

## SOLUTIONS

### Learning Goal 29

#### Multiple Choice

1. c
2. a By having to maintain some fixed amount of capital, an equal minimum amount of assets must be maintained on the balance sheet. Legal capital is a broader concept than par value; also, legal capital has no connection to retained earnings.
3. a Total paid-in capital minus paid-in capital in excess of par:  $\$500,000 - \$450,000 = \$50,000$
4. b Legal capital is defined differently in different states and may sometimes involve amounts other than par or stated value. The accounting presentation of legal capital is a simple presentation that does not include calculations other than par or stated value.
5. b
6. c It's all about getting the most money at the lowest cost.
7. d Retained earnings can be negative if cumulative net losses exceed net income; this is called a deficit. Retained earnings is not part of paid-in capital; retained earnings comes from the business operations. Legal capital normally only relates to designated paid-in capital items.
8. c Total cash received is  $\$8 \times 20,000 = \$160,000$ . Common Stock account is  $20,000 \times \$10 = \$2,000$ .
9. d Total paid-in capital is:  $(10,000 \times \$50) + (\$0.01 \times 100,000) + \$171,000 = \$672,000$ . Total stockholders' equity is retained earnings plus total paid-in capital:  $\$720,000 + \$672,000 = \$1,392,000$ .
10. d
11. c The attorney's bill is \$10,000, and there is no information about the value of the stock. The complete journal entry is:
 

Organization Expense	10,000	
Common Stock		2,000
Paid-in Capital in Excess of Par		8,000
12. c
13. a
14. b  $20,000 \times \$100 \times .06 = \$120,000$
15. b  $\$200,000 - (5,000 \times \$5) = \$175,000$
16. a  $\$250,000 - (7,000 \times \$100 \times .04 \times 3) = \$166,000$
17. c
18. d Choice (a) is incorrect because an amount of no-par stock shown as a Common Stock or Preferred Stock balance can significantly exceed its designated legal capital. The calculation of legal capital varies by state and the exact amount is not shown in stockholders' equity.
19. a Amounts shown as Common Stock or Preferred Stock identify legal capital only as a rough approximation in the case of par value stock. For no-par stock, a balance in Common Stock or Preferred Stock usually exceeds its designated legal capital.
20. c
21. a
22. a
23. b
24. c
25. b Retained earnings are available for dividends.

## SOLUTIONS

## Learning Goal 29, continued

## Discussion Questions and Brief Exercises

1. Legal capital is a specified dollar amount from a stock issuance that is required by state law to be maintained in a corporation, and it cannot be reduced by dividends or other stockholder distributions. This is for the protection of creditors. Par value is one way that the amount of legal capital can be specified. Par value is a minimum amount per share that the purchaser of the stock must pay for the stock, and it also establishes the maximum liability per share for each stockholder. For common stock, the par value is usually set at some very low amount and has no relation to market value of a share. (*Remember: Par value is not the market value of stock!*)
2. Paid-in capital is the part of stockholders' equity that has been invested in the business. Retained earnings is the part of the stockholders' equity claim that represents the cumulative amount of net income that is still retained in the business. If cumulative losses exceed cumulative profits, retained earnings will be a negative amount.
3. Generally, the most an investor can lose is the amount invested. There are some limited exceptions to this if an investor as an officer or employee of the corporation is involved in fraud, extreme negligence, or violation of laws related to corporate activities. An investor's personal liability to creditors is generally limited to the amount of the stock value that was designated as legal capital. Usually this is much less than the total amount that was invested.
4.
  - a.  $(10,000 \times \$100 \times .05) = \$50,000$
  - b.  $(10,000 \times \$100 \times .05)/4 = \$12,500$
  - c.  $(10,000 \times \$100 \times .05 \times 2) + (10,000 \times \$100 \times .05)/4 = \$112,500$
5. The cash dividend will be paid on April 20. To receive the dividend, an investor's name must be formally recorded as an owner no later than March 31. Generally an investor would have to purchase the stock more than two business days before the date of record before the date of record to allow enough time for recording the purchase. The two-day prior date is called the "ex-dividend" date. Here, it would be March 29.
6.
  - a.  $(5,000 \times \$104) = \$520,000$
  - b.  $(5,000 \times \$104) + (5,000 \times \$4)/4 = \$525,000$
  - c.  $(5,000 \times \$104) + (5,000 \times \$4 \times 2) + (5,000 \times \$4)/4 = \$565,000$
7. Stock is called "preferred" when it has preferences over common stock. Usually, preferred stock has a dividend preference and a liquidation preference over common stock. This means that preferred stock will be the first to receive dividends and also will receive corporate assets before common stock in the case of liquidation. Usually preferred stock is non-voting, whereas common stockholders have the right to vote. Also, preferred stock is often cumulative and may also be callable and convertible into common shares. Generally, preferred stock receives a fixed dividend amount, whereas common stock dividends fluctuate more and potentially can be much greater than preferred stock.
8. Preferred stock is issued to appeal to the interests of different types of shareholders—usually investors who are less speculative and who want fixed, predictable dividends. By appealing to different types of investors, a corporation is able to obtain more money from investors. This is the usual reason that all different classes of stock are created.
9.
  - Par value, preferred stock: The minimum amount that must be invested (legal capital) for preferred stock.
  - Par value, common stock: The minimum amount that must be invested (legal capital) for common stock.
  - Paid-in capital in excess of par, common and preferred stock: Amounts invested that exceed par value.
  - No par common stock: Common stock issued without a par value (no minimum amount).
  - Common stock subscribed: The par value or portion of no-par value of common shares that have been subscribed but not yet fully paid for.

## SOLUTIONS

## Learning Goal 29, continued

10.

Preferred Stock	300,000	
Paid-in Capital in Excess of Par, Preferred	8,000	
Common Stock		12,000
Paid-in Capital in Excess of Par, Common		296,000

Check the total:  $(\$924,000 \times 4,000/12,000) = \$308,000$  total preferred stock equity converted into common stock equity. There is no gain or loss and total stockholders' equity does not change.

11. ■ Date of declaration: The date the board of directors approves a dividend. The dividend becomes a liability on this date.
- Date of record: The date by which stock ownership must be officially recorded for the owner to receive a dividend.
- Ex-dividend date: The date before which a stock must be purchased in order to allow enough time for the buyer's name to be officially recorded to receive a dividend; generally, two days before the date of record.
- Payment date: The date that checks are recorded to owners as of the date of record.

Journal entries are needed on the declaration date to record the liability and to decrease retained earnings, and on the payment date to record the payment.

12. ■ Cumulative: A feature of preferred stock that requires that preferred dividends in arrears plus current preferred dividends be paid before common stockholders can receive a dividend.
- Callable: A feature that allows the issuing corporation to purchase shares of stock at a fixed price from the owners.
- Convertible: A feature that permits owners of preferred stock to convert preferred shares into common shares.
13. The procedure is for the board of directors to use the most reliable value. When stock is regularly traded on a public stock exchange, this is usually the most reliable value. If the stock is not publicly traded and the asset has a reliably determined market value, such as a normal invoice price, then the asset value is used. If neither value is available, the board of directors can assign a value to the transaction.
14. a. Usually non-voting: *preferred*  
 b. Dividends with the greatest variability: *common*  
 c. Can be callable: *preferred*  
 d. Usually receives assets before other classes of stock in liquidation: *preferred*  
 e. Will be the most profitable if the business is very profitable: *common*  
 f. Can be convertible: *preferred*  
 g. Often has a claim on unpaid dividends from previous years: *preferred*
15. Market value. Buyers and sellers determine value. Par value has no relationship to the true value of a stock.
16. ■ 2015: \$0  
 ■ 2016: Preferred,  $(10,000 \times \$100 \times .06 \times 2) = \$120,000$ ;  
 common,  $\$125,000 - \$120,000 = \$5,000$   
 ■ 2017: Preferred,  $(10,000 \times \$100 \times .06) = \$60,000$ ; common,  $\$150,000 - \$60,000 = \$90,000$

*Note:* The preferred stock is cumulative, so two years of dividends is paid on preferred stock in 2016.

17. When stock is issued, legal capital imposes a minimum portion of the value received that must be permanently retained by a corporation. After a corporation begins to operate, additional state laws called "capital maintenance requirements" create restrictions on the amount of assets that can be distributed to stockholders.

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**SOLUTIONS**

**Learning Goal 29, continued**

- 18. Most liquidations occur as the result of bankruptcy. In these situations, the stockholders usually receive nothing or very little because creditors always have priority over all stockholders. Therefore, the liquidation preference of preferred stock is worth nothing or very little.
- 19. The cash received at the time of subscription is  $(100,000 \times \$12 \times .4) = \$480,000$ . The cash received after the subscription is fully paid is  $100,000 \times \$12 = \$1,200,000$ . At the time of the subscription, two accounts are credited, which increases paid-in capital. Common Stock Subscribed is credited for the amount of  $(100,000 \times \$10) = \$1,000,000$ . Paid-in Capital in Excess of Par is credited for  $\$1,190,000$ . The debit balance of  $\$720,000$  in Subscriptions Receivable is shown as reduction in total stockholders' equity. When shares are fully paid, the Common Stock Subscribed amount becomes reclassified as Common Stock, and the Subscriptions Receivable is eliminated.

When the balance of subscriptions is received:

Cash	720,000	
Subscriptions Receivable		720,000
Common Stock Subscribed	10,000	
Common Stock		10,000

- 20. (1) The board of directors must declare the dividends. (2) The balance of retained earnings must equal or exceed the amount of dividends declared. (3) There must be sufficient cash to pay the dividend.
- 21. Dilution is the decrease in existing stockholders' percentage of total shares as the result of additional shares of the same stock being issued to other stockholders. *Note:* Dilution also refers to the decrease in earnings per share (see Learning Goal 31) as the result of additional shares being issued.
- 22. Start-up costs are the costs incurred to begin a new business or a new operation. Start-up costs are recorded as an expense called organization expense or organization cost.

Stock issuance costs are those costs that are directly associated with issuing stock. These may occur as the result of receiving less cash (underwriting charge) or as direct payments of cash for other items. Stock issuance costs reduce paid-in capital.

**LG 29-1.**

a.

Paid-in capital		
Preferred stock, \$50 par, 4%, 5,000 shares issued . . . . .		\$ 250,000
Common stock, \$.10 par, 100,000 shares issued . . . . .	\$ 10,000	
Paid-in capital in excess of par, common . . . . .	<u>650,000</u>	<u>660,000</u>
Total paid-in capital . . . . .		910,000
Retained earnings . . . . .		<u>985,000</u>
Total stockholders' equity . . . . .		<u>\$1,895,000</u>

b. The annual preferred stock dividend is:  $5,000 \text{ shares} \times \$50 \times .04 = \$10,000$

**SOLUTIONS**

Learning Goal 29, continued

LG 29-2.

<b>St. Louis, Incorporated Balance Sheet (partial) December 31, 20XX</b>		
<b>Paid-in capital</b>		
Preferred stock, \$100 par, \$6, 10,000 shares issued . . . . .	\$1,000,000	
Paid-in capital in excess of par, preferred . . . . .	<u>108,000</u>	\$1,108,000
Common stock, \$.05 par, 300,000 shares issued . . . . .	15,000	
Paid-in capital in excess of par, common . . . . .	<u>3,150,000</u>	<u>3,165,000</u>
<b>Total paid-in capital . . . . .</b>		<b>4,273,000</b>
Retained earnings (deficit) . . . . .		<u>(785,000)</u>
<b>Total stockholders' equity . . . . .</b>		<b><u>\$3,488,000</u></b>

- The Common Stock account balance is:  $300,000 \times \$0.05 = \$15,000$
- The average selling price of the preferred stock is:  $\$1,108,000 / 10,000 = \$110.80$  per share
- The average selling price of the common stock is:  $\$3,165,000 / 300,000 = \$10.55$  per share
- The negative balance (deficit) in retained earnings is the company's accumulated loss. This tells us that profits less any dividends paid out are exceeded by losses by \$785,000. The business does not appear to be operating successfully to this point in time.
- The total annual preferred dividend is:  $10,000 \text{ shares} \times \$6 = \$60,000$

LG 29-3.

a.

Date	Account	Post. Ref.	Dr.	Cr.
Oct. 10	Organization Expense		500,000	
	Cash		5,500,000	
	Common Stock			50,000
	Paid-in Capital in Excess of Par-Common			5,950,000
19	Organization Expense		125,000	
	Common Stock			1,500
	Paid-in Capital in Excess of Par, Common			123,500
25	Equipment		175,000	
	Common Stock			1,200
	Paid-in Capital in Excess of Par, Common			173,800
Nov. 12	Cash		253,750	
	Preferred Stock			250,000
	Paid-in Capital in Excess of Par, Preferred			3,750

## SOLUTIONS

## Learning Goal 29, continued

## LG 29-3, continued

- b. The law and accounting firms are receiving 15,000 shares of stock in return for services valued at \$125,000. This is an average cost per share of \$8.33. The supplier is receiving 12,000 shares in return for merchandise with a value of \$175,000. This is an average cost per share of \$14.58. The law and accounting firms are clearly obtaining the stock at the best price per share, which is also below the underwriter's \$12 estimate of value. Should the supplier have waited until the stock began to trade on stock exchanges so a market value could be determined? Probably that would have been a better idea.

## LG 29-4.

Date	Account	Post. Ref.	Dr.	Cr.
2016				
Jan. 3	Retained Earnings		100,000	
	Dividends Payable, Preferred			22,500
	Dividends Payable, Common			77,500
17	Dividends Payable, Preferred		22,500	
	Dividends Payable, Common		77,500	
	Cash			100,000
30	Cash		510,000	
	Preferred Stock, Class B			510,000
July 27	Cash		1,100,000	
	Common Stock			500
	Paid-in Capital in Excess of Par, Common			1,099,500

**SOLUTIONS**

Learning Goal 29, continued

LG 29-4, *continued*

Date	Account	Post. Ref.	Dr.	Cr.
2009				
Jan. 12	Retained Earnings		50,000	
	Dividends Payable, Class A Preferred			22,500
	Dividends Payable, Class B Preferred			25,000
	Dividends Payable, Common			2,500
31	Dividends Payable, Class A Preferred		22,500	
	Dividends Payable, Class B Preferred		25,000	
	Dividends Payable, Common		2,500	
	Cash			50,000

**Calculations:**

- Annual dividend on Class A 3% \$100 par preferred:  $7,500 \times \$100 \times .03 = \$22,500$
- Annual dividend on Class B \$2.50 no par preferred:  $10,000 \times \$2.50 = \$25,000$
- Annual dividend on common: Whatever is left over after paying the preferred dividends

LG 29-5.

a.

Date	Account	Post. Ref.	Dr.	Cr.
2008				
July 8	Retained Earnings		250,000	
	Dividends Payable, Preferred			31,250
	Dividends Payable, Common			218,750
30	Dividends Payable, Preferred		31,250	
	Dividends Payable, Common		218,750	
	Cash			250,000
30	Cash		1,395,000	
	Common Stock			1,395,000
	(No Entry on July 30. Underwriter's sale does not affect Akron, Inc.)			

## SOLUTIONS

## Learning Goal 29, continued

## LG 29-5, continued

Date	Account	Post. Ref.	Dr.	Cr.
2017				
Aug. 8	Common stock		39,000	
	Cash			39,000
Sept. 27	Land		406,000	
	Common Stock			406,000
Oct. 7	Retained Earnings		350,000	
	Dividends Payable, Preferred			31,250
	Dividends Payable, Common			318,750
31	Dividends Payable, Preferred		31,250	
	Dividends Payable, Common		318,750	
	Cash			350,000
Dec. 12	Cash		483,600	
	Preferred Stock, Class B			483,600

**Calculations:**

- July 8 dividend to preferred stockholders:  $(25,000 \times \$100 \times .05)/4 = \$31,250$
- July 8 dividend to common stockholders:  $\$250,000 - \$31,250 = \$218,750$
- July 22 cash from issuing common shares:  $50,000 \times \$30 \times .93 = \$1,395,000$
- Aug. 8 stock issue expense: The cash paid is reduction of paid-in capital
- Sept. 27 land acquisition:  $14,000 \times \$29 = \$406,000$
- Oct. 7 dividend to preferred stockholders:  $(25,000 \times \$100 \times .05)/4 = \$31,250$ . Dividends paid to common stockholders:  $\$350,000 - \$31,250 = \$318,750$
- Dec. 12 cash from issuing new preferred shares:  $10,000 \times \$52 \times .93 = \$483,600$



**SOLUTIONS**

**Learning Goal 29, continued**

**LG 29-5, continued**

b.

<b>Akron, Inc.</b>	
<b>Balance Sheet (partial)</b>	
<b>December 31, 2017</b>	
<b>Stockholders' Equity</b>	
<b>Paid-in capital</b>	
Preferred stock Class A, \$100 par, 5%, 25,000 shares issued . . . . .	\$ 2,500,000
Preferred stock Class B, no par, \$3, 10,000 shares issued . . . . .	483,600
Common stock . . . . .	<u>13,262,000</u>
Total paid-in capital . . . . .	16,245,600
Retained Earnings . . . . .	<u>5,240,000</u>
Total stockholders' equity . . . . .	<u><u>\$21,485,600</u></u>

- Common Stock account: \$11,500,000 beginning balance + \$1,395,000 July 22 new shares sold – \$39,000 Aug. 8 legal services + \$406,000 Sept. 27 shares issued for land.
- Retained Earnings account: \$5,800,000 beginning balance – \$250,000 July 8 dividends – \$350,000 Oct. 31 dividends + \$40,000 net income.

**LG 29-6.**

a.

Date	Account	Post. Ref.	Dr.	Cr.
2017				
Jan. 12	Cash		125,000	
	Subscriptions Receivable		375,000	
	Common Stock Subscribed			50,000
	Paid-in Capital in Excess of Par, Common			450,000
Feb. 11	Equipment		27,500	
	Common Stock			2,500
	Paid-in Capital in Excess of Par, Common			25,000
24	Cash		150,000	
	Subscriptions Receivable			150,000
	Common Stock Subscribed		20,000	
	Common Stock			20,000

## SOLUTIONS

## Learning Goal 29, continued

## LG 29-6, continued

Date	Account	Post. Ref.	Dr.	Cr.
2017				
March 9	Preferred Stock		150,000	
	Paid-in Capital in Excess of Par, Preferred		4,000	
	Common Stock			5,000
	Paid-in Capital in Excess of Par, Common			149,000
19	Cash		37,500	
	Subscriptions Receivable			37,500
	Common Stock Subscribed		5,000	
	Common Stock			5,000
April 3	Cash		187,500	
	Subscriptions Receivable			187,500
	Common Stock Subscribed		25,000	
	Common Stock			25,000
7	Retained Earnings		50,000	
	Dividends Payable, Preferred			4,500
	Dividends Payable, Common			45,500

- Jan. 12:  $50,000 \text{ shares} \times \$10 = \$500,000$ ;  $\$500,000 \times .25 = \$125,000$ ;  $50,000 \text{ shares} \times \$1 = \$50,000$
- Feb. 11:  $2,500 \text{ shares} \times \$11 = \$27,500$
- Feb. 24:  $(20,000/50,000) = .40$ ;  $(.4 \times \$375,000) = \$150,000$ ;  $(.4 \times \$50,000) = \$20,000$
- March 9:  $2,000 \text{ shares} \times 2.5 = 5,000 \text{ common shares}$ ;  $2,000/10,000 = 20\%$  of preferred stock converted to common;  $(.2 \times \$750,000 = \$150,000) + (.2 \times \$20,000 = \$4,000)$  of preferred stock paid-in capital becomes  $\$154,000$  of common stock capital.
- March 19:  $(5,000/50,000) = .10$ ;  $(.1 \times \$375,000) = \$37,500$ ;  $(.1 \times \$50,000) = \$5,000$
- April 3:  $(25,000/50,000) = .50$ ;  $(.5 \times \$375,000) = \$187,500$ ;  $(.5 \times \$50,000) = \$25,000$
- April 7: Preferred dividend:  $(8,000 \times \$75 \times .03)/4 = \$4,500$ ; common dividend:  $\$50,000 - \$4,500 = \$45,500$

**SOLUTIONS**

**Learning Goal 29, continued**

**LG 29-6, continued**

**Account Balances as of March 31, 2017:**

<table border="0"> <tr><td colspan="2" style="text-align: center;">Subscriptions Receivable</td></tr> <tr><td style="text-align: right;">375,000</td><td style="text-align: right;">150,000</td></tr> <tr><td style="text-align: right;"><u>187,500</u></td><td style="text-align: right;">37,500</td></tr> </table>	Subscriptions Receivable		375,000	150,000	<u>187,500</u>	37,500	<table border="0"> <tr><td colspan="2" style="text-align: center;">Common Stock</td></tr> <tr><td style="text-align: right;">100,000</td><td style="text-align: right;">2,500</td></tr> <tr><td style="text-align: right;">20,000</td><td style="text-align: right;">5,000</td></tr> <tr><td style="text-align: right;">5,000</td><td style="text-align: right;">5,000</td></tr> <tr><td style="text-align: right;"><u>132,500</u></td><td></td></tr> </table>	Common Stock		100,000	2,500	20,000	5,000	5,000	5,000	<u>132,500</u>		<table border="0"> <tr><td colspan="2" style="text-align: center;">Common Stock Subscribed</td></tr> <tr><td style="text-align: right;">20,000</td><td style="text-align: right;">50,000</td></tr> <tr><td style="text-align: right;">5,000</td><td style="text-align: right;"><u>25,000</u></td></tr> </table>	Common Stock Subscribed		20,000	50,000	5,000	<u>25,000</u>	<table border="0"> <tr><td colspan="2" style="text-align: center;">Paid in Capital in Excess of Par, Common Stock</td></tr> <tr><td style="text-align: right;">680,000</td><td style="text-align: right;">450,000</td></tr> <tr><td style="text-align: right;">25,000</td><td style="text-align: right;">149,000</td></tr> <tr><td style="text-align: right;"><u>1,304,000</u></td><td></td></tr> </table>	Paid in Capital in Excess of Par, Common Stock		680,000	450,000	25,000	149,000	<u>1,304,000</u>	
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b.

<b>Toledo, Incorporated</b>		
<b>Balance Sheet (partial)</b>		
<b>March 31, 2017</b>		
<b>Stockholders' Equity</b>		
<b>Paid-in capital</b>		
Preferred stock, \$75 par, 3%, convertible, 8,000 shares issued . . . . .	\$ 600,000	
Paid-in capital in excess of par, preferred . . . . .	<u>16,000</u>	\$ 616,000
Common stock, \$1 par, 132,500 shares issued . . . . .	132,500	
Common stock subscribed . . . . .	25,000	
Paid-in capital in excess of par, common . . . . .	<u>1,304,000</u>	1,461,500
Total paid-in capital . . . . .		<u>2,077,500</u>
Retained earnings . . . . .		2,020,000
Less: Subscriptions receivable . . . . .		<u>(187,500)</u>
Total stockholders' equity . . . . .		<u>\$3,910,000</u>

**SOLUTIONS**

**Learning Goal 29, continued**

**LG 29-6, continued**

**Account Balances as of April 30, 2017:**

Subscriptions Receivable		Common Stock		Common Stock Subscribed		Paid in Capital in Excess of Par, Common Stock	
375,000	150,000		100,000	20,000	50,000		680,000
	37,500		2,500	5,000			450,000
<u>187,500</u>			20,000		<u>25,000</u>		25,000
	187,500		5,000	25,000			<u>149,000</u>
<u>-0-</u>			<u>5,000</u>		<u>-0-</u>		<u>1,304,000</u>
			132,500				
			<u>25,000</u>				
			157,500				

  

Preferred Stock		Paid in Capital in Excess of Par, Preferred Stock		Retained Earnings	
150,000	<u>750,000</u>	4,000	<u>20,000</u>		1,895,000
	600,000		16,000		<u>125,000</u>
					2,020,000
				50,000	<u>70,000</u>
					<u>2,040,000</u>

c.

<b>Toledo, Incorporated</b>		
<b>Balance Sheet (partial)</b>		
<b>April 30, 2017</b>		
<b>Stockholders' Equity</b>		
<b>Paid-in capital</b>		
Preferred stock, \$75 par, 3%, convertible, 8,000 shares issued . . . . .	\$ 600,000	
Paid-in capital in excess of par, preferred . . . . .	<u>16,000</u>	\$ 616,000
Common stock, \$1 par, 157,500 shares issued . . . . .	157,500	
Paid-in capital in excess of par, common . . . . .	<u>1,304,000</u>	<u>1,461,500</u>
Total paid-in capital . . . . .		<u>2,077,500</u>
Retained earnings . . . . .		<u>2,040,000</u>
Total stockholders' equity . . . . .		<u>\$4,117,500</u>

**SOLUTIONS****Learning Goal 29, continued****LG 29-6, continued**

The changes between the March 31 and April 30 stockholders' equity are as follows:

- All the remaining subscribed shares were paid. Therefore, the number of common shares issued increased by 25,000 to a total of 157,500 shares. The Subscriptions Receivable and the Common Stock Subscribed account balances became zero, and the Common Stock account increased by \$25,000 to \$157,500. Eliminating Subscriptions Receivable increased stockholders' equity. Eliminating Common Stock subscribed has no effect on the total because it becomes Common Stock.
- Retained earnings increased by the April net income of \$70,000, and retained earnings decreased by the \$50,000 dividend declared.
- Net effect on the total stockholders' equity between March 31 and April 30:  
 $\$187,500$  (Subscriptions Receivable eliminated) +  $\$70,000$  –  $\$50,000$  =  $\$207,500$ .

d.

**Common Shares:**

Date	Event	Shares	Total Shares
Jan. 1	Beginning balance		100,000
Feb. 11	Purchased equipment	2,500	102,500
Feb. 24	Subscriptions paid in full	20,000	122,500
March 9	Preferred shares converted to common	5,000	127,500
March 19	Subscriptions paid in full	5,000	132,500
April 3	Subscriptions paid in full	25,000	157,500

**Preferred Shares:**

Date	Event	Shares	Total Shares
Jan. 1	Beginning balance		10,000
Mar. 9	Preferred shares converted to common	(2,000)	8,000

## SOLUTIONS

## Learning Goal 29, continued

## LG 29-7.

a.

Date	Account	Post. Ref.	Dr.	Cr.
2017				
Mar. 12	Retained Earnings		100,000	
	Dividends Payable, Preferred			78,750
	Dividends Payable, Common			21,250
25	Cash		387,500	
	Common Stock			2,500
	Paid-in Capital in Excess of Par, Common			385,000
27	Underwriting Expense		31,000	
	Common Stock			200
	Paid-in Capital in Excess of Par, Common			30,800
April 12	Dividends Payable, Preferred		78,750	
	Dividends Payable, Common		21,250	
	Cash			100,000
15	Preferred Stock		150,000	
	Paid-in Capital in Excess of Par, Preferred		3,000	
	Common Stock			900
	Paid-in Capital in Excess of Par, Common			152,100
19	Underwriting Expense		36,750	
	Cash		488,250	
	Preferred Stock, Class B			500,000
	Paid-in Capital in Excess of Par, Preferred B			25,000
May 7	Organization Expense		52,500	
	Preferred Stock, Class B			50,000
	Paid-in Capital in Excess of Par, Preferred B			2,500
June 14	Retained Earnings		100,000	
	Dividends Payable, Preferred Class A			6,125
	Dividends Payable, Preferred Class B			10,000
	Dividends Payable, Common Stock			83,875



**SOLUTIONS**

**Learning Goal 29, continued**

**LG 29-7, continued**

c.

<b>Hanover, Inc.</b>			
<b>Balance Sheet (partial)</b>			
<b>June 30, 2017</b>			
<b>Stockholders' Equity</b>			
<b>Paid-in capital</b>			
Preferred stock Class A, \$50 par, 7%, convertible, 7,000 shares issued.....	\$350,000		
Paid-in capital in excess of par .....	<u>7,000</u>	\$	357,000
Preferred stock Class B, \$100 par, 8%, 5,000 shares issued.....	500,000		
Paid-in capital in excess of par .....	<u>11,500</u>		511,500
Common stock, \$.10 par, 234,000 shares issued .....	23,400		
Paid-in Capital in Excess of Par.....	<u>3,017,100</u>	<u>3,040,500</u>	
Total Paid-in Capital .....		3,909,000	
Retained Earnings.....		<u>327,000</u>	
Total stockholders' equity .....		<u>\$4,236,000</u>	

d.

**Common Shares:**

Date	Event	Shares	Total Shares
Mar. 1	Beginning balance		200,000
Mar. 25	Sold stock	25,000	225,000
April 15	Preferred shares converted to common	9,000	234,000

**Preferred Shares, Class A:**

Date	Event	Shares	Total Shares
Mar. 1	Beginning balance		10,000
April 15	Preferred shares converted to common	(3,000)	7,000

**Preferred Shares, Class B:**

Date	Event	Shares	Total Shares
April 19	Sold stock		5,000



**SOLUTIONS**

**Learning Goal 29, continued**

**LG 29-8.**

a.

Date	Account	Post. Ref.	Dr.	Cr.
20017				
July 9	Cash		360,000	
	Subscriptions Receivable		540,000	
	Common Stock Subscribed			900,000
18	Land		144,000	
	Common Stock			144,000
Aug. 24	Cash		216,000	
	Subscriptions Receivable			216,000
	Common Stock Subscribed		360,000	
	Common Stock			360,000
Sept. 5	Preferred Stock		150,000	
	Paid-in Capital in Excess of Par, Preferred		12,000	
	Common Stock			162,000
14	Cash		108,000	
	Subscriptions Receivable			108,000
	Common Stock Subscribed		180,000	
	Common Stock			180,000
29	Retained Earnings		40,000	
	Dividends Payable, Preferred			30,000
	Dividends Payable, Common			10,000
Oct. 3	Cash		216,000	
	Subscriptions Receivable			216,000
	Common Stock Subscribed		360,000	
	Common Stock			360,000
17	Dividends Payable, Preferred		30,000	
	Dividends Payable, Common		10,000	
	Cash			40,000
23	Cash		511,500	
	Preferred Stock			500,000
	Paid-in Capital in Excess of Par, Preferred			11,500

**SOLUTIONS**

**Learning Goal 29, continued**

**LG 29-8, continued**

**Calculations:**

- July 9:  $(75,000 \text{ shares} \times \$12) = \$900,000$ ;  $\$900,000 \times .40 = \$360,000$  (Note: Stock is no-par, so there is no paid-in capital in excess of par.)
- July 18:  $(12,000 \text{ shares} \times \$12) = \$144,000$
- Aug. 24:  $(30,000/75,000) = .40$ ;  $(.4 \times \$540,000) = \$216,000$ ;  $(.4 \times \$900,000) = \$360,000$
- Sept. 5:  $(3,000 \text{ shares} \times 4) = 12,000$  common shares;  $3,000/15,000 = 20\%$  of preferred stock converted to common stock;  $(.2 \times \$750,000 = \$150,000) + (.2 \times \$60,000 = \$12,000)$  of preferred stock paid-in capital becomes  $\$162,000$  of common stock capital
- Sept. 14:  $(15,000/75,000) = .20$ ;  $(.2 \times \$540,000) = \$108,000$ ;  $(.2 \times \$900,000) = \$180,000$
- Sept. 29: Preferred dividends:  $(12,000 \text{ shares} \times \$2) = \$24,000$  in arrears +  $(12,000 \text{ shares} \times \$2)/4 = \$30,000$  current quarter dividend. Common stock dividends:  $\$40,000 - \$30,000$  to preferred =  $\$10,000$ . (Note: Only common shares issued will receive dividends.)
- Oct. 3:  $(30,000/75,000) = .40$ ;  $(.4 \times \$540,000) = \$216,000$ ;  $(.4 \times \$900,000) = \$360,000$  (To check this, subtract previous payments from total subscriptions receivable.)
- Oct. 23:  $(10,000 \text{ shares} \times \$55) = \$550,000$ . Cash received is  $\$550,000 \times .93 = \$511,500$ . Credit to Preferred Stock is  $(10,000 \text{ shares} \times \$50 \text{ par value}) = \$500,000$ .

b.

**Account Balances as of September 30, 2017:**

<table style="margin: auto; border-collapse: collapse;"> <tr> <th colspan="2" style="text-align: center; border-bottom: 1px solid black;">Subscriptions Receivable</th> </tr> <tr> <td style="text-align: right; padding: 2px;">540,000</td> <td style="text-align: right; padding: 2px;">216,000</td> </tr> <tr> <td style="text-align: right; padding: 2px;"><u>216,000</u></td> <td style="text-align: right; padding: 2px;">108,000</td> </tr> </table>	Subscriptions Receivable		540,000	216,000	<u>216,000</u>	108,000	<table style="margin: auto; border-collapse: collapse;"> <tr> <th colspan="2" style="text-align: center; border-bottom: 1px solid black;">Common Stock</th> </tr> <tr> <td style="text-align: right; padding: 2px;">1,225,000</td> <td style="text-align: right; padding: 2px;">144,000</td> </tr> <tr> <td style="text-align: right; padding: 2px;">360,000</td> <td style="text-align: right; padding: 2px;">162,000</td> </tr> <tr> <td style="text-align: right; padding: 2px;"><u>180,000</u></td> <td style="text-align: right; padding: 2px;">2,071,000</td> </tr> </table>	Common Stock		1,225,000	144,000	360,000	162,000	<u>180,000</u>	2,071,000	<table style="margin: auto; border-collapse: collapse;"> <tr> <th colspan="2" style="text-align: center; border-bottom: 1px solid black;">Common Stock Subscribed</th> </tr> <tr> <td style="text-align: right; padding: 2px;">360,000</td> <td style="text-align: right; padding: 2px;">900,000</td> </tr> <tr> <td style="text-align: right; padding: 2px;">180,000</td> <td style="text-align: right; padding: 2px;"><u>360,000</u></td> </tr> </table>	Common Stock Subscribed		360,000	900,000	180,000	<u>360,000</u>
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Preferred Stock																						
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	806,000																					

**SOLUTIONS**

**Learning Goal 29, continued**

**LG 29-8, continued**

b.

**Middlebury Corporation  
Balance Sheet (partial)  
September 30, 2017**

Stockholders' Equity

Paid-in capital

Preferred stock, \$50 par, \$2, 12,000 shares issued. . . . .	\$ 600,000	
Paid-in capital in excess of par, preferred . . . . .	48,000	\$ 648,000
Common stock, 194,000 shares issued . . . . .	2,071,000	
Common stock subscribed. . . . .	360,000	2,431,000
Total paid-in capital . . . . .		3,079,000
Retained earnings . . . . .		806,000
Less: Subscriptions receivable . . . . .		(216,000)
Total stockholders' equity. . . . .		<u>\$3,669,000</u>

c.

**Account Balances as of October 31, 2017:**

<p>Subscriptions Receivable</p> <table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-right: 1px solid black; padding-right: 5px;">540,000</td> <td style="width: 50%; padding-left: 5px;">216,000</td> </tr> <tr> <td style="border-right: 1px solid black; padding-right: 5px;"></td> <td style="padding-left: 5px;">108,000</td> </tr> <tr> <td style="border-right: 1px solid black; padding-right: 5px;"><u>216,000</u></td> <td style="padding-left: 5px;"></td> </tr> <tr> <td style="border-right: 1px solid black; padding-right: 5px;">-0-</td> <td style="padding-left: 5px;"><u>216,000</u></td> </tr> </table>	540,000	216,000		108,000	<u>216,000</u>		-0-	<u>216,000</u>	<p>Common Stock</p> <table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-right: 1px solid black; padding-right: 5px;"></td> <td style="width: 50%; padding-left: 5px;">1,225,000</td> </tr> <tr> <td style="border-right: 1px solid black; padding-right: 5px;"></td> <td style="padding-left: 5px;">144,000</td> </tr> <tr> <td style="border-right: 1px solid black; padding-right: 5px;"></td> <td style="padding-left: 5px;">360,000</td> </tr> <tr> <td style="border-right: 1px solid black; padding-right: 5px;"></td> <td style="padding-left: 5px;">162,000</td> </tr> <tr> <td style="border-right: 1px solid black; padding-right: 5px;"></td> <td style="padding-left: 5px;"><u>180,000</u></td> </tr> <tr> <td style="border-right: 1px solid black; padding-right: 5px;"></td> <td style="padding-left: 5px;">2,071,000</td> </tr> <tr> <td style="border-right: 1px solid black; padding-right: 5px;"></td> <td style="padding-left: 5px;">360,000</td> </tr> <tr> <td style="border-right: 1px solid black; padding-right: 5px;"></td> <td style="padding-left: 5px;"><u>2,431,000</u></td> </tr> </table>		1,225,000		144,000		360,000		162,000		<u>180,000</u>		2,071,000		360,000		<u>2,431,000</u>	<p>Common Stock Subscribed</p> <table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-right: 1px solid black; padding-right: 5px;">360,000</td> <td style="width: 50%; padding-left: 5px;">900,000</td> </tr> <tr> <td style="border-right: 1px solid black; padding-right: 5px;">180,000</td> <td style="padding-left: 5px;"></td> </tr> <tr> <td style="border-right: 1px solid black; padding-right: 5px;"></td> <td style="padding-left: 5px;"><u>360,000</u></td> </tr> <tr> <td style="border-right: 1px solid black; padding-right: 5px;">360,000</td> <td style="padding-left: 5px;">-0-</td> </tr> </table>	360,000	900,000	180,000			<u>360,000</u>	360,000	-0-
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**SOLUTIONS**

**Learning Goal 29, continued**

**LG 29-8, continued**

<b>Middlebury Corporation</b>			
<b>Balance Sheet (partial)</b>			
<b>October 31, 2017</b>			
<b>Stockholders' Equity</b>			
<b>Paid-in capital</b>			
Preferred stock, \$50 par, \$2, 22,000 shares issued . . . . .	\$1,100,000		
Paid-in capital in excess of par, preferred . . . . .	<u>59,500</u>	\$1,159,500	
Common stock, 224,000 shares issued . . . . .		<u>2,431,000</u>	
Total paid-in capital . . . . .		3,590,500	
Retained earnings . . . . .		<u>858,000</u>	
Total stockholders' equity . . . . .		<u>\$4,448,500</u>	

The changes between the September 30 and October 31 stockholders' equity are as follows:

- All the remaining subscribed shares were paid. Therefore, the number of common shares issued increased by 30,000, to a total of 224,000 shares. The Subscriptions Receivable and the Common Stock Subscribed account balances became zero, and the Common Stock account increased by \$360,000 to \$2,431,000.
- Retained earnings increased by the October net income of \$52,000.
- The company sold 10,000 shares of preferred stock, which increased stockholders' equity by \$511,500 and increased the number of preferred shares from 12,000 to 22,000.
- The net effect on the total stockholders' equity between September 30 and October 31 is:  $\$216,000 + \$511,500 + \$52,000 = \$779,500$ .

d.

**Common Shares:**

Date	Event	Shares	Total Shares
June 30	Beginning balance		125,000
July 18	Purchase land	12,000	137,000
Aug. 24	Subscriptions paid in full	30,000	167,000
Sept. 5	Preferred shares converted to common	12,000	179,000
Sept. 14	Subscriptions paid in full	15,000	194,000
Oct. 3	Subscriptions paid in full	30,000	224,000

**Preferred Shares:**

Date	Event	Shares	Total Shares
June 30	Beginning Balance		15,000
Sept. 5	Preferred shares converted to common	(3,000)	12,000
Oct. 23	Sold stock	10,000	22,000