SOLUTIONS Learning Goal 31

Multiple Choice

1. c Proprietorships and partnerships are not separate legal entities, so they do not pay income tax as an entity, like a corporation does.
2. a
3. b Comprehensive income is not a special item. “Comprehensive income” is the combination of net income and “other comprehensive income” and is presented on the income statement under net income or in footnotes in a separate statement.
4. d If restructuring costs are part of a discontinued operation, they are included as part of the discontinued operations amount on the income statement. Otherwise, restructuring costs are reported in other revenues and expenses, which is part of operating income.
5. a The loss would be reported as separate line item that is part of income from continuing operations before tax.
6. d
7. a Without discontinued operations, the name would change to “net income”.
8. b
9. a
10. c
11. d [$850,000 – (50,000 × $100 × .08)]/400,000 = $1.125
12. d $3,250,000/175,000 = $18.57. Book value per share is calculated by using the outstanding shares. The retained earnings balance is included as part of the $3,250,000 total stockholders’ equity. (In this example, there is no preferred stock to subtract.)
13. a Total stockholders’ equity (book value) that the common shareholders can claim is:

Par value of common stock: 200,000 × $.05:	$ 10,000
Paid-in capital in excess of par:	3,590,000
Retained earnings:	800,000
Less: Treasury stock:	(50,000)
Total	$4,350,000

Per share: $4,350,000/200,000 outstanding shares = $21.75

14. a Total stockholders’ equity (book value) is:

Preferred stock: 3,000 × $101	$303,000
Common stock:	775,000
Retained earnings:	500,000
Total stockholders’ equity	1,578,000
Less: preferred stockholders’ claim	
Call price 3,000 × $105 =	(315,000)
Dividends in arrears: 3,000 × $100 × .06	(18,000)
Book value for common stockholders	$1,245,000

Per share: $1,245,000/50,000 outstanding shares = $24.90

15. b
16. d
17. d
18. c ($630,000/200,000) = $3.15. Earnings per share is calculated only for outstanding shares.

SOLUTIONS Learning Goal 31, continued

19. a The weighted average number of shares is:

Period	Shares	Months	Weighted Total
Jan. 1–April 1	500,000	3	1,500,000
April 2–Oct. 30	800,000	7	5,600,000
Oct. 31–Dec. 31	650,000	2	1,300,000
Total		12	8,400,000

(8,400,000/12) = 700,000 weighted average shares

Earnings available to common stockholders: $2,750,000 – (100,000 × $100 × .08) = $1,950,000
($1,950,000/700,000) = $2.786 earnings per share

20. b Comprehensive income is a separate number that includes net income. Prior period adjustments and changes in accounting principle are direct adjustments to the beginning balance of retained earnings. *Note:* An accumulated prior effect of a change in accounting principle was recorded as part of net income for many years (as a special item). For all fiscal years beginning in 2015 and thereafter, this practice was eliminated.

21. c

Discussion Questions and Brief Exercises

1. The statement of retained earnings shows the balance of retained earnings at the beginning of the accounting period, summarizes all current period changes in retained earnings, and shows the final balance of retained earnings as of the end of the accounting period. The statement of stockholders' equity also shows beginning and ending balances and current period changes; however, it is a more comprehensive statement. The statement of stockholders' equity shows total stockholders' equity and *all items that are part of stockholders' equity*, including retained earnings. Many companies prepare a statement of stockholders' equity instead of a statement of retained earnings.

2.
- Operating income: Operating revenues minus cost of goods sold and operating expenses. "Other" revenue and expense and gain and loss items are not included in this number.
- Income from continuing operations: This income number combines operating income with "other" items, minus income tax expense on the combined amount.
- Net income: This is the final earnings amount from business activities. It does not include any "other comprehensive income" items.

3. Discontinued operations. This refers to the discontinued activity of a major component of a business. The results of discontinuing the activity must be disclosed as two parts: (1) The net income or net loss, net of tax, of the discontinued segment and (2) the gain or loss, net of tax, resulting from the disposal of the segment. The combined effect of these two parts is reported as "discontinued operations."

SOLUTIONS Learning Goal 31, continued

4. Income tax expense appears in three places on a corporate income statement:
   - On the line under income before tax (or from continuing operations before tax)
   - In the reporting of discontinued operations
   - In the reporting of other comprehensive income.
5. - 880,000 shares are outstanding: 440,000 × 2 = 880,000
   - 20,000 shares are in treasury: 10,000 × 2 = 20,000
   - 900,000 shares are issued: 880,000 + 20,000 = 900,000
   - The total cost of the treasury stock is unchanged at $300,000.
   - The cost per share is now $300,000/20,000 = $15 per share.
6. [$3,850,000 – (150,000 × $100 × .09)]/700,000 weighted average shares = $3.57

Period	Shares	Months	Weighted Total
Jan. 1–April 30	450,000	4	1,800,000
May 1–May 31	440,000	1	440,000
June 1–Dec. 31	880,000	7	6,160,000
Total		12	8,400,000

(8,400,000/12) = 700,000 weighted average shares

7. An increasing earnings per share (EPS) is favorable, and a decreasing earnings per share is unfavorable. An increasing EPS means that each stockholder is sharing in more income. This can happen because the company is earning more income and/or because there are fewer shares outstanding. Most investors consider the EPS calculated for income from continuing operations to be the most significant number on the income statement. This is because income from continuing operations represents the results of the essential recurring activities of a business and also because the trend in this amount serves as guide for probable future results.
8. Preferred dividends are subtracted from income when calculating earnings per share because the calculation is intended to show the amount of income available to common stockholders.
9. The preferred stockholders' claim is subtracted from total stockholders' equity because the book value calculation is intended to show the common stockholders' claim.
10.

Earnings per share of common stock:	
Income from continuing operations	$2.24
Discontinued operations.	.75
Net income	$2.99

Calculations:
- ($2,475,000 – $680,000)/800,000 = $2.244
- $600,000/800,000 = $.75
- ($3,075,000 – $680,000)/800,000 = $2.994

11. - Other comprehensive income: This is the amount of the after-tax unrealized loss on the investments $120,000.
    - Comprehensive income: This is net income combined with other comprehensive income: $340,000 – $120,000 = $220,000.
    Individual other comprehensive income items are presented on the statement of owner's equity, as part of the accumulated other comprehensive income.
    Comprehensive income must be presented either on the income statement under net income or in a separate statement directly under net income.

SOLUTIONS

Learning Goal 31, continued

12.

Period	Shares	Months	Weighted Total
Jan. 1–April 30	400,000	4	1,600,000
May 1–Aug. 30	675,000	4	2,700,000
Aug. 31–Nov. 30	575,000	3	1,725,000
Dec. 1–Dec. 31	650,000	1	650,000
Total		12	6,675,000

(6,675,000/12) = 556,250 weighted average shares

13.
- The discontinued operations and the gain on the sale of the discontinued operations are shown together as a special item on the income statement, below income from continuing operations.
- Illustration:

Sparks, Inc.
Income Statement (partial)
For the Year Ended December 31, 20XX

Income from continuing operations		11,300,000
Discontinued operations		
Loss from mining division operations of $1,250,000 less tax savings of $500,000.	($750,000)	
Gain on disposal of mining division operations of $200,000 less income tax of $80,000	120,000	(630,000)
Net income		$10,670,000

Discontinued operations must be shown as a separate item because including them as part of operating income would be very misleading. Including discontinued operations as part of operating income would hide the segment of the operations that are discontinued and will not be a part of future revenues and expenses. Operating income represents recurring businesses activities that are expected to continue into future periods.

14. Because of their very unusual and infrequent nature, the probable extraordinary loss items are tsunami, expropriation, and condemnation. Extraordinary items are reported as part of income from continuing operations.

15. Net income measures the results of operating and managing a business. Comprehensive income includes the financial effects of valuation changes that are often beyond the control of management decisions. For example, when a company is involved in international transactions, gains and losses on the fluctuations of foreign currency values do affect the wealth and stockholders' equity of the business. To generalize, we can say that net income is more a measure of management performance, whereas comprehensive income includes net income plus designated assets and liability value changes. Together, they identify all the effects on stockholders' equity except for owner investments and distributions.

16. Designated other comprehensive income items:
- Unrealized gains and loss on certain short-term investments
- Foreign currency valuation changes
- Minimum pension liability adjustments
- Results of certain derivative hedging transactions

SOLUTIONS Learning Goal 31, continued

17. A company can use non-GAAP calculations and non-GAAP income designations. Although the company discloses that these calculations and names do not comply with GAAP, people often ignore this or do not fully understand the implications. The misleading information includes names such as pro forma earnings ("pro forma" means "as if" and is properly used only for projections when assumptions are made clear), core earnings, and operating earnings. The calculations for these amounts often have little or nothing to do with GAAP. Also, unfavorable extraordinary events and discontinued operations may be omitted and favorable extraordinary events and discontinued items may be included as part of operations.
18. Deferred income occurs when tax payable is not the same amount as tax expense. This can happen when a business has transactions that are treated differently by tax rules for calculating the taxable income than the GAAP rules for calculating income before tax.
19. The Deferred Income Tax account is an asset that is created when taxes payable for the current period exceed tax expense for the current period. The Deferred Income Tax account is a liability that is created when taxes payable are less than tax expense for the current period.
20.

	2017	**2018**
Pre-tax accounting income	$2,000,000	$3,000,000
Warranty expense	200,000	(200,000)
Taxable income	$2,200,000	$2,800,000
Income tax payable @ 40%	$880,000	$1,120,000

2017: The income tax expense is: $2,000,000 × .4 = $800,000
The income tax payable is: $2,200,000 × .4 = $880,000

Account	Dr.	Cr.
Income Tax Expense	800,000	
Deferred Income Tax	80,000	
Income Tax Payable		880,000

2018: The income tax expense is: $3,000,000 × .4 = $1,200,000
The income tax payable is: $2,800,000 × .4 = $1,120,000

Account	Dr.	Cr.
Income Tax Expense	1,200,000	
Deferred Income Tax		80,000
Income Tax Payable		1,120,000

The temporary difference caused by the warranty expenses reverses in 2019. Notice that when the temporary item finally reverses, the totals of the income tax expense and the taxes payable for both periods are the same.

SOLUTIONS Learning Goal 31, continued

21.

Item	Income Statement	Statement of Stockholders' Equity	Balance Sheet
a. Net income	✓	✓	
b. Sale of treasury stock		✓	
c. Balance of treasury stock		✓	✓
d. Comprehensive income	✓		
e. Accumulated other comprehensive income		✓	✓
f. Prior period adjustment		✓	
g. Cash and stock dividends		✓	
h. Total stockholders' equity		✓	✓
i. New shares of stock issued		✓	

Reinforcement Problems

LG 31-1.

Cumberland Enterprises, Inc.
Balance Sheet (partial)
December 31, 2017

Stockholders' Equity		
Paid-in capital		
Preferred stock, $50 par, 7%, 75,000 shares issued and outstanding	$3,750,000	
Paid-in capital in excess of par, preferred	220,000	$ 3,970,000
Common stock, $1 par, 500,000 shares issued, 450,000 shares outstanding	450,000	
Paid-in capital in excess of par, common	4,100,000	
Paid-in capital from treasury stock transactions	180,000	4,730,000
Total paid-in capital		8,700,000
Retained earnings (see note)		2,820,000
Total paid in capital and retained earnings		11,520,000
Less: Treasury stock, common (50,000 shares at cost)	(550,000)	
Accumulated other comprehensive income	(410,000)	(960,000)
Total stockholders' equity		$10,560,000

In footnotes to financial statements: "$1,000,000 of retained earnings is restricted by the terms of the loan agreement with XXX Bank. Therefore, the maximum amount of retained earnings available for dividends is $1,820,000."

SOLUTIONS Learning Goal 31, continued

LG 31-2.

Alexandria Corporation
Income Statement
For the Year Ended June 30, 2017

Net sales revenue		$3,520,000
Cost of goods sold		1,600,000
Gross profit		1,920,000
Operating expenses (see separate detail)		1,150,000
Operating income		770,000
Other revenues, expense, gain or loss		
Interest revenue	$ 23,000	
Gain on sale of equipment	84,000	
Interest expense	(42,000)	
Gain on land condemnation	270,000	335,000
Income from continuing operations before tax		1,105,000
Income tax expense		442,000
Income from continuing operations		663,000
Discontinued operations		
Loss from discontinued operations of $125,000 less tax savings of $50,000	(75,000)	
Loss on sale of discontinued operations of $450,000 less tax savings of $180,000	(270,000)	(345,000)
Net income		$318,000

SOLUTIONS Learning Goal 31, continued

LG 31-3.

a. Multiple-step income statement

Pasadena Corporation
Income Statement
For the Year Ended December 31, 2017

Net sales revenue		$5,800,000
Cost of goods sold		2,700,000
Gross profit		3,100,000
Operating expenses		
Sales and marketing	$310,000	
Administrative	520,000	
Other	540,000	
Restructuring charges	1,120,000	2,490,000
Operating income		610,000
Other revenues, expense, gain or loss		
Interest revenue	10,000	
Gain on sale of equipment	125,000	
Interest expense	(75,000)	
Earthquake loss	(150,000)	(90,000)
Income from continuing operations before tax		520,000
Income tax expense		208,000
Income from continuing operations		312,000
Discontinued operations		
Loss from discontinued operations of $210,000 less tax savings of $84,000	(126,000)	
Gain on sale of discontinued operations of $130,000 less income tax of $52,000	78,000	(48,000)
Net income		$264,000

SOLUTIONS Learning Goal 31, continued

LG 31-3, *continued*

b. Single-step income statement

Pasadena Corporation
Income Statement
For the Year Ended December 31, 2017

Revenues and gains		
Net sales revenue		$5,800,000
Gain on sale of equipment		125,000
Interest revenue		10,000
		5,935,000
Expenses and losses		
Cost of goods sold	$2,700,000	
Sales and marketing	310,000	
Administrative	520,000	
Other operating expenses	540,000	
Restructuring charges	1,120,000	
Earthquake loss	150,000	
Interest expense	75,000	
Income tax expense	208,000	
Total expenses		5,623,000
Income from continuing operations		312,000
Discontinued operations		
Loss from discontinued operations of $210,000 less tax savings of $84,000	(126,000)	
Gain on sale of discontinued operations of $130,000 less income tax of $52,000	78,000	(48,000)
		$264,000

Comment: Income tax expense is calculated by subtracting all expenses and losses (except income tax) from total revenues and gaains and multiplying the result by the tax rate. ($5,935,000 – $5,415,000) × .4 = $208,000

SOLUTIONS Learning Goal 31, continued

LG 31-4.

Irvine Valley Corporation
Statement of Stockholders' Equity
For the Year Ended December 31, 2017

	Common Stock $.10 Par	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accum. Other Compre-hensive Income	Total
January 1: 510,000 shares issued; 490,000 outstanding	$49,000	$7,056,000	$5,380,000	($220,000)	$150,000	$12,415,000
Net income			850,000			850,000
Other comprehensive income:						
Foreign currency translation adjustment					(120,000)	(120,000)
Comprehensive income.						730,000
Common stock issued	10,000	1,520,000				1,530,000
Sale of treasury stock 10,000 of 20,000 shares held		70,000		110,000		180,000
Cash dividends.			(1,000,000)			(1,000,000)
5% stock dividend	3,000	507,000	(510,000)			—
Balance, December 31	$62,000	$9,153,000	$4,720,000	($110,000)	$30,000	$13,855,000

Calculations:

- Treasury stock: The cost is $11 per share ($220,000/20,000 shares = $11). If the stock is sold for $18 per share, additional paid-in capital from treasury stock transactions is ($18 – $11) × 10,000 shares sold = $70,000.
- Stock dividend: At the time of the stock dividend, 600,000 shares are outstanding (490,000 shares beginning of the year balance + 100,000 additional shares issued + 10,000 shares of treasury stock sold). Therefore, 600,000 × .05 = 30,000 shares sold × $17 = $510,000 value.

LG 31-5.

a. What is the par value of the company's common stock? $1 per share.
b. As of January 1, what was the average selling price per share for common stock? ($550,000/$1) = 550,000 shares. ($550,000 + $13,200,000)/550,000 shares = $25 per share.
c. What was the amount of comprehensive income in the current period? What does it consist of? $851,000 consisting of $891,000 net income and $40,000 unrealized loss on certain securities.
d. What was the cost of the treasury stock sold? What was the selling price per share? $85,000 total cost. ($85,000/5,000) = $17 per share cost. ($155,000/5,000) = $31 per share sales price.
e. What was the increase in stockholders' equity from the sale of the treasury stock? $155,000.
f. How many new shares of common stock were issued? ($50,000/$1 par value) = 50,000 new shares.
g. What percentage was the stock dividend (large or small dividend)? How many shares were issued? At the time of the stock dividend, 600,000 common shares were outstanding (550,000 + 50,000). 72,000 new shares were issued ($72,000/$1). (72,000/600,000) = .12, which is a 12% stock dividend (small).

SOLUTIONS Learning Goal 31, continued

LG 31-5, *continued*

h. What was the market price of the stock at the time of the stock dividend? ($2,160,000/72,000 shares) = $30 per share.
i. What was the effect of the stock dividend on total stockholders' equity? There was no change in total stockholders' equity.
j. What total amount of stockholders' equity should appear on the balance sheet? $28,085,000.

LG 31-6.

Great Falls Corporation
Statement of Stockholders' Equity
For the Year Ended December 31, 2017

(Amounts in $000's)

	Preferred Stock $100 Par Value	Common Stock $.10 Par Value	Common Stock Distrib-utable	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
January 1: 11,000 shares preferred; 770,000 common shares issued and 755,000 shares outstanding	$1,100	$77		$6,300	$150	($120)	$7,507
Prior period adjustment					120		120
Balance, January 1, corrected	1,100	77		6,300	270	(120)	7,627
Net income.					240		240
Issued 5,000 shares of preferred stock	515						515
Issued 40,000 shares of common stock		4		356			360
Sale of treasury stock (10,000 of 15,000 shares held) . . .				(6)		80	74
Preferred cash dividend					(32)		(32)
Common stock dividend declared			4	336	(340)		—
Balance, December 31	$1,615	$81	$4	$6,986	$138	($40)	$8,784

- Preferred cash dividend: (16,000 × $100 × .08)/4 = $32,000
- Common stock dividend: A 40,000-share dividend is 5% of outstanding shares, so it is a small stock dividend. Therefore, market value is used: (40,000 shares × $8.5) = $340,000

SOLUTIONS

Learning Goal 31, continued

LG 31-6, *continued*

Great Falls Corporation
Balance Sheet (partial)
December 31, 2017

Stockholders' Equity		
Paid-in capital		
Preferred stock, $100 par, 8%, 16,000 shares issued and outstanding	$1,600,000	
Paid-in capital in excess of par, preferred	15,000	$1,615,000
Common stock, $.10 par, 810,000 shares issued, 805,000 shares outstanding	81,000	
Common stock distributable (40,000 shares)	4,000	
Paid-in capital in excess of par, common	6,942,000	
Paid-in capital from treasury stock transactions	44,000	7,071,000
Total paid-in capital		8,686,000
Retained earnings		138,000
Total paid in capital and retained earnings		8,824,000
Less: Treasury stock, common (5,000 shares at cost)		(40,000)
Total stockholders' equity		$8,784,000

SOLUTIONS Learning Goal 31, continued

LG 31-7.

a.

Missoula Corporation
Income Statement
For the Year Ended October 31, 2017

Revenues		
Net sales revenue		$3,440,000
Interest revenue		7,000
Rental revenue		36,000
Total revenue and gains		3,483,000
Expenses and losses		
Cost of goods sold	$1,510,000	
Operating expenses	748,000	
Loss on sale of equipment	35,000	
Interest expense	69,000	
Flood loss	130,000	
Income tax expense	484,000	
Total expenses		2,976,000
Income from continuing operations		507,000
Discontinued operations		
Loss from discontinued operations of $97,000 less tax savings of $39,000	(58,000)	
Gain on sale of discontinued operations of $185,000 less income tax of $74,000	111,000	53,000
Net income		$560,000
Earnings per share of common stock:		
Income from continuing operations		$1.69
Discontinued operations		.18
Net income		$1.87

Comments: The tax savings from the extraordinary loss (flood loss) is not calculated or shown separately, and the extraordinary loss is not shown separately as a special item, but instead is disclosed as a separate item that is part of income from continuing operations. (If not shown as a separate item, then the extraordinary item may be disclosed and explained in footnotes.) This is a change from prior GAAP, effective December, 2015.

b.
- The October 31, 2016 P/E ratio is: $36.75/$1.40 = approximately 26 times earnings.
- The October 31, 2017 P/E ratio is: $45.50/$2.04 = approximately 22 times earnings.

The net income (earnings) has increased from 2016 to 2017. However, the price of the stock has increased by a smaller proportion, so the P/E ratio has decreased from about 26 times earnings to 22 times earnings, making the stock more attractive per dollar of reported net income. This indicates that although the price of the stock has increased 24% from last year, it is actually a more attractive purchase because the P/E ratio is lower. (Assuming that no other strange or negative things are happening with this company!)

One other additional point to keep in mind is the effect of special items. These tend to be non-recurring and not good predictors of future results. For these reasons, many analysts tend to focus on the P/E ratio for income from continuing operations.

SOLUTIONS Learning Goal 31, continued

LG 31-8.

a.

	2017	2018
Pre-tax accounting income	$700,000	$900,000
Charitable contribution	20,000	(20,000)
Taxable income	$720,000	$880,000
Income tax payable @ 40%	$288,000	$352,000

2017: The income tax expense is: $700,000 × .4 = $280,000
The income tax payable is: $720,000 × .4 = $288,000
2018: The income tax expense is: $900,000 × .4 = $360,000
The income tax payable is: $880,000 × .4 = $352,000

Date	Account	Ref.	Dr.	Cr.
2017	Income Tax Expense		280,000	
	Deferred Income Tax		8,000	
	Income Tax Payable			288,000
2018	Income Tax Expense		360,000	
	Deferred Income Tax			8,000
	Income Tax Payable			352,000

b.

	2017	2018
Pre-tax accounting income	$5,000,000	$4,700,000
Depreciation difference	(300,000)	300,000
Taxable income	$4,700,000	$5,000,000
Income tax payable @ 40%	$1,880,000	$2,000,000

2017: The income tax expense is: $5,000,000 × .4 = $2,000,000
The income tax payable is: $4,700,000 × .4 = $1,880,000
2018: The income tax expense is: $4,700,000 × .4 = $1,880,000
The income tax payable is: $5,000,000 × .4 = $2,000,000

Date	Account	Ref.	Dr.	Cr.
2017	Income Tax Expense		2,000,000	
	Deferred Income Tax			120,000
	Income Tax Payable			1,880,000
2018	Income Tax Expense		1,880,000	
	Deferred Income Tax		120,000	
	Income Tax Payable			2,000,000

SOLUTIONS Learning Goal 31, continued

LG 31-8, *continued*

c.

	2015	2016	2017	2018
Pre-tax accounting income	$1,000,000	$1,500,000	$2,000,000	$3,000,000
Depreciation difference	(25,000)	–0–	12,500	12,500
Taxable income	$975,000	$1,500,000	$2,012,500	$3,012,500
Income tax payable @ 40%	$390,000	$600,000	$805,000	$1,205,000

2015: The income tax expense is: $1,000,000 × .4 = $400,000
The income tax payable is: $975,000 × .4 = $390,000
2016: The income tax expense is: $1,500,000 × .4 = $600,000
The income tax payable is: $1,500,000 × .4 = $600,000
2017: The income tax expense is: $2,000,000 × .4 = $800,000
The income tax payable is: $2,012,500 × .4 = $805,000
2018: The income tax expense is: $3,000,000 × .4 = $1,200,000
The income tax payable is: $3,012,500 × .4 = $1,205,000

Date	Account	Ref.	Dr.	Cr.
2015	Income Tax Expense		400,000	
	Deferred Income Tax			10,000
	Income Tax Payable			390,000
2016	Income Tax Expense		600,000	
	Income Tax Payable			600,000
2017	Income Tax Expense		800,000	
	Deferred Income Tax		5,000	
	Income Tax Payable			805,000
2018	Income Tax Expense		1,200,000	
	Deferred Income Tax		5,000	
	Income Tax Payable			1,205,000

Note: Notice that at the end of the 4 years, the deferred tax is eliminated.

d.

Date	Account	Ref.	Dr.	Cr.
2017	Income Tax Expense		212,000	
	Income Tax Payable			212,000

Calculation: ($500,000 + $30,000) × .4 = $212,000. This is a permanent difference. The tax expense is determined by using the same rules as for calculating taxable income.

SOLUTIONS Learning Goal 31, continued

LG 31-9.

a.

Date	Account	Ref.	Dr.	Cr.
Jan. 3	Memo: shares issued in 4 for 3 common split			
Mar. 8	Retained Earnings		200,000	
	Dividends Payable, Preferred			51,200
	Dividends Payable, Common			148,800
April 12	Dividends Payable, Preferred		51,200	
	Dividends Payable, Common		148,800	
	Cash			200,000
May 2	Land		340,000	
	Preferred Stock			320,000
	Paid-in Capital in Excess of Par, Preferred			20,000
June 1	Preferred Stock		400,000	
	Paid-in Capital in Excess of Par, Preferred		5,000	
	Common Stock			15,000
	Paid-in Capital in Excess of Par, Common			390,000
Aug. 30	Treasury Stock		690,000	
	Cash			690,000
Sept. 7	Retained Earnings		250,000	
	Dividends Payable, Preferred			48,000
	Dividends Payable, Common			202,000
Oct. 12	Dividends Payable, Preferred		48,000	
	Dividends Payable, Common		202,000	
	Cash			250,000
Dec. 1	Cash		485,000	
	Paid-in Capital from Treasury Stock Transactions		90,000	
	Treasury Stock			575,000
1	Cash		768,000	
	Common Stock			30,000
	Paid-in Capital in Excess of Par, Common			738,000
31	Retained Earnings		150,000	
	Inventory			150,000
31	Accumulated Other Comp. Income		65,000	
	Short-Term Investments			65,000

SOLUTIONS Learning Goal 31, continued

LG 31-9, *continued*

b. **Account Balances as of December 31, 2017:**

Preferred Stock

400,000	1,280,000
	320,000
	1,200,000

Paid-in Capital in Excess of Par, Preferred Stock

5,000	20,000
	15,000

Common Stock

	450,000
	15,000
	30,000
	495,000

Paid-in Capital in Excess of Par, Common Stock

	7,100,000
	390,000
	738,000
	8,228,000

Paid-in Capital from Treasury Stock Transactions

90,000	188,000
	98,000

Retained Earnings

200,000	8,290,000
250,000	291,000
150,000	
	7,981,000

Treasury Stock

690,000	575,000
115,000	

Accumulated Other Comprehensive Income

65,000	115,000
	50,000

c.
Preferred Shares Outstanding:

Date	Event	Shares	Total Shares
Jan. 1	Beginning balance		16,000
May 2	Issued for land	4,000	20,000
June 1	Conversion to common shares	(5,000)	15,000

Common Shares Outstanding:

Date	Event	Shares	Total Shares
Jan. 1	Beginning balance		450,000
3	4 for 3 split		600,000
June 1	Preferred converted to common	20,000	620,000
Aug. 30	Treasury stock purchased	(30,000)	590,000
Dec. 1	Sold treasury shares	25,000	615,000
1	Sold new shares	40,000	655,000

SOLUTIONS

Learning Goal 31, continued

LG 31-9, *continued*

Treasury Shares:

Date	Event	Shares	Total Shares
Aug. 30	Treasury stock purchased	30,000	30,000
Dec. 1	Sold treasury shares	(25,000)	5,000

d.

Coeur d' Alene Enterprises, Inc.
Income Statement
For the Year Ended December 31, 2017

Net sales revenue		$7,450,000
Cost of goods sold		4,110,000
Gross profit		3,340,000
Operating expenses		
Sales and marketing	$ 488,000	
General and administrative	1,167,000	
Restructuring charges	250,000	
Total operating expenses		1,905,000
Operating income		1,435,000
Other revenue, expense, gain or loss		
Rental revenue	70,000	
Interest expense	(134,000)	
Loss on sale of land	(86,000)	
Earthquake loss	(450,000)	600,000
Income from continuing operations before tax		835,000
Income tax expense		334,000
Income from continuing operations		501,000
Discontinued operations		
Loss from discontinued operations of $80,000 less tax savings of $32,000	(48,000)	
Loss on sale of discontinued division of $270,000 less tax savings of $108,000	(162,000)	(210,000)
Net income		291,000
Earnings per share of common stock:		
Income from continuing operations		$.67
Discontinued operations		(.35)
Net income		$.32
Other comprehensive income		
Unrealized loss in certain investment securities net of tax saving of $xxx		(65,000)
Comprehensive income		$226.000

SOLUTIONS Learning Goal 31, continued

LG 31-9, *continued*

f.

Coeur d' Alene Enterprises, Inc.
Balance Sheet
December 31, 2017

Stockholders' Equity		
Paid-in capital		
Preferred stock, convertible, $80 par, 8%, callable at $85, 15,000 shares issued and outstanding	$1,200,000	
Paid-in capital in excess of par, preferred	15,000	$ 1,215,000
Common stock, $.75 par, 660,000 shares issued, 655,000 shares outstanding	495,000	
Paid-in capital in excess of par, common	8,228,000	
Paid-in capital from treasury stock transactions	98,000	8,821,000
Total paid-in capital		10,036,000
Retained earnings		7,981,000
Total paid in capital and retained earnings		18,017,000
Less: Treasury stock, common (5,000 shares at cost)		(115,000)
Accumulated other comprehensive income		50,000
Total stockholders' equity		$17,952,000

g. *Book value per share:*

Total stockholders' equity (book value) is:	$17,952,000
Less: Preferred stockholders' claim	
Call price 15,000 × $85 =	(1,275,000)
Book value for common stockholders	$16,677,000

Per share: $16,677,000/655,000 outstanding shares = $25.46

Other calculations:

- January 3: Stock split, (450,000 shares × 4/3) = 600,000 shares. ($1 × 3/4) = $.75 par value
- March 8: Preferred dividends (semi-annual), [(16,000 × $80 × .08)/2] = $51,200
- May 2: Stock is regularly traded, so share price is the best indicator of value.
- June 1: 25% (5,000 of the 20,000 preferred shares) is being converted, so 25% of the preferred equity is removed and becomes common stock equity. ($1,600,000 × .25) = $400,000 and ($20,000 × .25) = $5,000. Of the total, $405,000 the common stock account is credited (20,000 shares × $.75) = $15,000.
- Sept. 7: Preferred dividends (semi-annual), [(15,000 × $80 × .08)/2] = $48,000
- Dec. 1: Treasury stock sale, ($23 cost – $19.40 sales price) × 25,000 shares = $90,000 decrease in paid-in capital.

SOLUTIONS Learning Goal 31, continued

LG 31-9, *continued*

Other calculations, continued:

Earnings per share:

Weighted Average Shares:

Period	Shares	Months	Weighted Total
Jan. 1–May 31	600,000	5	3,000,000
June 1–Aug. 29	620,000	3	1,860,000
Aug. 30–Nov. 30	590,000	3	1,770,000
Dec. 1–Dec. 31	655,000	1	655,000
Total		12	7,285,000

(7,285,000/12) = 607,083 weighted average shares

Enrichment note (for your information): For EPS purposes, when a company has a stock split or stock dividend, GAAP requires that the number of additional shares be considered as outstanding from the first day of the period. This problem was designed so that the split occurred at the beginning of the period, and that the answer would automatically conform to GAAP requirements. In other cases, when a split occurs later in a period, you would have be sure to add the additional shares from the first day of the period.