

TEST BANK  
CHAPTERS 14-26, APPENDIX C & D

FOR USE WITH

**Meigs & Meigs**  
**ACCOUNTING**  
**The Basis**  
**for Business**  
**Decisions**

N I N T H   E D I T I O N

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**Chapters 14-26, Appendix C & D**  
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**The Basis for Business Decisions, Ninth Edition**

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**ACCOUNTING**

**The Basis for Business Decisions, Ninth Edition**  
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# TO THE INSTRUCTOR

Once again we have substantially increased the number and the variety of questions and exercises in our **Test Bank**. As a result, the Test Bank has become so large that we now bind it in two separate volumes. Volume 1 covers the first half of the textbook — Chapters 1 through 13 — and also Appendixes A and B. Volume 2 contains examination material for Chapters 14 through 26 and Appendixes C and D. The entire Test Bank also is available in the form of computer diskettes.

For each chapter, the Test Bank includes a large number of true-false questions, multiple-choice questions, exercises, four “10-minute quizzes,” and the **Self-Test Questions** from the textbook. In addition, several **short essay questions** have been added for each chapter. A smaller, but still substantial number of questions, exercises, and quizzes are provided for each appendix.

The idea behind this Test Bank of this size is to enable instructors to create examinations of the desired length, level of difficulty, and topical coverage. In addition, instructors should be able to vary their examinations from one semester to the next and to prepare “practice” tests and “make-up” examinations which do not precisely parallel scheduled examinations.

We invite you to use these questions and exercises for **any classroom purpose** — quizzes, examinations, demonstration problems, and so on. However, we ask that you do not turn the Test Bank over to students or place it on reserve in the library.

In addition, all of the questions, problems, and quizzes are available in the form of a computerized test bank. RHTest is to be used with IBM PCs and compatibles and MicroTest is to be used with the Macintosh.

## Sequence of Questions

In general, questions are arranged in the same sequence as the learning objectives, which parallel the flow of topics within the chapter. Multiple-choice questions also are divided into two groups, which we identify as **conceptual** and **quantitative**. We often provide several similar questions so that an instructor may use variations of the same question in successive semesters. Such similar questions or exercises appear in immediate succession.

In some cases, several multiple-choice questions are drawn from common data. In these situations, we have designed each question to be independent; thus, you may use any combination of these questions without using the entire series.

## Short Questions Calling for Written Answers

A new feature of the Test Bank is the inclusion of short questions which call for written answers. These questions are intended to address the accounting concepts which are nonquantitative in nature and also to help students develop communication skills. We find that these types of questions may be used effectively as part of an examination, as a short quiz, or as the basis for a classroom discussion.

## 10-Minute Quizzes

The questions and exercises contained in the **10-Minute Quizzes** differ from the other questions in the Test Bank. Therefore, these quizzes form an additional part of the overall data base from which an instructor may select examination material.



Quizzes A and B for each chapter are in multiple-choice format, while quizzes C and D are based upon exercises. For most chapters, quizzes **B** and **C** are drawn from the **same basic data**, with quiz B arranged in multiple-choice format and quiz C arranged as an exercise.

The computerized Test Bank enables instructors to independently select any questions or exercises from the 10-Minute Quizzes for use on examinations.

### Self-Test Questions from the Textbook

The final category of examination material provided for each chapter is the set of "Self-Test Questions" from the textbook. If you wish to use these questions on examinations, we want to advise you of three considerations:

- 1 These questions, and their answers, are included in the textbook and, therefore, are readily available to students.
- 2 Some of the questions ask students to identify **more than one correct answer**. Some electronic grading devices do not process multiple answers.
- 3 Finally, these questions are **quite challenging**. They are intended primarily as a learning aid, with the correct answers readily available to students. One purpose of these questions is to encourage students to look back into the textbook when they do not fully understand the answers.

If these questions were not printed in the textbook, we would consider them **too difficult** for use in examinations. As students do have the opportunity to study these questions, however, we consider them "fair game" for examinations. In fact, the occasional use of these questions in examinations encourages students to take advantage of this study aid.

If you plan to include these questions in quizzes or examinations, we recommend that you give your students advance notice.

### Other Examination Materials

In addition to this Test Bank, the ninth edition of **Accounting: The Basis for Business Decisions** is accompanied by four sets of **Achievement Tests and Comprehensive Examinations**. Sets A and B each consist of twelve 50-minute tests, each covering **two** chapters, and two Comprehensive Examinations covering the first and second halves of the textbook. The A and B sets are parallel, differing only in the sequence of questions and in quantitative problem data.

Sets C and D each include six 50-minute Achievement Tests, each covering **four** chapters, and two 1-hour-and-40-minute Comprehensive Examinations. The C and D sets also parallel each other, differing only in the sequence of questions and in quantitative data.

The **Achievement Tests and Comprehensive Examinations** are available in quantity, at no cost, for use by instructors adopting the textbook. Copies of these tests, along with solutions, are found in the **Instructor's Guide**.

Mary A Meigs

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**CORPORATIONS:  
ORGANIZATION AND  
STOCKHOLDERS' EQUITY**

**Part I. True or False**

For each of the following statements, circle the T or the F to indicate whether the statement is true or false.

*(Ans.)*

- |                            |  |
|----------------------------|--|
| <i>T</i> <b>T</b> <b>F</b> | 1 A corporation is a legal entity separate from its owners; it may sue and be sued, and it may own property in its own name.   |
| <i>F</i> <b>T</b> <b>F</b> | 2 A corporation is dissolved whenever a stockholder dies or withdraws from the organization.   |
| <i>F</i> <b>T</b> <b>F</b> | 3 The president and other officers of a corporation are elected by majority vote of the stockholders.  |
| <i>T</i> <b>T</b> <b>F</b> | 4 Stockholders of a corporation have no personal liability for the debts of the corporation even when all shares of stock are owned by the officers of the corporation.  |
| <i>F</i> <b>T</b> <b>F</b> | 5 Regardless of its form of organization, a profitable business reports Income Taxes Expense in its income statement and often includes a current liability, Income Taxes Payable, in its balance sheet.   |
| <i>T</i> <b>T</b> <b>F</b> | 6 The term <i>double taxation</i> with reference to corporations means that the income of a corporation is subject to corporate income tax and that when this income is distributed to stockholders as dividends, the stockholders must pay personal income tax on the dividends received. |
| <i>T</i> <b>T</b> <b>F</b> | 7 For a corporation which is operating profitably, the year-end entry to close the Income Summary account consists of a debit to Income Summary and a credit to Retained Earnings.   |
| <i>T</i> <b>T</b> <b>F</b> | 8 The declaration of a cash dividend by the board of directors causes a decrease in a corporation's retained earnings and an increase in its current liabilities.  |
| <i>F</i> <b>T</b> <b>F</b> | 9 The payment of a dividend declared in a prior period causes a decrease in stockholders' equity and a decrease in current assets.   |
| <i>T</i> <b>T</b> <b>F</b> | 10 The declaration of a cash dividend causes stockholders' equity to decrease but has no immediate effect upon corporate assets.   |

- F T F* 11 Retained earnings represents cash available for expansion and growth of the corporation.
- F T F* 12 If capital stock is issued by a corporation at a price higher than par value, the excess amount represents income in the period in which the shares of stock are issued.
- T T F* 13 When par value capital stock is issued, Capital Stock is credited with the par value of the shares issued, regardless of whether the issuance price is equal to par, more than par, or less than par.
- T T F* 14 Every business corporation has common stock; many corporations also issue preferred stock, and some corporations have two or more types of preferred stock.
- F T F* 15 *Preferred stock* is so named because it sells at a higher price than does common stock.
- T T F* 16 The sale by Jones to Smith of 100 shares of the \$5 par value stock of Gale Corporation at a price of \$60 per share causes no change in the assets of Gale Corporation.
- T T F* 17 Stock which is callable at the option of the corporation is more likely to be preferred stock than common stock.
- F T F* 18 In the event of the liquidation of a corporation, preferred stock ordinarily has preference as to liabilities and common stock has preference as to assets.
- F T F* 19 Preferred stockholders generally have the same voting rights as do common stockholders in a corporation.
- T T F* 20 Common stock possesses more of the characteristics of basic "residual ownership" than does preferred stock.
- F T F* 21 When a corporation issues capital stock in exchange for assets other than cash, the transaction should be recorded at the par value of the shares issued.
- F T F* 22 The stockholders' equity accounts are adjusted annually for changes in the market value of outstanding common stock.
- T T F* 23 The account Subscriptions Receivable is classified as an asset. It is usually larger in dollar amount than the related account Capital Stock Subscribed. This latter account is classified in the stockholders' equity group of accounts.
- F T F* 24 When assets are donated to a corporation, a revenue account should be credited for the fair market value of the assets received.

- T T F 25** The issuance of additional shares of common stock at a price above the current book value per share will cause the book value per share to increase.

## **Part II. Multiple-Choice**

Choose the best answer for each of the following questions and insert the identifying letter in the space provided.

(Ans.)

### **Conceptual**

- c** \_\_\_\_\_ **26** Which of the following is *not* a characteristic of the corporate form of organization?
- a. The owners of a corporation cannot lose more than the amount of their investment.
  - b. Shares of stock in a corporation are more readily transferable than is an interest in a partnership.
  - c. Stockholders have authority to decide by majority vote the amount of dividends to be paid.
  - d. The corporation is a very efficient vehicle for obtaining large amounts of capital required for large-scale production.
- b** \_\_\_\_\_ **27** Title to the assets of a corporation is legally held by:
- a. The stockholders, jointly and severally.
  - b. The corporation, as a legal entity.
  - c. The president of the corporation in trust for the stockholders.
  - d. The board of directors, as trustees.
- d** \_\_\_\_\_ **28** Which of the following is *not* a characteristic of the corporate form of organization?
- a. Ease of transferring ownership.
  - b. Limited liability of owners.
  - c. Ease of gathering large amounts of capital.
  - d. Owner payment of the corporate income taxes based on the owners' proportionate shares of corporate net income.
- d** \_\_\_\_\_ **29** Which of the following is *true* regarding corporations?
- a. The president and various vice presidents are elected by the stockholders.
  - b. A proxy is a temporary president hired by the board of directors.
  - c. Corporate charters are issued by the federal government.
  - d. A corporation is a separate legal entity that may sue and be sued as if it were a person.



- a      30 The year-end adjusting entry to record a corporation's income tax consists of:
- a. A debit to Income Taxes Expense and a credit to Income Taxes Payable.
  - b. A debit to Retained Earnings and a credit to Income Taxes Payable.
  - c. A debit to Allowance for Income Taxes and a credit to Cash.
  - d. A debit to Income Taxes Payable and a credit to Accumulated Income Taxes.
- b      31 The term *double taxation* refers to the fact that:
- a. A corporation's net income is subject to corporate income taxes and each stockholder pays personal income taxes on his or her proportionate share of corporate net income, regardless of the amount of dividends received.
  - b. A corporation's net income is subject to corporate income taxes and stockholders must pay personal taxes on dividends they receive.
  - c. A corporation's earnings are subject to both federal and state corporate income taxes.
  - d. A corporation pays income taxes only on amounts paid out as dividends and the recipient shareholders also pay personal income taxes on amounts received.
- c      32 The costs incurred in the formation of a corporation:
- a. Are paid by the founding shareholders directly and do not appear in the corporation's accounting records.
  - b. Are debited to an account called *Organization Costs*, which remains intact until the corporate charter expires.
  - c. Are written off (expensed) over a period of five years or more.
  - d. Are deducted as expenses in the income statement during the first year of operations.
- d      33 John Hill owns 51% of the capital stock of Hill Corporation. Which of the following actions would *not* be permissible for John Hill to take?
- a. To cause those persons he chooses to become directors of the corporation.
  - b. To serve personally both as a director and as president of the corporation.
  - c. To arrange for members of his immediate family to become directors and/or officers of the corporation.
  - d. To withdraw from the corporation such amounts of the paid-in capital and retained earnings as he decides to be appropriate.
- b      34 The rights of a common stockholder do *not* include the right:
- a. To vote for directors.
  - b. To withdraw a share of corporate net assets proportionate to the person's stockholdings.
  - c. To receive a proportionate share of corporate assets upon liquidation, after creditors have been paid.
  - d. To share in profits when the board of directors declares a dividend.

- c \_\_\_\_\_ 35 The *directors* of a corporation:
- a. Are hired by the officers to run the business on a day-to-day basis.
  - b. May not own stock in the same corporation or be officers of the same corporation.
  - c. Are responsible for formulating corporate policy and for hiring corporate officers.
  - d. Are elected by the shareholders to run day-to-day operations.
- a \_\_\_\_\_ 36 Which of the following individuals has the most power to influence corporate policy on a long-term basis?
- a. A shareholder owning 60% of the outstanding common stock.
  - b. A shareholder owning 80% of the outstanding preferred stock.
  - c. The treasurer of the corporation.
  - d. The controller of the corporation.
- c \_\_\_\_\_ 37 The term *paid-in capital* means:
- a. All assets other than retained earnings.
  - b. Legal capital plus retained earnings.
  - c. Total stockholders' equity minus retained earnings.
  - d. Legal capital minus retained earnings.
- d \_\_\_\_\_ 38 *Retained earnings* represents:
- a. Cash available for dividends.
  - b. The amount initially invested in the business by stockholders.
  - c. Cash available for expansion and growth.
  - d. Income which has been reinvested in the business rather than distributed as dividends to stockholders.
- d \_\_\_\_\_ 39 A *deficit* appears in a corporation's financial statements:
- a. Among the operating expenses.
  - b. Among the liabilities.
  - c. As an element of total paid-in capital.
  - d. As a deduction from total paid-in capital.
- b \_\_\_\_\_ 40 The entry to record the *declaration* of a cash dividend includes a credit to the:
- a. Cash account.
  - b. Dividends Payable account.
  - c. Retained Earnings account.
  - d. Dividends account.
- a \_\_\_\_\_ 41 In the closing of the accounts at the end of the period, which of the following is closed directly into the Retained Earnings account?
- a. The Income Summary account.
  - b. The Capital Stock account.
  - c. Revenue and expense accounts.
  - d. The Dividends Payable account.

- a \_\_\_\_\_ 42 Which of the following best describes the relationship between revenue and retained earnings?
- a. Revenue increases net income, which in turn increases retained earnings.
  - b. Revenue represents a cash receipt; retained earnings is an element of stockholders' equity.
  - c. Revenue represents the price of goods sold or services rendered; retained earnings represents cash available for paying dividends.
  - d. Retained earnings is equal to revenue minus expenses.
- d \_\_\_\_\_ 43 The overall effect of declaring and distributing a cash dividend includes each of the following *except*:
- a. Reducing total assets.
  - b. Reducing stockholders' equity.
  - c. Reducing the balance of the Retained Earnings account.
  - d. Reducing net income for the period.
- b \_\_\_\_\_ 44 The accountant for Bernardo Corporation failed to record a dividend *declared* in December of 1994. On Bernardo Corporation's balance sheet at December 31, 1994:
- a. Assets and stockholders' equity are both overstated.
  - b. Liabilities are understated and retained earnings is overstated.
  - c. Cash and liabilities are both overstated.
  - d. The balance sheet is accurate, since the dividends have not been paid yet.
- a \_\_\_\_\_ 45 If a corporation has only common stock outstanding, which of the following constitutes *legal capital* at a particular date?
- a. The amount in the Common Stock account.
  - b. The sum of the Common Stock account and any additional paid-in capital.
  - c. The total amount of stockholders' equity.
  - d. The sum of the Common Stock account and retained earnings.
- c \_\_\_\_\_ 46 The par value of the common stock of a large listed corporation:
- a. Tends to establish a ceiling for the market price of the stock.
  - b. Tends to establish a floor for the market price of the stock.
  - c. Represents legal capital and is not related to the market price of the stock.
  - d. Is increased by net income and decreased by dividends.

- b \_\_\_\_\_ 47 The reason that state laws require that the par value of outstanding shares be shown separately from additional paid-in capital is that:
- a. The par value of the stockholders' investment becomes the legal property of the corporation's creditors.
  - b. Legal restrictions prohibit the declaration of dividends that would reduce total stockholders' equity below the par value of the outstanding shares.
  - c. Par value is useful to investors in determining a fair market value for the stock.
  - d. Stockholders may always sell their shares back to the corporation at par value.
- d \_\_\_\_\_ 48 When a corporation issues capital stock at a price *higher* than the par value:
- a. The amount received over par value increases retained earnings.
  - b. The entire issue price is credited to the Capital Stock account.
  - c. The amount received in excess of par value constitutes profit to the issuing corporation.
  - d. The amount received in excess of par value becomes part of paid-in capital.
- b \_\_\_\_\_ 49 When *no-par stock* is issued:
- a. The entire amount received is credited to the Additional Paid-In Capital account.
  - b. The issue price is credited to the Capital Stock account.
  - c. There is no legal capital created because there is no par or stated value.
  - d. The transaction usually involves only an exchange for noncash assets or services, since the stock has no value on the stock exchanges.
- a \_\_\_\_\_ 50 If a corporation issues some of its common stock in exchange for assets other than cash, the transaction should be recorded at the:
- a. Current market value of the assets received.
  - b. Stated value of the shares issued.
  - c. Par value of the shares issued.
  - d. Book value of the shares issued.
- a \_\_\_\_\_ 51 Which of the following is *not* a characteristic of most preferred stock?
- a. Participating clause.
  - b. Preference as to dividends.
  - c. Preference as to assets in the event of liquidation of the company.
  - d. No voting power.

- b \_\_\_\_\_ 52 The financial statements of a corporation which failed during the current year to pay any dividends on its cumulative preferred stock should:
- a. Include the amount of the omitted dividends among its current liabilities.
  - b. Include a footnote disclosing the amount of the dividends in arrears.
  - c. Show the amount of the omitted dividends as a deduction from retained earnings.
  - d. List the omitted dividends as a long-term liability.
- d \_\_\_\_\_ 53 If the preferred stock of a corporation is cumulative:
- a. Dividends on preferred stock are guaranteed.
  - b. Dividends cannot be declared in an amount less than that stated on the stock certificate.
  - c. Preferred stockholders participate in dividends paid in excess of a stated amount on the common shares.
  - d. Dividends in arrears must be paid on preferred stock before any dividend can be paid on common stock.
- d \_\_\_\_\_ 54 When holders of convertible preferred stock present their shares for conversion, the corporation records the common shares issued at an amount equal to:
- a. The aggregate par value of the common shares issued in exchange for the preferred stock.
  - b. The market value of the preferred stock exchanged.
  - c. The market value of the common shares at the date of conversion.
  - d. The carrying value of the preferred stock in the corporation's accounting records prior to conversion.
- a \_\_\_\_\_ 55 The correct journal entry to record the conversion of convertible preferred stock includes:
- a. A credit to the Common Stock account.
  - b. A credit to the Preferred Stock Converted account.
  - c. A credit to the Common Stock Subscribed account.
  - d. A credit to the Stock Subscriptions Receivable account.
- c \_\_\_\_\_ 56 Which of the following events is most likely to cause a decline in the market price of the *common* stock of a large, profitable, and solvent corporation?
- a. There is a general increase in stock prices.
  - b. The dividend on the common stock is increased.
  - c. Many financial analysts lower their estimate of the company's expected future earnings.
  - d. The market price of the company's convertible preferred stock rises.

- a \_\_\_\_\_ 57 Which of the following events is most likely to cause a decline in the market price of the *preferred* stock of a large, profitable, and solvent corporation?
- a. Interest rates rise.
  - b. Net income for the year falls short of investors' expectations.
  - c. Interest rates decline.
  - d. The dividend on common stock is increased.
- b \_\_\_\_\_ 58 The sale of capital stock on a subscription plan differs from a normal issuance of capital stock because:
- a. The shares are sent to investors on a monthly basis.
  - b. The investor agrees to pay for the shares at a future date or in a series of installments.
  - c. The subscribed shares are issued before any cash is received.
  - d. The subscribed shares are issued to the stock transfer agent instead of to the investor who pays the subscription price.
- a \_\_\_\_\_ 59 When stock is sold on a subscription basis and the entire subscription price has been collected, the issuance of the stock is recorded by:
- a. A debit to Capital Stock Subscribed and a credit to Capital Stock.
  - b. A debit to Stock Subscriptions Receivable and a credit to Capital Stock Subscribed.
  - c. A debit to Cash and a credit to Capital Stock.
  - d. A debit to Capital Stock and a credit to Stock Subscriptions Receivable.
- c \_\_\_\_\_ 60 When a corporation receives an asset such as land as a gift, which of the following does *not* occur?
- a. Both total assets and total stockholders' equity increase.
  - b. The transaction is recorded by debiting an asset account and crediting an account entitled Donated Capital.
  - c. The donated capital is considered a gain on the corporation's income statement.
  - d. The donated capital is regarded as paid-in capital.
- a \_\_\_\_\_ 61 Which of the following best describes the *book value* of a share of stock?
- a. Net assets divided by the number of shares outstanding.
  - b. The amount at which the stock would sell on the market if sold by a willing and informed seller to a willing and informed buyer.
  - c. Total assets of the company, as reported in the accounting records, divided by the number of shares of stock outstanding.
  - d. Total stockholders' equity divided by the number of shares authorized.



### Quantitative

- c \_\_\_\_\_ 62 Quinta Corporation is authorized to issue 500,000 shares of \$5 par value capital stock. The corporation issued half the stock for cash at \$30 per share, earned \$200,000 during the first three months of operation, and declared a cash dividend of \$50,000. The total paid-in capital of Quinta Corporation after three months of operation is:
- a. \$1,250,000.
  - b. \$2,500,000.
  - c. \$7,500,000.
  - d. \$7,650,000.
- c \_\_\_\_\_ 63 Tandem Corporation issued 100,000 shares of \$2 par value capital stock at date of incorporation for cash at a price of \$7 per share. During the first year of operations, the company earned \$80,000 and declared a dividend of \$25,000. At the end of this first year of operations, the balance of the Common Stock account is:
- a. \$700,000.
  - b. \$780,000.
  - c. \$200,000.
  - d. \$755,000.
- a \_\_\_\_\_ 64 Bijou Corporation issued 400,000 shares of \$5 par value common stock at the time of its incorporation. The stock was issued for cash at a price of \$15 per share. During the first year of operations, the company sustained a net loss of \$100,000. The year-end balance sheet would show the balance of the Common Stock account to be:
- a. \$2,000,000.
  - b. \$1,900,000.
  - c. \$6,000,000.
  - d. \$5,900,000.
- d \_\_\_\_\_ 65 Adella Corporation has outstanding 50,000 shares of \$1 par value common stock as well as 10,000 shares of 6%, \$100 par value cumulative preferred stock. At the *beginning* of the year, the balance in retained earnings was \$500,000, and one year's dividends were in arrears. Net income for the current year is \$260,000. Compute the balance in retained earnings at the *end* of the year if Adella Corporation pays a dividend of \$2 per share on its common stock this year.
- a. \$660,000.
  - b. \$760,000.
  - c. \$600,000.
  - d. \$540,000.

*Use the following data for questions 66 and 67.*

On January 1, 1993, Ricochet Corporation issued 100,000 shares of its total 500,000 authorized shares of \$5 par value common stock for \$7 per share. On December 31, 1993, Ricochet Corporation's common stock is trading at \$10 per share.

- c      66 Refer to the above data. Assuming Ricochet Corporation did *not* issue any more common stock in 1993, how does the increase in value of its outstanding stock affect Ricochet?
- a. Ricochet should recognize additional net income for 1993 of \$3 per share, or \$300,000.
  - b. Paid-in capital at December 31, 1993, is \$1,000,000 (i.e. 100,000 shares times \$10 per share).
  - c. This increase in market value of outstanding stock is not recorded in the financial statements of Ricochet Corporation.
  - d. Each shareholder must pay an additional \$3 per share to Ricochet.
- a      67 Refer to the above data. Assume Ricochet Corporation decides to issue an additional 10,000 shares of its common stock on December 31, 1993. How will the above increase in value affect Ricochet?
- a. Ricochet can issue the 10,000 shares at a higher price than the initial 100,000 shares.
  - b. Ricochet can sell the 10,000 shares for \$10 each, as well as collect an additional \$3 per share for each of the 100,000 shares sold initially.
  - c. Ricochet reports a gain of \$3 per share on all stock sold during the year.
  - d. Paid-in capital at the end of 1993 will be \$1,100,000 (i.e., 110,000 shares times \$10 per share).
- d      68 Dade Corporation issued 10,000 shares of its \$10 par value stock in exchange for a parcel of land which had been on the market for over a year at a listed price of \$300,000. Dade Corporation stock is currently selling on the stock exchanges at \$27 per share. The journal entry to record the issuance of the stock includes:
- a. A credit to Additional Paid-In Capital for \$200,000.
  - b. A credit to Retained Earnings for \$30,000.
  - c. A debit to Land for \$300,000.
  - d. A credit to Additional Paid-In Capital for \$170,000.
- d      69 Cruise and Lowe each own 10,000 shares of AMC Corporation \$10 par value stock which they purchased for \$38 per share directly from the corporation. If Cruise sells his stock to Lowe for \$450,000:
- a. Stockholders' equity of AMC Corporation increases.
  - b. Assets of AMC Corporation increase.
  - c. Stockholders' equity of AMC Corporation decreases.
  - d. No account of AMC Corporation is affected.

- b \_\_\_\_\_ 70 Regal Corp. has total stockholders' equity of \$5,100,000. The company's outstanding capital stock includes 100,000 shares of \$10 par value common stock and 20,000 shares of 6%, \$100 par value preferred stock. The preferred stock is callable at a price of \$110. (No dividends are in arrears.) The *book value per share* of common stock is:
- a. \$19.
  - b. \$29.
  - c. \$31.
  - d. \$51.
- b \_\_\_\_\_ 71 Regina Corporation has total stockholders' equity of \$8,800,000. The company has outstanding 300,000 shares of \$2 par value common stock and 20,000 shares of 9% preferred stock, \$100 par value, callable at a price of \$110 per share. (No dividends are in arrears.) The *book value per share* of common stock is:
- a. \$21.40.
  - b. \$22.00.
  - c. \$20.00.
  - d. \$22.67.
- c \_\_\_\_\_ 72 Solo Corporation has net assets of \$1,500,000 and paid-in capital of \$450,000. The only stock issue consists of 75,000 outstanding shares of common stock. From this information, it can be deduced that the company has:
- a. Retained earnings of \$1,500,000.
  - b. A deficit of \$1,050,000.
  - c. A book value of \$20 per share of common stock.
  - d. A book value of \$14 per share of common stock.
- b \_\_\_\_\_ 73 Harbor Boat Yard has total stockholders' equity of \$6,200,000, comprised of the following:
- \$2,000,000 in \$8 preferred stock consisting of 20,000 shares of \$100 par value, callable at \$110 per share
  - \$800,000 in common stock of \$5 par value per share
  - \$1,600,000 of additional paid-in capital
  - \$1,800,000 in retained earnings
- Assuming there are no dividends in arrears, the book value per share of common stock is:
- a. \$26.25.
  - b. \$25.00.
  - c. \$16.25.
  - d. \$5.00.