on February 15, payable March 1.

Mar. 1 Paid the dividend declared in February.

Apr. 1 Announced a 2-for-1 stock split. Prior to the split, the market price per share was \$36.

July 1 Declared a 10% stock dividend to stockholders of record on July 15, distributable July 31.

On July 1, the market price of the stock was \$13 per share.

31 Issued the shares for the stock dividend.

Dec. 1 Declared a \$0.50 per share dividend to stockholders of record on December 15, payable January 5, 2011.

31 Determined that net income for the year was \$350,000.

## Instructions

(a) Journalize the transactions and the closing entry for net income.

(b) Enter the beginning balances, and post the entries to the stockholders' equity accounts. (*Note: Open additional stockholders' equity accounts as needed.*)

(c) Prepare a stockholders' equity section at December 31.

### Question:20

The capital structure of Mazin Corp. is as follows:

Preferred stock, \$20 par value, 10,000 shares authorized , 8,000 shares issued and outstanding	\$	160,000
Common stock, \$10 par value, 100,000 shares authorized , 70,000 shares issued and outstanding		700,000
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Total paid-in capital	\$	860,000
Retained earnings		640,000
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Total stockholders' equity	\$	1,500,000
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During the current year, management declared a dividend of \$60,000. Dividend on preferred stock 4% of par value and have been paid each year except for the immediate past year. The number of shares issued and outstanding of both types of stocks have not changed for the last two years.

**Required:**

**Calculate the amount of dividend that will be paid to preferred stockholders and common stockholders if:**

- 1. The preferred stock is noncumulative.**
- 2. The preferred stock is cumulative.**