CHAPTER NINE

**SE9-1**

Delta Corporation: Classification of shares of stock

Authorized – 1,000,000 shares; issued – 575,000 shares; outstanding – 575,000 shares

**SE9-3**

Vest Corporation: Stock issue

$11 \times 100 \text{ shares} = $1,100

\[
\begin{align*}
\text{Assets} & = \text{Liabilities} + \text{Contributed Capital} + \text{Retained Earnings} \\
$1,100 \text{ cash} & \quad $1,000 \text{ common stock} \\
& \quad $100 \text{ paid-in capital in excess of par}
\end{align*}
\]

**R9-1** (SE9-3)

<table>
<thead>
<tr>
<th>Date</th>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cash</td>
<td>$1,100</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Common stock, $10 par value</td>
<td>$1,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Paid-in capital in excess of par–common</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

**SE9-7**

Seat Corporation: Declaration of dividends

As a dividend payable of $200,000 (100,000 shares @ $2 per share). It will also reduce retained earnings by $200,000.

**R9-2** (SE9-7)

<table>
<thead>
<tr>
<th>Date</th>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>12-15-2001</td>
<td>Dividends (or Retained earnings)</td>
<td>$200,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Dividends payable</td>
<td></td>
<td>$200,000</td>
</tr>
</tbody>
</table>
Best Bakery Corporation: Dividends to preferred and common shareholders

Preferred Shareholders = 2,000 shares @ $100 par,
8% = 2,000 × $100 × 8% = $16,000
Common Shareholders = $50,000 – $16,000 = $34,000

Bates Corporation: Preferred dividends

Preferred Shareholders = 7,000 shares @ $100 par, 5%, for 2 years
= 7,000 × $100 × .05 × 2
= $70,000

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dividends (or Retained earnings)</td>
<td>$100,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Dividends payable, preferred stock</td>
<td></td>
<td>$70,000</td>
</tr>
<tr>
<td></td>
<td>Dividends payable, common stock</td>
<td></td>
<td>30,000</td>
</tr>
</tbody>
</table>

Borax Company: Stock dividends

After the stock dividend, the number of shares outstanding is equal to 120,000 + 10% of 120,000, which is equal to 120,000 + 12,000 = 132,000. The par value of each share does not change. It is still $1.
Romax Company: Stock split

120,000 shares \times 2\text{-for-1} stock split = 120,000 \times 2/1 = \textbf{240,000 shares}

Par value of the 240,000 shares = $1/(2/1) = $\textbf{0.50}$

---

**R9-5** (SE9-15)

<table>
<thead>
<tr>
<th>Date</th>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>NO JOURNAL ENTRY REQUIRED</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

Home Depot: Analysis of Equity

New stock issued—Yes, because the number issued and outstanding increased (from 2,213,178,000 to 2,304,317,000).

Net income—Yes, because there is a change in retained earnings from $5,876,000 to $7,941,000.

---

**E9-4**

JKL Company: Analysis of shareholders’ equity section

a. $800,000/$2 par value = 400,000 shares

b. 400,000 shares, since there is no treasury stock

c. $1,250,000/$100 par value = 12,500 shares

d. Average selling price
   = Total Common Paid-in Capital/Number of Shares
   = $(800,000 + 3,500,000)/400,000$ shares
   = $4,300,000/400,000$ shares
   = $10.75
e. First, we have to pay the preferred stockholders. 12,500 shares @ $100 par, 8% = 12,500 \times $100 \times .08 = $100,000. Then we subtract that amount for the total to get the dividends for the common shareholders. $150,000 – $100,000 = $50,000

Analysis of shareholders’ equity

- Common stock: more common stock has been sold (i.e., issued).
- Paid-in capital in excess of par: the stock that was sold was sold for more than the par value.
- Retained earnings: net income of $20,000 and dividends of $2,500 declared [($182,500 + $20,000 net income – $200,000) = $2,500]
- Treasury stock: the company repurchased more stock.