

EXERCISES



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E11-1 Computing Shares Outstanding**L01**
Philip Morris

The annual report for Philip Morris Companies, Inc., disclosed that 4 billion shares of common stock have been authorized. At the end of last year, 2,805,961,317 shares had been issued and the number of shares in treasury stock was 380,474,028. During the current year, no additional shares were issued, but additional shares were purchased for treasury stock and shares were sold from treasury stock. The net change was a decrease of 5,047,286 shares of treasury stock. Determine the number of shares outstanding at the end of the current year.

E11-2 Computing Number of Shares**L01**

The charter of Mansfield Corporation specifies that it may issue 200,000 shares of common stock. Since the company was incorporated, it has sold a total of 160,000 shares to the public but bought back a total of 20,000. The par value of the stock is \$3 and the stock was sold at an average price of \$16. When the stock was bought back from the public, the market price was \$20.

Required:

1. Determine the authorized shares.
2. Determine the issued shares.
3. Determine the outstanding shares.

E11-3 Determining the Effects of the Issuance of Common and Preferred Stock
L01, 3, 7

Kelly, Incorporated, was issued a charter on January 15, 2009, that authorized the following capital stock:

Common stock, no-par, 103,000 shares.

Preferred stock, 9 percent, par value \$8 per share, 4,000 shares.

The board of directors established a stated value on the no-par common stock of \$10 per share. During 2009, the following selected transactions were completed in the order given:

- a. Sold and issued 20,000 shares of the no-par common stock at \$16 cash per share.
- b. Sold and issued 3,000 shares of preferred stock at \$20 cash per share.
- c. At the end of 2009, the accounts showed net income of \$40,000.

Required:

1. Prepare the stockholders' equity section of the balance sheet at December 31, 2009.
2. Assume that you are a common stockholder. If Kelly needed additional capital, would you prefer to have it issue additional common stock or additional preferred stock? Explain.

Reporting Stockholders Equity**E11-4**
L01, 3

The financial statements for Texas Media Corporation included the following selected information:

Common Stock	\$1,600,000
Retained earnings	\$900,000
Net income	\$1,000,000
Shares issued	90,000
Shares outstanding	80,000
Dividends declared and paid	\$800,000

The common stock was sold at a price of \$20 per share.

Required:

1. What is the amount of capital in excess of par?
2. What was the amount of retained earnings at the beginning of the year?
3. How many shares are in treasury stock?
4. Compute earnings per share.

Reporting Stockholders' Equity and Determining Dividend Policy**E11-5**
L01, 3, 4

Butler Corporation was organized in 2009 to operate a financial consulting business. The charter authorized the following capital stock: common stock, par value \$10 per share, 11,500 shares. During the first year, the following selected transactions were completed:

- a. Sold and issued 5,600 shares of common stock for cash at \$20 per share.
- b. Sold and issued 1,000 shares of common stock for cash at \$25 per share.
- c. At year-end, the accounts reflected a \$6,000 loss. Because a loss was incurred, no income tax expense was recorded.

Required:

1. Give the journal entry required for each of these transactions.
2. Prepare the stockholders' equity section as it should be reported on the year-end balance sheet.
3. Can the company pay dividends at this time? Explain.

Finding Amounts Missing from the Stockholders' Equity Section**E11-6**
L01, 3
Dillard's

The stockholders' equity section on the balance sheet of Dillard's, a popular department store, is shown below. The company earned net income of \$122,726,000 and declared and paid dividends of \$12,987,000 in 2006.

Stockholders' equity (in thousands):	2006	2005
Common stock, Class A—115,237,382 and 114,581,524 shares issued; ? and ? shares outstanding	?	1,146
Common stock, Class B (convertible)—4,010,929 shares issued and outstanding	40	40
Additional paid-in capital	749,068	739,620
Retained earnings	2,429,065	?
Less treasury stock, at cost, Class A—39,953,949 and 35,386,849 shares	(809,637)	(708,769)

Required:

Complete the following statements and show your computations.

1. Common stock, class A at par value for 2006 was _____.
2. The number of shares of common stock outstanding was _____ in 2005 and in 2006 _____.

3. Retained earnings for 2005 was _____.
4. Have the treasury stock transactions in 2006 (a) increased corporate resources or (b) decreased resources? _____ By how much? _____.
5. For 2006, the treasury stock transactions increased (decreased) stockholders' equity by _____.
6. For 2006, how much did the treasury stock held cost per share? \$_____.
7. For 2006, total stockholders' equity is \$_____.

E11-7
L01, 3 **Reporting Stockholders' Equity**

Travis Corporation was organized in 2009 to operate a tax preparation business. The charter authorized the following capital stock: common stock, par value \$2 per share, 80,000 shares. During the first year, the following selected transactions were completed:

- a. Sold and issued 50,000 shares of common stock for cash at \$50 per share.
- b. Bought 1,000 shares from a stockholder for cash at \$52 per share.

Required:

1. Give the journal entry required for each of these transactions.
2. Prepare the stockholders' equity section as it should be reported on the year-end balance sheet.

E11-8
L01, 3, 7 **Reporting Stockholders' Equity**



Ruth's Chris Steakhouse is the largest upscale steakhouse company in the United States, based on total company- and franchisee-owned restaurants. The company's menu features a broad selection of high-quality USDA Prime grade steaks and other premium offerings. There were 100 Ruth's Chris restaurants, of which 50 were company-owned and 50 were franchisee-owned, including 10 international franchisee-owned restaurants in Mexico, Hong Kong, Taiwan, and Canada. Information from the company's annual report is shown below:

- a. Common stock, par value \$0.01, 100,000,000 shares authorized, 23,074,496 issued and outstanding at December 31, 2005; 23,237,630 issued and outstanding at December 31, 2006.
- b. Additional paid-in capital \$162,567,000 in 2005 and \$166,489,000 in 2006.
- c. Accumulated deficit \$122,533,000 in 2005.
- d. Net income in 2006 was \$23,790,000. No dividends were paid.

Required:

Prepare the stockholders' equity section of the balance sheet at December 31, 2006.

E11-9
L01, 3, 7 **Determining the Effects of Transactions on Stockholders' Equity**

Carter Corporation was organized in January 2009 to operate several car repair businesses in a large metropolitan area. The charter issued by the state authorized the following capital stock:

- Common stock, \$10 par value, 98,000 shares.
- Preferred stock, \$50 par value, 8 percent, 59,000 shares.

During January and February 2009, the following stock transactions were completed:

- a. Sold 78,000 shares of common stock at \$20 per share and collected cash.
- b. Sold 20,000 shares of preferred stock at \$80 per share; collected the cash and immediately issued the stock.
- c. Bought 4,000 shares of common stock from a current stockholder for \$20 per share.

Required:

Net income for 2009 was \$90,000; cash dividends declared and paid at year end were \$30,000. Prepare the stockholders' equity section of the balance sheet at December 31, 2009.

E11-10
L03, 7 **Recording Stockholders' Equity Transactions**

Electronic Teacher Corporation obtained a charter at the start of 2009 that authorized 52,000 shares of no-par common stock and 23,000 shares of preferred stock, par value \$10. The corporation was organized by four individuals who purchased a total of 20,000 shares of the common stock. The remaining shares were to be sold to other individuals at \$37 per share on a cash basis. During 2009, the following selected transactions occurred:

- Collected \$20 per share cash from the four organizers and issued 5,000 shares of common stock to each of them.
- Sold and issued 6,000 shares of common stock to an outsider at \$40 cash per share.
- Sold and issued 7,000 shares of preferred stock at \$30 cash per share.

Required:

- Give the journal entries indicated for each of these transactions.
- Is it ethical to sell stock to outsiders at a higher price than the amount paid by the organizers?

Finding Amounts Missing from the Stockholders' Equity Section**E11-11**
L03, 7

The stockholders' equity section on the December 31, 2009, balance sheet of Chemfast Corporation follows:

Stockholders' Equity

Contributed capital	
Preferred stock (par \$20; authorized 10,000 shares, ? issued, of which 500 shares are held as treasury stock)	\$100,000
Common stock (no-par; authorized 20,000 shares, issued and outstanding 8,000 shares)	600,000
Contributed capital (includes \$1,500 from treasury stock transactions)	16,500
Retained earnings	34,000
Cost of treasury stock, preferred	(9,500)

Required:

Complete the following statements and show your computations.

- The number of shares of preferred stock issued was _____.
- The number of shares of preferred stock outstanding was _____.
- The average sale price of the preferred stock when issued was \$_____ per share.
- Have the treasury stock transactions (a) increased corporate resources or (b) decreased resources? _____ By how much? _____.
- The treasury stock transactions increased (decreased) stockholders' equity by _____.
- How much did the treasury stock held cost per share? \$_____.
- Total stockholders' equity is \$_____.
- The average issue price of the common stock was \$_____.

Finding Information Missing from an Annual Report**E11-12**
L01, 3, 4

Procter & Gamble is a \$38 billion company that sells products that are part of most of our daily lives, including Mr. Clean, Cheer, Crest, Vicks, Scope, Pringles, Folgers, Vidal Sassoon, Zest, and Charmin. The annual report for P&G contained the following information:

- Retained earnings at the end of 2005 totaled \$31,004 million.
- Net income for 2006 was \$8,684 million.
- Par value of the stock is \$1 per share.
- Cash dividends declared in 2006 were \$1.15 per share.
- The Common Stock, Par Value account totaled \$3,976 million at the end of 2006 and \$2,977 at the end of 2005.

Required: (Assume that no other information concerning stockholders' equity is relevant.)

- Estimate the number of shares outstanding at the end of 2006.
- Estimate the amount of retained earnings at the end of 2006.

Analyzing the Repurchase of Stock**E11-13**
L03, 4
Phelps Dodge

The business section of *The New York Times* recently contained the following article:

The Phelps Dodge Corporation, one of the world's largest copper producers, said yesterday that it would repurchase up to five million shares of its common stock in the open market and through private transactions. The company, based in Phoenix, said it recently completed a program announced last September to buy back 2.5 million shares. Phelps Dodge said the purchases were being made to

enhance shareholders' value. The company has about 70.7 million shares outstanding. Shares of Phelps Dodge fell 37.5 cents, to \$53.50, on the New York Stock Exchange yesterday.

Required:

1. Determine the impact of the stock repurchase on the financial statements.
2. Why do you think the board decided to repurchase the stock?
3. What impact will this purchase have on the company's future dividend obligations?

E11-14
L01, 3, 4, 5**Preparing a Statement of Stockholders' Equity and Evaluating Dividend Policy**

The following account balances were selected from the records of Blake Corporation at December 31, 2009, after all adjusting entries were completed:

Common stock (par \$20; authorized 100,000 shares, issued 34,000 shares, of which 2,000 shares are held as treasury stock)	\$680,000
Capital in excess of par	163,000
Dividends declared and paid in 2009	16,000
Retained earnings, January 1, 2009	75,000
Treasury stock at cost (2,000 shares)	25,000

Net income for the year was \$30,000. Restriction on retained earnings equal to the cost of treasury stock held is required by law in this state. The stock price is currently \$22.29 per share.

Required:

1. Prepare the stockholders' equity section of the balance sheet at December 31, 2009.
2. Compute and evaluate the dividend yield ratio. Determine the number of shares of stock that received dividends.

E11-15
L03**Recording Treasury Stock Transactions and Analyzing Their Impact**

During 2009 the following selected transactions affecting stockholders' equity occurred for Jacobs Corporation:

- a. Apr. 1 Purchased in the market 200 shares of the company's own common stock at \$20 per share.
- b. Jun. 14 Sold 40 shares of treasury stock for \$25 cash per share.
- c. Sept. 1 Sold 30 shares of treasury stock for \$15 cash per share.

Required:

1. Give journal entries for each of these transactions.
2. Describe the impact, if any, that these transactions have on the income statement.

E11-16
L03, 4, 8**Recording Treasury Stock Transactions and Analyzing Their Impact**

During 2009 the following selected transactions affecting stockholders' equity occurred for Italy Corporation:

- a. Feb. 1 Purchased in the open market 160 shares of the company's own common stock at \$20 cash per share.
- b. Jul. 15 Sold 80 of the shares purchased on February 1 for \$21 cash per share.
- c. Sept. 1 Sold 50 more of the shares purchased on February 1 for \$19 cash per share.

Required:

1. Give the indicated journal entries for each of the transactions.
2. What impact does the purchase of treasury stock have on dividends paid?
3. What impact does the sale of treasury stock for an amount higher than the purchase price have on net income and the statement of cash flows?

E11-17
L04, 6**Analyzing the Impact of Dividend Policy**

McDonald and Associates is a small manufacturer of electronic connections for local area networks. Consider three independent situations.

Case 1: McDonald increases its cash dividends by 50 percent, but no other changes occur in the company's operations.

Case 2: The company's income and cash flows increase by 50 percent, but this does not change its dividends.

Case 3: McDonald issues a 50 percent stock dividend, but no other changes occur.

Required:

1. How do you think each situation would affect the company's stock price?
2. If the company changed its accounting policies and reported higher net income, would the change have an impact on the stock price?

Computing Dividends on Preferred Stock and Analyzing Differences

The records of Hoffman Company reflected the following balances in the stockholders' equity accounts:

- Common stock, par \$12 per share, 30,000 shares outstanding.
- Preferred stock, 10 percent, par \$10 per share, 5,000 shares outstanding.
- Retained earnings, \$216,000.

On September 1, 2009, the board of directors was considering the distribution of a \$65,000 cash dividend. No dividends were paid during the previous two years. You have been asked to determine dividend amounts under two independent assumptions (show computations):

- a. The preferred stock is noncumulative.
- b. The preferred stock is cumulative.

Required:

1. Determine the total and per share amounts that would be paid to the common stockholders and to the preferred stockholders under the two independent assumptions.
2. Write a brief memo to explain why the dividends per share of common stock were less for the second assumption.
3. What factor would cause a more favorable per share result to the common stockholders?

Determining the Impact of Dividends

Average Corporation has the following capital stock outstanding at the end of 2009:

- Preferred stock, 6 percent, par \$15, outstanding shares, 8,000.
- Common stock, par \$8, outstanding shares, 30,000.

On October 1, 2009, the board of directors declared dividends as follows:

- Preferred stock: Full cash preference amount, payable December 20, 2009.
- Common stock: 50 percent common stock dividend issuable December 20, 2009.

On December 20, 2009, the market prices were preferred stock, \$40, and common stock, \$32.

Required:

Explain the overall effect of each of the dividends on the assets, liabilities, and stockholders' equity of the company.

Recording the Payment of Dividends

A recent annual report for Sears disclosed that the company paid preferred dividends in the amount of \$119.9 million. It declared and paid dividends on common stock in the amount of \$2 per share. During the year, Sears had 1,000,000,000 shares of common authorized; 387,514,300 shares had been issued; 41,670,000 shares were in treasury stock. Assume that the transaction occurred on July 15.

Required:

Prepare a journal entry to record the declaration and payment of dividends.

Evaluating the Dividend Yield Ratio

Cinergy is a utility company that provides gas and electric service in Ohio, Kentucky, and Indiana. The company's dividend yield is 6.6 percent. Starbucks, a well-known retailer of coffee products, does not pay dividends, resulting in a dividend yield of 0.0 percent. Both companies are approximately the same size with market values of \$5 billion.

E11-18
L04, 7



E11-19
L04, 7



E11-20
L04, 7
Sears



E11-21
L05
Cinergy



Required:

1. Based on this limited information, why do you think the dividend policies of the two companies are so different?
2. Will the two companies attract different types of investors? Explain.

E11-22 Analyzing Stock Dividends**L06**

At the beginning of the year, the stockholders' equity section of the balance sheet of R & B Corporation reflected the following:

Common stock (par \$12; authorized 65,000 shares, outstanding 30,000 shares)	\$360,000
Capital in excess of par	120,000
Retained earnings	736,000

On February 1, 2009, the board of directors declared a 60 percent stock dividend to be issued April 30, 2009. The market value of the stock on February 1, 2009, was \$15 per share.

Required:

1. For comparative purposes, prepare the Stockholders' Equity section of the balance sheet (a) immediately before the stock dividend and (b) immediately after the stock dividend. (*Hint:* Use two amount columns for this requirement.)
2. Explain the effects of this stock dividend on assets, liabilities, and stockholders' equity.

E11-23 Recording Dividends**L03**

Two billion times a day, Procter & Gamble (P&G) brands touch the lives of people around the world. The company has one of the largest and strongest portfolios of trusted, quality brands, including Pampers, Tide, Bounty, Pringles, Folgers, Charmin, Downy, Crest, and Clairol Nice 'n Easy. The P&G community consists of nearly 98,000 employees working in almost 80 countries worldwide. The company has 5,000 million shares of common stock authorized and 2,500 million shares issued and outstanding. Par value is \$1 per share. The company issued the following press release:

CINCINNATI, January 9, 2007—The Procter & Gamble Company (NYSE: PG) declared a quarterly dividend of thirty-one cents (\$.31) per share on the Common Stock payable on February 15, 2007 to shareholders of record at the close of business on January 19, 2007. P&G has been paying dividends without interruption since incorporation in 1890.

Required:

Prepare journal entries as appropriate for each date mentioned in the press release.

E11-24 Comparing Stock Dividends and Splits**L06**

On July 1, 2009, Jones Corporation had the following capital structure:

Common stock (par \$3)	\$600,000
Capital in excess of par	900,000
Retained earnings	700,000
Treasury stock, none	

Required:

Complete the following comparative tabulation based on two independent cases:

Case 1: The board of directors declared and issued a 50 percent stock dividend when the stock was selling at \$5 per share.

Case 2: The board of directors voted a 6-to-5 stock split (i.e., a 20 percent increase in the number of shares). The market price prior to the split was \$5 per share.

Items	Before Dividend and Split	After Stock Dividend	After Stock Split
Common stock account	\$	\$	\$
Par per share	\$ 3	\$	\$
Shares outstanding	#	#	#
Capital in excess of par	\$900,000	\$	\$
Retained earnings	700,000	\$	\$
Total stockholders' equity	\$	\$	\$

Recording a Stock Dividend

GameStop issued the following press release when the company's stock was selling for \$27 per share: GRAPEVINE, Texas—(BUSINESS WIRE)—Feb. 12, 2007—GameStop Corp. (NYSE: GME), the world's largest video game and entertainment software retailer, today announced that its Board of Directors approved a two-for-one stock split of the Company's common stock to be effected in the form of a stock dividend.

Each shareholder of record at the close of business on February 20, 2007, will receive one additional share of GameStop common stock for every outstanding share held on the record date. The additional shares will be distributed on March 16, 2007.

"As GameStop continues to rapidly grow, we wanted to make our stock more attractive to a broader range of potential investors. This stock split also reinforces the confidence that the Board and I have in the GameStop buy, sell, trade strategy and the future of video game growth worldwide," indicated R. Richard Fontaine, Chairman and Chief Executive Officer.

The stock split is GameStop's first since becoming a publicly traded company in February 2002. GameStop had approximately 76 million common shares outstanding as of February 3, 2007. Upon completion of the split, the outstanding shares of GameStop's common stock (par value \$0.01) will increase to approximately 152 million.

Required:

1. Give any journal entries that would be required.
2. Describe the impact that this transaction will have on future cash dividends.

E11-25
L06
GameStop

Comparing Stock Dividends and Splits

Sally Corporation has 80,000 shares of common stock (par value \$8) outstanding.

Required:

Complete the following comparative tabulation based on two independent cases:

Case 1: The board of directors declared and issued a 40 percent stock dividend when the stock was selling at \$15 per share. The dividend will be accounted for as a large stock dividend.

Case 2: The board of directors voted a 5-to-3 stock split (i.e., a 66.67 percent increase in the number of shares). The market price prior to the split was \$15 per share.

Items	Before Dividend and Split	After Stock Dividend	After Stock Split
Common stock account	\$	\$	\$
Par per share	\$ 8	\$	\$
Shares outstanding	#	#	#
Capital in excess of par	\$280,000	\$	\$
Retained earnings	\$1,300,000	\$	\$
Total stockholders' equity	\$	\$	\$

Evaluating Dividend Policy

Ford Motor Company is an internationally known manufacturer of automobiles and trucks. The company recently lost over \$12 billion in a single year of operations. Despite that staggering loss, the company issued the following press release:

E11-27
L04
Ford Motor Co.



DEARBORN, Mich., July 13 /PRNewswire-FirstCall/—The Board of Directors of Ford Motor Company (NYSE: F) today declared a third quarter dividend of 5 cents per share on the company's common stock. The dividend, which is payable on Sept. 1 to shareholders of record on Aug. 2 is a reduction of 5 cents per share from the dividend paid in the second quarter.

Required:

1. Explain why Ford can pay dividends despite its loss.
2. What factors did the board of directors consider when it declared the dividends?

E11-28
L07
Archon



Analyzing Dividends in Arrears

Archon Corporation operates the Pioneer Hotel & Gambling Hall in Nevada. In addition, the company owns real estate on Las Vegas Boulevard South (the "Strip") in Las Vegas, Nevada, and investment properties in Dorchester, Massachusetts, and Gaithersburg, Maryland. An investor found the following note contained in the Archon annual report:

The Company has not declared dividends on its preferred stock since fiscal 1996. Dividends of approximately \$1.5 million, \$1.5 million, \$1.6 million, \$1.5 million and \$1.6 million for fiscal 2006, 2005, 2004, 2003, and 2002, respectively, have not been declared and are in arrears. Total accumulated preferred stock dividends in arrears for the five preceding years ended on September 30, 2006 are \$12.3 million, \$10.8 million, \$9.5 million, \$8.2 million and \$7.3 million, respectively.

The investor who read the note suggested that the Archon preferred stock would be a good investment because of the large amount of dividend income that would be earned when the company started paying dividends again: "As the owner of the stock, I'll get dividends for the period I hold the stock plus some previous periods when I didn't even own the stock." Do you agree? Explain.

EXERCISES**E11-1.****Computation of End of Year Balance for Treasury Stock:**

Beginning balance	380,474,028
Net decrease	<u>(5,047,286)</u>
Ending balance	375,426,742

Computation of Shares Outstanding:

Issued shares	2,805,961,317
Treasury stock	<u>(375,426,742)</u>
Shares Outstanding	2,430,534,575

E11-2.

Req. 1 The number of authorized shares is specified in the corporate charter: 200,000.

Req. 2 Issued shares are the shares sold to the public: 160,000

Req. 3 Issued shares	160,000
Treasury stock	<u>(20,000)</u>
Outstanding shares	140,000

E11-3.

Req. 1

Stockholders' Equity

Contributed capital:

Preferred stock, authorized 4,000 shares, issued and outstanding, 3,000 shares.....	\$ 24,000
Common stock, authorized 103,000 shares, issued and outstanding, 20,000 shares.....	200,000
Contributed capital in excess of par, preferred	36,000
Contributed capital in excess of stated value, no-par common	<u>120,000</u>
Total contributed capital.....	\$380,000
Retained earnings.....	<u>40,000</u>
Total Stockholders' Equity	<u><u>\$420,000</u></u>

Req. 2

The answer would depend on the profitability of Kelly and the stability of its earnings. The preferred stock has a 9% dividend rate. If Kelly earns more than 9%, the additional earnings would accrue to the current stockholders. If Kelly earns less than 9%, it would pay a higher rate to the preferred stockholders.

E11-4.

Req. 1 (\$20 x 90,000 shares) - \$1,600,000 = \$200,000

Req. 2 \$900,000 - \$1,000,000 + \$800,000 = \$700,000

Req. 3 90,000 shares - 80,000 shares = 10,000 shares

Req. 4 EPS = \$1,000,000 ÷ 80,000 = \$12.50

E11-5.

Req. 1

a. Cash (5,600 shares x \$20) (+A)	112,000	
Common stock (5,600 shares x \$10) (+SE)		56,000
Contributed capital in excess of par, common stock (+SE)		56,000
Sold common stock at a premium.		
b. Cash (1,000 shares x \$25) (+A)	25,000	
Common stock (1,000 shares x \$10) (+SE)		10,000
Contributed capital in excess of par, common stock (+SE)		15,000
Sold common stock at a premium.		

Req. 2

Stockholders' Equity

Contributed capital:

Common stock, par \$10, authorized 11,500 shares, outstanding 6,600 shares		\$ 66,000
Contributed capital in excess of par		71,000
Total contributed capital		137,000
Retained earnings (deficit)		(6,000)
Stockholders' equity		<u>\$131,000</u>

Req. 3

The company has a negative balance in retained earnings, which, in most cases, would preclude the payment of dividends. Dividends are a distribution of earnings to the owners. In the absence of retained earnings, dividends should not be paid.

E11-6.

Req. 1

Common stock, class A at par value: $115,237,382 \times \$0.01 = \underline{\$1,152 \text{ (thousand)}}$

Req. 2

Number of shares outstanding 2006: 115,237,382 shares issued minus 39,953,949 shares held as treasury stock = 75,283,433.

Number of shares outstanding 2005: 114,581,524 shares issued minus 35,386,849 shares held as treasury stock = 79,194,675.

Req. 3

(In thousands) Retained earnings for 2006: \$2,429,065 minus net income for 2006 \$122,726 plus dividends for 2006 \$12,987 = \$2,319,326

Req. 4

As of 2006, treasury stock had decreased corporate resources by \$809,637.

Req. 5

For 2006, treasury stock transactions decreased stockholders' equity by \$100,868 (\$708,769 - \$809,637).

Req. 6

For 2006, treasury stock cost per share: $\$809,637,000 \div 39,953,949 \text{ shares} = \underline{\$20.26}$.

Req. 7

For 2006, total stockholders' equity: \$2,369,689.

E11-7.

Req. 1

a. Cash (50,000 shares x \$50) (+A)	2,500,000	
Common stock (50,000 shares x \$2) (+SE)		100,000
Contributed capital in excess of par, common stock (+SE)		2,400,000
Sold common stock at a premium.		
b. Treasury stock (1,000 shares x \$52) (+XSE, -SE)	52,000	
Cash (-A)		52,000
Bought treasury stock.		

Req. 2

Stockholders' Equity

Contributed capital:

Common stock, par \$2, authorized 80,000 shares, issued 50,000 shares		\$ 100,000
Contributed capital in excess of par		2,400,000
Total contributed capital		<u>2,500,000</u>
Treasury stock		(52,000)
Stockholders' equity		<u><u>\$2,448,000</u></u>

E11-8.

Shareholders' equity (deficit) in thousands:	2005	2006
Common stock, par value \$.01 per share; 100,000,000 shares authorized, 23,074,496 shares issued and outstanding at December 31, 2005, 23,237,630 shares issued and outstanding at December 31, 2006	231	232
Additional paid-in capital	162,567	166,489
Accumulated deficit	<u>(122,533)</u>	<u>(98,743)</u>
Total shareholders' equity	40,265	67,978

E11-9.

Stockholders' Equity

Contributed capital:

Preferred stock, 8%, par \$50, authorized 59,000 shares, issued and outstanding, 20,000 shares		\$1,000,000
Common stock, par \$10, authorized 98,000 shares, issued, 78,000 shares		780,000
Contributed capital in excess of par, preferred stock		600,000
Contributed capital in excess of par, common stock		780,000
Treasury stock		<u>(80,000)</u>
Retained earnings*		60,000
Total stockholders' equity		<u><u>\$3,140,000</u></u>

*(\$90,000 - \$30,000 = \$60,000.)

E11-10.

Req. 1

a. Cash (20,000 shares x \$20) (+A)	400,000	
Common stock, no-par (+SE)		400,000
b. Cash (6,000 shares x \$40) (+A)	240,000	
Common stock, no-par (+SE)		240,000
c. Cash (7,000 shares x \$30) (+A)	210,000	
Preferred stock (7,000 shares x \$10) (+SE)		70,000
Contributed capital in excess of par, preferred (+SE)		140,000

Req. 2

Yes, it is ethical as long as there is a full disclosure of relevant information. In any arm's length transaction, an informed buyer will pay the market value of the stock.

E11-11.

Req. 1

Number of preferred shares issued: $\$100,000 \div \$20 = \underline{5,000}$

Req. 2

Number of preferred shares outstanding: 5,000 shares issued minus 500 shares held as treasury stock = 4,500.

Req. 3

Average sales price per share of preferred stock when issued: $(\$100,000 + \$15,000) \div 5,000 \text{ shares} = \underline{\$23.00}$.

Req. 4

Decreased corporate resources by $\$9,500 - \$1,500 = \underline{\$8,000}$.

Req. 5

Treasury stock transactions decreased stockholders' equity by \$8,000 (same as the decrease in corporate resources in 4 above).

Req. 6

Treasury stock cost per share: $\$9,500 \div 500 \text{ shares} = \underline{\$19.00}$.

Req. 7

Total stockholders' equity: \$741,000.

Req. 8

Issue price of common stock $\$600,000 \div 8,000 \text{ shares} = \75.00

E11-12.

Req. 1

The number of shares that have been issued is computed by dividing the common stock account (\$3,976 million) by the par value of the shares (\$1 per share) or approximately 3,976,000,000 shares.

Req. 2

Retained earnings end of 2005.....	\$31,004,000,000
Net income for 2006.....	8,684,000,000
Dividends for 2006	<u>(4,572,400,000)</u>
Retained earnings end of 2006.....	\$35,115,600,000

The amount of retained earnings is an estimate because we do not know the exact number of shares outstanding (because we do not know the number of shares in treasury stock. This number is needed to determine the amount of dividends paid during 2006. We based the dividends on the estimate calculated in the previous requirement.

E11-13.

Req. 1

Assets	- \$133,750,000
Stockholders' Equity	- \$133,750,000

The treasury stock account is a contra equity account, meaning that it subtracts from the total stockholders' equity. Cash also decreases on the balance sheet by the same amount.

Req. 2

Many companies repurchase common stock in order to develop an employee bonus plan that provides workers with shares of the company's stock as part of their compensation. Because of SEC regulations concerning newly issued shares, companies find it cheaper to give their employees shares of stock that were purchased from stockholders than to issue new shares. In this case, the company mentions the goal of enhancing shareholders' value. If the company maintains its current level of income, earnings per share will increase with fewer shares outstanding. The management expects that the increase in EPS will be reflected in an increase in stock price.

Req. 3

Shares that are held in treasury stock do not participate in dividend payments. As a result, the purchase of treasury stock will reduce the amount of dividends that the company must pay in future years.

E11-14.

Req. 1

Stockholders' Equity

Contributed capital:

Common stock, authorized 100,000 shares, issued 34,000 shares, of which 2,000 shares are held as treasury stock.....	\$680,000
Contributed capital in excess of par	<u>163,000</u>
Total contributed capital.....	\$843,000
Retained earnings	<u>89,000</u>
Total	\$932,000
Less: Cost of treasury stock	<u>25,000</u>
Total Stockholders' Equity.....	<u><u>\$907,000</u></u>

Req. 2

The dividend yield ratio is 2.24% ($[\$16,000 \div 32,000 \text{ shares}] \div \22.29). While this yield seems small, it is a typical return on common stock. Investors receive a return from both dividends and stock price appreciation.

Treasury stock does not receive dividends. As a result, dividends should be paid on 32,000 shares.

E11-15.

Req. 1

a. Treasury stock (200 shares x \$20) (+XSE, -SE)	4,000	
Cash (-A).....		4,000
Bought treasury stock.		
b. Cash (40 shares x \$25) (+A)	1,000	
Treasury stock (40 shares x \$20) (-XSE, +SE)		800
Capital in excess of par (+SE)		200
Sold treasury stock.		
c. Cash (30 shares x \$15) (+A)	450	
Capital in excess of par (-SE).....	150	
Treasury stock (30 shares x \$20) (-XSE, +SE)		600
Sold treasury stock.		

Req. 2

It is not possible to make a "profit" or "loss" on treasury stock transactions. Therefore, these transactions do not affect the income statement.

E11-16.

Req. 1

Feb. 1:

Treasury stock, common (160 shares x \$20) (+XSE, -SE)	3,200	
Cash (-A).....		3,200

July 15:

Cash (80 shares x \$21) (+A)	1,680	
Treasury stock, common (-XSE, +SE).....		1,600
Capital in excess of par (+SE)		80

Sept. 1:

Cash (50 shares x \$19) (+A)	950	
Capital in excess of par (-SE).....	50	
Treasury stock, common (50 shares x \$20) (-XSE, +SE)		1,000

Req. 2

Dividends are not paid on treasury stock. Therefore, the amount of total cash dividends paid is reduced when treasury stock is purchased.

Req. 3

The sale of treasury stock for more or less than its original purchase price does not have an impact on net income. The transaction affects only balance sheet accounts. The sale of treasury stock is a cash inflow which would affect the Statement of Cash Flows.

E11-17.

Req. 1

Case 1: When companies unexpectedly announce increases in dividends, stock prices typically increase. Depending on course objective, the instructor may want to discuss research in finance concerning dividend policy.

Case 2: Stock price is based on expectations. If the increase in operating performance was not expected, the stock price should increase. It is not necessary to increase dividends to have a favorable stock price reaction.

Case 3: Stock dividends do not provide any economic value but they may have a signal effect and are often associated with increases in cash dividends. As a result, stock dividends do not appear to directly cause an increase in stock price but are often associated with factors that do impact favorably on price.

Req.2

Stock prices react to underlying economic events and not changes in reporting methods, per se. Markets are relatively effective in recognizing the difference between profits generated by operations and profits generated by the use of liberal accounting policies.

E11-18.

	Preferred (5,000 Shares)	Common (30,000 Shares)	Total
Req. 1			
a) Noncumulative:			
Preferred (\$50,000 x 10%)	\$ 5,000		\$ 5,000
Balance to common (\$65,000 – \$5,000)		\$60,000	60,000
	<u>\$ 5,000</u>	<u>\$60,000</u>	<u>\$65,000</u>
Per share	\$1.00	\$2.00	
b) Cumulative:			
Preferred, arrears (\$50,000 x 10% x 2 years).....	\$ 10,000		\$ 10,000
Preferred, current year (\$50,000 x 10%).....	5,000		5,000
Balance to common (\$65,000 – \$10,000 – \$5,000)		\$50,000	50,000
	<u>\$15,000</u>	<u>\$50,000</u>	<u>\$65,000</u>
Per share	\$3.00	\$1.67	

Req. 2

The total dividend amount and dividends per share of common stock were less under the second assumption because the preferred stock preferences increased while at the same time the total dividend amount remained stable.

Req. 3

Larger total dividend distributions are more favorable for the common stockholders.

E11-19.

Item	Effect of Cash Dividend (Preferred)	Effect of Stock Dividend (Common)
Assets	–No effect on declaration date. –Decreased by the amount of the dividend (\$7,200) on payment date.	No effect because no assets are disbursed.
Liabilities	–Increased on declaration date (\$7,200). –Decreased on payment date (\$7,200).	No effect—no entry on declaration date because no contractual liability is created (no assets are disbursed).
Stockholders' equity	Decreased by the amount of the dividend (retained earnings decreased by \$7,200).	–Total stockholders' equity not changed. –Retained earnings reduced and contributed capital increased by same amount (\$120,000).

E11-20.

July 15

Retained earnings (-SE)	119,900,000	
Cash (-A)		119,900,000
Declaration and payment of preferred dividends.		
Retained earnings (-SE)	691,688,600	
Cash (-A)		691,688,600
Declaration and payment of common dividends.		
Computation of shares outstanding:		
Shares issued	387,514,300	
Treasury stock.....	<u>41,670,000</u>	
Shares outstanding	345,844,300	
Dividends paid:		
345,844,300 x \$2 = \$691,688,600		

E11-21.

Req. 1

Cinergy is a utility company that is very established. They have very little opportunity for growth and they have stable business operations. Therefore, they have the ability to have a high dividend yield. On the other hand, Starbucks is a fairly new company with a high opportunity for growth. Due to the fact that they are retaining all of their earnings to invest into their growth, they have a 0.0% dividend yield.

Req. 2

The companies will attract two different types of investors. Cinergy will attract investors who want and/or need current income, such as someone who is retired. Starbucks will attract investors who want appreciation on their stock price, such as someone who is planning for their retirement in 25 years.

E11-22.

Req. 1

	<i>Stockholders' Equity</i>	
	<i>Before Stock Dividend</i>	<i>After Stock Dividend</i>
Contributed capital:		
Common stock, authorized 65,000 shares		
Outstanding: 30,000 shares, par \$12.....	\$360,000	
Outstanding: 48,000 shares, par \$12.....		\$576,000
Contributed capital in excess of par value	120,000	120,000
Retained earnings	<u>736,000</u>	<u>520,000</u>
Total stockholders' equity	<u>\$1,216,000</u>	<u>\$1,216,000</u>

Req. 2

<i>Item</i>	<i>Effects of Stock Dividend</i>
Assets	No change because no assets were disbursed.
Liabilities	No change because no liability was created (no assets were to be disbursed).
Stockholders' equity	<ul style="list-style-type: none"> -Total stockholders' equity not changed. -Retained earnings was reduced by the amount of the dividend. -The common stock account was increased by the same amount.

E11-23.

January 9, 2007

Retained earnings (-SE)	775,000,000	
Dividends payable (+L)		775,000,000
2,500 (million) shares x \$0.31 = \$775,000,000		

January 19, 2007

No journal entry required.

February 15, 2007

Dividends payable (-L)	775,000,000	
Cash (-A)		775,000,000

E11-24.

Comparative results:

Items	Before Dividend and Split	After Stock Dividend	After Stock Split
Common stock account	\$600,000	\$900,000	\$600,000
Par per share	\$3	\$3	\$2.50
Shares outstanding	#200,000	#300,000	#240,000
Capital in excess of par	\$ 900,000	\$900,000	\$ 900,000
Retained earnings	\$ 700,000	\$ 400,000	\$ 700,000
Total stockholders' equity	\$2,200,000	\$2,200,000	\$2,200,000

Comments: Neither the stock dividend nor stock split changed total stockholders' equity because neither involved the disbursement of assets. The stock dividend capitalized retained earnings and increased the common stock account by the same amount; it increased shares outstanding but did not change par value per share. The stock split did not change any account balances; its only effects were to (1) increase shares outstanding and (2) decrease par value per share.

E11-25.

Req. 1

February 12, 2007---No entry

February 20, 2007---No entry

March 16, 2007

Retained earnings (-SE)	760,000	
Common stock (+SE)		760,000

Req. 2

Without additional information, one cannot determine the impact on future cash dividends. In some cases, the company will maintain its dividend per share payout, in which case total dividends will increase. In other cases, the company may reduce the dividends per share and maintain the same total payout. In the case of GameStock, the company is not currently paying cash dividends, so there is no immediate effect.

E11-26.

Comparative results:

Items	Before Dividend and Split	After Stock Dividend	After Stock Split
Common stock account	\$640,000	\$896,000	\$640,000
Par per share	\$8	\$8	\$ 4.80
Shares outstanding	#80,000	#112,000	# 133,333
Capital in excess of par	\$ 280,000	\$ 280,000	\$ 280,000
Retained earnings	\$ 1,300,000	\$ 1,044,000	\$ 1,300,000
Total stockholders' equity	\$2,220,000	\$2,220,000	\$2,220,000

Comments: Neither the stock dividend nor stock split changed total stockholders' equity because neither involved the disbursement of assets. The stock dividend reduced retained earnings and increased the common stock account by the same amount; it increased shares outstanding but did not change par value per share. The stock split did not change any account balances; its only effects were to (1) increase shares outstanding and (2) decrease par value per share.

E11-27.

Req. 1

A corporation does not need to earn net income in a given year in order to declare and pay dividends. There are two requirements 1) the balance of retained earnings should be sufficient to pay dividends, and 2) there must be sufficient cash on hand.

Req. 2

Clearly the board determined that the balances in retained earnings and cash were sufficient to pay dividends. The board probably analyzed cash flow for the current year and the future to determine whether the payment of dividends would create any problems in subsequent years. The board also probably took into consideration the impact of skipping a dividend. If the company did not pay a dividend, many investors might assume that the board concluded that the company might lose money for several years. This lack of confidence could have a significant impact on the price of the company's stock. By paying a dividend, the company sent a signal to the market that the board had confidence in the long-term health of the company.

E11-28.

The fact that dividends are in arrears indicates that the company has been experiencing some financial difficulty. Most companies do not want to suspend dividend payments because it will erode investor confidence. Typically, companies are experiencing severe cash flow problems when they take this type of drastic action. The investor assumed that he would get a large cash payment "when Archon started paying dividends again." The student should have realized that he was making a large assumption; a financially troubled company may never pay dividends again.