## EXERCISES

### Ex. 11–1

<table>
<thead>
<tr>
<th>Dividend Type</th>
<th>1st Year</th>
<th>2nd Year</th>
<th>3rd Year</th>
<th>4th Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Total dividend declared</td>
<td>$22,500</td>
<td>$28,800</td>
<td>$40,100</td>
<td>$77,000</td>
</tr>
<tr>
<td>Preferred dividend (current)</td>
<td>$22,500</td>
<td>$27,000*</td>
<td>$27,000</td>
<td>$27,000</td>
</tr>
<tr>
<td>Preferred dividend in arrears</td>
<td>—</td>
<td>1,800</td>
<td>2,700</td>
<td>—</td>
</tr>
<tr>
<td>b. Total preferred dividends</td>
<td>$22,500</td>
<td>$28,800</td>
<td>$29,700</td>
<td>$27,000</td>
</tr>
<tr>
<td>Preferred shares outstanding</td>
<td>÷ 18,000</td>
<td>÷ 18,000</td>
<td>÷ 18,000</td>
<td>÷ 18,000</td>
</tr>
<tr>
<td>Preferred dividend per share</td>
<td>$1.25</td>
<td>$1.60</td>
<td>$1.65</td>
<td>$1.50</td>
</tr>
</tbody>
</table>

*$27,000 = 18,000 shares × $75 × 2%*

**Dividend for common shares**

| (a. – b.) | $ — | $ — | $10,400 | $50,000 |

**Common shares outstanding**

| ÷ 40,000 | ÷ 40,000 |

**Common dividend per share**

| $0.26 | $1.25 |

### Ex. 11–2

<table>
<thead>
<tr>
<th>Dividend Type</th>
<th>1st Year</th>
<th>2nd Year</th>
<th>3rd Year</th>
<th>4th Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Total dividend declared</td>
<td>$7,500</td>
<td>$10,500</td>
<td>$25,000</td>
<td>$60,000</td>
</tr>
<tr>
<td>Preferred dividend (current)</td>
<td>$7,500</td>
<td>$8,000</td>
<td>$10,000*</td>
<td>$10,000</td>
</tr>
<tr>
<td>Preferred dividend in arrears</td>
<td>—</td>
<td>2,500</td>
<td>2,000</td>
<td>—</td>
</tr>
<tr>
<td>b. Total preferred dividends</td>
<td>$7,500</td>
<td>$10,500</td>
<td>$12,000</td>
<td>$10,000</td>
</tr>
<tr>
<td>Preferred shares outstanding</td>
<td>÷ 25,000</td>
<td>÷ 25,000</td>
<td>÷ 25,000</td>
<td>÷ 25,000</td>
</tr>
<tr>
<td>Preferred dividend per share</td>
<td>$0.30</td>
<td>$0.42</td>
<td>$0.48</td>
<td>$0.40</td>
</tr>
</tbody>
</table>

*$10,000 = 25,000 shares × $40 × 1%*

**Dividend for common shares**

| (a. – b.) | $ — | $ — | $13,000 | $50,000 |

**Common shares outstanding**

| ÷ 50,000 | ÷ 50,000 |

**Common dividend per share**

| $0.26 | $1.00 |
Ex. 11–3

a. Jan. 14 Cash .............................................................. 768,000
   Common Stock ........................................... 600,000
   Paid-In Capital in Excess of Par—
   Common Stock ........................................ 168,000

Mar. 17 Cash .............................................................. 660,000
   Preferred Stock ........................................... 600,000
   Paid-In Capital in Excess of Par—
   Preferred Stock ........................................ 60,000

b. $1,428,000 ($768,000 + $660,000)

Ex. 11–4

a. July 12 Cash .............................................................. 2,700,000
   Common Stock ........................................... 1,200,000
   Paid-In Capital in Excess of
   Stated Value ........................................... 1,500,000

Nov. 18 Cash .............................................................. 4,000,000
   Preferred Stock ........................................... 3,600,000
   Paid-In Capital in Excess of Par—
   Preferred Stock ........................................ 400,000

b. $6,700,000 ($2,700,000 + $4,000,000)

Ex. 11–5

Apr. 15 Land .............................................................. 525,000
   Common Stock ............................................. 350,000
   Paid-In Capital in Excess of Par ................. 175,000
Ex. 11–6

a. Cash ................................................................. 1,000,000
   Common Stock (20,000 × $50) ..................... 1,000,000
b. Organizational Expenses ...................................... 50,000
   Common Stock (1,000 × $50) ..................... 50,000
   Cash ................................................................. 750,000
   Common Stock (15,000 × $50) ..................... 750,000
c. Land ................................................................. 200,000
   Building .......................................................... 500,000
   Interest Payable* ............................................. 2,500
   Mortgage Note Payable .................................... 300,000
   Common Stock ................................................. 397,500

*An acceptable alternative would be to credit Interest Expense.

Ex. 11–7

Buildings ............................................................. 910,000
Land ................................................................. 350,000
   Preferred Stock ............................................... 1,200,000
   Paid-In Capital in Excess of Par—Preferred Stock .... 60,000
   Cash ................................................................. 1,584,000
   Common Stock ................................................. 1,500,000
   Paid-In Capital in Excess of Par—Common Stock .... 84,000

Ex. 11–8

Jan. 30 Cash ............................................................ 6,000,000
   Common Stock (300,000 × $20) .................. 6,000,000
31 Organizational Expenses ................................. 15,000
   Common Stock (750 × $20) ......................... 15,000
Feb. 21 Land .......................................................... 150,000
   Buildings .......................................................... 460,000
   Equipment ........................................................ 90,000
   Common Stock (32,000 × $20) .................... 640,000
   Paid-In Capital in Excess of Par—
   Common Stock ............................................. 60,000
Mar. 2 Cash ............................................................ 1,162,500
   Preferred Stock (15,000 × $75) ................... 1,125,000
   Paid-In Capital in Excess of Par—
   Preferred Stock ............................................ 37,500
Ex. 11–9

Apr.  1  Cash Dividends ...........................................  365,850
       Cash Dividends Payable ...................................  365,850

May  1  No entry required.

June  3  Cash Dividends Payable ..................................  365,850
       Cash ..........................................................  365,850

Ex. 11–10

a.  (1) Stock Dividends ........................................  554,400*
    Stock Dividends Distributable (4,200 × $125) ...  525,000
    Paid-In Capital in Excess of Par—
    Common Stock ...........................................  29,400
    *[(17,500,000/$125) × 3%] × $132

    (2) Stock Dividends Distributable .......................  525,000
    Common Stock ...............................................  525,000

b.  (1) $18,060,000 ($17,500,000 + $560,000)
    (2) $75,496,000
    (3) $93,556,000 ($18,060,000 + $75,496,000)

c.  (1) $18,614,400 ($17,500,000 + $560,000 + $525,000 + $29,400)
    (2) $74,941,600 ($75,496,000 – $554,400)
    (3) $93,556,000 ($18,614,400 + $74,941,600)

Ex. 11–11

a.  Apr.  27  Treasury Stock ......................................  900,000
    Cash ..........................................................  900,000

    July  13  Cash ..................................................  648,000
    Treasury Stock (9,000 × $60) .........................  540,000
    Paid-In Capital from Sale of Treasury Stock ..........  108,000

    Oct.  8  Cash ....................................................  354,000
    Paid-In Capital from Sale of Treasury Stock ..........  6,000
    Treasury Stock (6,000 × $60) .........................  360,000

b.  $102,000 ($108,000 – $6,000) credit
Ex. 11–11 (Concluded)

c. Deer Creek may have purchased the stock to support the market price of the stock, to provide shares for resale to employees, or for reissuance to employees as a bonus according to stock purchase agreements.

Ex. 11–12

a. June 19  Treasury Stock (24,000 × $64)......................  1,536,000
        Cash .........................................................  1,536,000

Aug. 30  Cash (19,000 × $68)........................................  1,292,000
        Treasury Stock (19,000 × $64) ...................  1,216,000
        Paid-In Capital from Sale
        of Treasury Stock .................................  76,000

Sept. 6  Cash (3,000 × $70)........................................  210,000
        Treasury Stock (3,000 × $64) ...................  192,000
        Paid-In Capital from Sale
        of Treasury Stock .................................  18,000

b.  $94,000 ($76,000 + $18,000) credit

c.  $128,000 (2,000 × $64) debit

d.  The balance in the treasury stock account is reported as a deduction from the total of the paid-in capital and retained earnings.

Ex. 11–13

a. July 5  Treasury Stock (12,500 × $80)......................  1,000,000
        Cash .........................................................  1,000,000

Nov. 3  Cash (7,000 × $85)........................................  595,000
        Treasury Stock (7,000 × $80) ...................  560,000
        Paid-In Capital from Sale of
        Treasury Stock ........................................  35,000

Dec. 10  Cash (5,500 × $78)........................................  429,000
        Paid-In Capital from Sale of
        Treasury Stock ........................................  11,000
        Treasury Stock (5,500 × $80) ...................  440,000

b.  $24,000 ($35,000 – $11,000) credit

c.  Stockholders’ Equity section
Ex. 11–13  (Concluded)

d. Conyers Water Inc. may have purchased the stock to support the market price of the stock, to provide shares for resale to employees, or for reissuance to employees as a bonus according to stock purchase agreements.

Ex. 11–14

Stockholders’ Equity

Paid-in capital:

Preferred 1% stock, $75 par
(100,000 shares authorized, 60,000 shares issued) ............... $4,500,000
Excess of issue price over par ...... 180,000 $4,680,000
Common stock, no par, $8 stated value (500,000 shares authorized, 300,000 shares issued) .... $2,400,000
Excess of issue price over par ...... 450,000 2,850,000
From sale of treasury stock ........... 190,000
Total paid-in capital.................. $7,720,000

Ex. 11–15

Stockholders’ Equity

Paid-in capital:

Common stock, $90 par
(50,000 shares authorized, 30,000 shares issued) ............... $2,700,000
Excess of issue price over par ...... 120,000 $ 2,820,000
From sale of treasury stock ............ 36,000
Total paid-in capital .................. $ 2,856,000
Retained earnings .................. 9,173,000
Total ................................................. $12,029,000
Deduct treasury stock
(4,000 shares at cost) ............... 352,000
Total stockholders’ equity .............. $11,677,000
Ex. 11–16

Stockholders’ Equity

Paid-in capital:

Preferred 2% stock, $125 par
(60,000 shares authorized,
40,000 shares issued) .......... $5,000,000
Excess of issue price over par ..... 280,000 $ 5,280,000
Common stock, $8 par
(500,000 shares authorized,
375,000 shares issued) .......... $3,000,000
Excess of issue price over par ..... 525,000 3,525,000
From sale of treasury stock ........ 175,000
Total paid-in capital .......... $ 8,980,000
Retained earnings .............. 23,120,000
Total ................................................. $32,100,000
Deduct treasury common stock
(88,000 shares at cost) .......... 792,000
Total stockholders’ equity .......... $31,308,000

Ex. 11–17

SANDUSKY CORPORATION
Retained Earnings Statement
For the Year Ended October 31, 2012

Retained earnings, November 1, 2011 .................. $796,750
Net income ............................................. $215,000
Less dividends declared .................. 45,000
Increase in retained earnings .................. 170,000
Retained earnings, October 31, 2012 .................. $966,750
Ex. 11–18

1. Retained earnings is not part of paid-in capital.
2. The cost of treasury stock should be deducted from the total stockholders’ equity.
3. Dividends payable should be included as part of current liabilities and not as part of stockholders’ equity.
4. Common stock should be included as part of paid-in capital.
5. The amount of shares of common stock issued of 500,000 times the par value per share of $14 should be extended as $7,000,000, not $7,600,000. The difference, $600,000, probably represents paid-in capital in excess of par.
6. Organizing costs should be expensed when incurred and not included as a part of stockholders’ equity.

One possible corrected Stockholders’ Equity section of the balance sheet is as follows:

```
Stockholders’ Equity

Paid-in capital:
  Preferred 1% stock, $200 par
    (25,000 shares authorized and issued) .................. $5,000,000
  Excess of issue price over par .......................... 75,000 $ 5,075,000
  Common stock, $14 par (800,000 shares authorized,
    500,000 shares issued) ..................................... $7,000,000
  Excess of issue price over par .......................... 600,000 7,600,000
  Total paid-in capital ...................................... $12,675,000

Retained earnings .............................................. 41,500,000*
  $54,175,000

Deduct treasury stock (45,000 shares at cost) .......... 648,000
  Total stockholders’ equity ................................ $53,527,000

* $41,750,000 – $250,000. Since the organizing costs should have been expensed, the retained earnings should be $250,000 less.
```
Ex. 11–19

**LIFE’S GREETING CARDS INC.**  
Statement of Stockholders’ Equity  
For the Year Ended December 31, 2012

<table>
<thead>
<tr>
<th>Common Stock $50 Par</th>
<th>Paid-In Capital in Excess of Par</th>
<th>Treasury Stock</th>
<th>Retained Earnings</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, Jan. 1, 2012...</td>
<td>$3,000,000</td>
<td>$480,000</td>
<td>—</td>
<td>$5,220,000</td>
</tr>
<tr>
<td>Issued 27,000 shares of common stock...</td>
<td>1,350,000</td>
<td>324,000</td>
<td></td>
<td>1,674,000</td>
</tr>
<tr>
<td>Purchased 4,500 shares as treasury stock...</td>
<td></td>
<td></td>
<td>$(216,000)</td>
<td>$(216,000)</td>
</tr>
<tr>
<td>Net income...</td>
<td>765,000</td>
<td></td>
<td>765,000</td>
<td>765,000</td>
</tr>
<tr>
<td>Dividends...</td>
<td></td>
<td></td>
<td>(150,000)</td>
<td>(150,000)</td>
</tr>
<tr>
<td>Balance, Dec. 31, 2012...</td>
<td>$4,350,000</td>
<td>$804,000</td>
<td>$(216,000)</td>
<td>$5,835,000</td>
</tr>
</tbody>
</table>

Ex. 11–20

a. 500,000 shares (100,000 × 5)  
b. $40 per share ($200/5)

Ex. 11–21

<table>
<thead>
<tr>
<th>Stockholders’ Equity</th>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Authorizing and issuing stock certificates in a stock split</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>(2) Declaring a stock dividend</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>(3) Issuing stock certificates for the stock dividend declared in (2)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>(4) Declaring a cash dividend</td>
<td>0</td>
<td>+</td>
</tr>
<tr>
<td>(5) Paying the cash dividend declared in (4)</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>
Ex. 11–22

Feb. 10  No entry required. The stockholders’ ledger would be revised to record the increased number of shares held by each stockholder.

May 1  Cash Dividends .......................................................... 116,000*
  Cash Dividends Payable ................................................. 116,000
  *[40,000 shares × $2] + [300,000 shares × $0.12] = $80,000 + $36,000 = $116,000

June 15 Cash Dividends Payable .............................................. 116,000
  Cash ........................................................................... 116,000

Nov. 1  Cash Dividends .......................................................... 104,000*
  Cash Dividends Payable ................................................. 104,000
  *[40,000 shares × $2] + [300,000 shares × $0.08] = $80,000 + $24,000 = $104,000

1  Stock Dividends ........................................................... 168,000**
  Stock Dividends Distributable (6,000 × $20) .................. 120,000
  Paid-In Capital in Excess of Par—Common Stock .............. 48,000
  **[300,000 shares × 2% × $28] = $168,000

Dec. 15  Cash Dividends Payable .............................................. 104,000
  Cash ........................................................................... 104,000

15  Stock Dividends Distributable ........................................... 120,000
  Common Stock .......................................................... 120,000

Ex. 11–23

Earnings per Share = \[
\frac{\text{Net Income} - \text{Preferred Dividends}}{\text{Avg. Number of Common Shares Outstanding}}
\]

Earnings per Share = \[
\frac{\$133,750 - (\$4 \text{ per share} \times 10,000 \text{ shares})}{25,000 \text{ shares}}
\]

Earnings per Share = $3.75 per share
a. Earnings per Share = \( \frac{\text{Net Income} - \text{Preferred Dividends}}{\text{Avg. Number of Common Shares Outstanding}} \)

\[
\begin{align*}
\text{2009 Earnings per Share} &= \frac{\$11,293 - \$192}{2,952 \text{ shares}} \\
&= \$3.76 \text{ per share} \\
\text{2008 Earnings per Share} &= \frac{\$11,798 - \$176}{3,081 \text{ shares}} \\
&= \$3.77 \text{ per share} \\
\text{2007 Earnings per Share} &= \frac{\$10,063 - \$161}{3,159 \text{ shares}} \\
&= \$3.13 \text{ per share}
\end{align*}
\]

b. 

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings per share</td>
<td>$3.76</td>
<td>$3.77</td>
<td>$3.13</td>
</tr>
<tr>
<td>As a percent of 2007 (base year)</td>
<td>120%</td>
<td>120%</td>
<td>100%</td>
</tr>
<tr>
<td>Net income</td>
<td>$11,293</td>
<td>$11,798</td>
<td>$10,063</td>
</tr>
<tr>
<td>As a percent of 2005 (base year)</td>
<td>112%</td>
<td>117%</td>
<td>100%</td>
</tr>
</tbody>
</table>

The earnings per share growth for 2008 was slightly higher (120%) than the net income (117%) growth. While net income declined from 117% to 112% of the 2007 base year, earnings per share remained the same as 2008 (120%) of the base year. The number of common shares outstanding remained relatively the same during the three-year period.
Ex. 11–25

a. **OfficeMax:**

Earnings per Share = \( \frac{\text{Net Income} - \text{Preferred Dividends}}{\text{Average Number of Common Shares Outstanding}} \)

Earnings per Share = \( \frac{667,000 - 2,818,000}{77,483,000 \text{ shares}} \)

Earnings per Share = $(0.03) per share

**Staples:**

Earnings per Share = \( \frac{\text{Net Income} - \text{Preferred Dividends}}{\text{Average Number of Common Shares Outstanding}} \)

Earnings per Share = \( \frac{738,671,000}{721,838,000 \text{ shares}} \)

Earnings per Share = $1.02 per share

b. Staples’ net income of $738,671,000 is much greater than OfficeMax’s net income of $667,000. This is because Staples is a much larger business than OfficeMax. Staples also has over 9 times more shares of common stock outstanding than does OfficeMax. Regardless of these size differences, however, earnings per share can be used to compare their relative earnings. As shown above, Staples has a better earnings per share of $1.02 than does OfficeMax, which has negative earnings per share of $0.03.