Q11-1 Advantages of incorporation include (1) the ability to generate additional investment capital (2) ease of transfer of ownership rights, (3) continuity of life, (4) limited liability, and (5) professional management.

Disadvantages of incorporation include: (1) incorporation costs, (2) increased regulation, (3) double taxation, and (4) separation of ownership and management functions.

Q11-2 Common stock: if more than one class of stock is issued, common stock represents the residual and proportionate class of ownership, preferred stock: represents a class of stock having preferences as to dividends and as to assets upon liquidation; par value: is the nominal or face value printed on a stock certificate representing the minimum amount to be paid to the issuing corporation by the original purchaser; stated value: is the value assigned to each share of no-par stock by the directors; market value: is the actual price in dollars a share of stock will bring at the time the owner offers it for sale; no-par value: is stock without specified par value.

Q11-3 Limited liability: a characteristic of a corporation whereby the stockholders have no personal liability for debts of the business; excess over par value: the difference between the amount received and the par value of a share. It is not credited to the stock accounts; excess over stated value: the same as excess over par value; paid-in capital: amounts invested by the stockholders of a corporation including cash, property, or services, and reflected in credits to capital.

Q11-4 The board of directors has the responsibility for establishing broad corporate policies and for assessing the overall performance of the company. The composition of the board of directors varies among companies. Generally, it is composed of selected officers of the company and outside directors who are not employees of the company. The purpose of the outside directors is to provide an independent and objective assessment of the performance of management.

Q11-5 If a corporation gets into financial difficulties, the share of stock may become worthless. However, the personal assets of the shareholders are not legally available for the satisfaction of corporation debts.
Q11-6 Treasury shares are shares of stock that were once issued to stockholders and subsequently are reacquired by the company. Treasury shares do not affect the number of shares issued. However, they do reduce the number of shares of stock outstanding.

Q11-7 No, the corporation does not ever earn revenue by the process of dealing with its owners, the stockholders. Amounts received from shareholders are paid-in capital, not revenue.

Q11-8 No-par value stock is stock that does not have a nominal price attached to the stock certificate. The main reason for seeking to issue no-par stock is to generate confidence in the stock issues. There will be no misleading nominal (par value) price on the certificate. The accountants will make a more concerted effort to value any noncash assets received upon issuance of the stock at their fair market value. (A major disadvantage is that often no means are available to establish a minimum amount for the legal capital. This characteristic has given rise to the no-par stock with a stated value.)

Q11-9 The par value was set at $0.10 per share for two reasons: (1) to make sure that no issue of stock would ever be made at a discount—hence, no discount liability would be passed from one investor to another—and (2) the measure of legal capital would be set at a minimum figure.

Q11-10 The ownership shares are more readily transferred in a corporation. The evidence of ownership of a corporation is stated in shares of stock. The law allows these shares to be sold to other individuals without the sale affecting the legal life of the corporation. By contrast, if a partner sells his or her interest, the partnership is usually dissolved; a new partnership has to be created with a new partnership agreement for the business to continue.

Q11-11 Authorized stock is the amount of stock that the corporation has obtained legal authorization to sell. Unissued stock is stock for which the authority to issue has been obtained but which has not yet been sold. Issued stock is stock in the hands of stockholders or that held by the corporation as treasury stock. Outstanding stock is the stock in the hands of stockholders only.

Q11-12 These are personal preferences only. Investors purchase stock because they hope its market value will increase as the company grows, to receive dividend income, or to gain control of a company. None of these factors is affected by whether a stock has a par value.

Q11-13 Legal capital is defined by law in the state of the incorporation. It may be equal to par value in some states or to total paid-in capital in others. Its purpose is to protect the creditors against liquidation of assets by the pay out of more cash to stockholders (as dividends) than is prudent. If there were no limit on asset distribution to stockholders, the creditors could lose since stockholders are not personally liable for debts of the corporation that they own.

Q11-14 The number of shares of treasury stock is 180,000 (700,000 shares issued less 520,000 shares outstanding).
Identifying Sources of Stockholders' Equity

1.

<table>
<thead>
<tr>
<th>Account</th>
<th>Balance Sheet Classification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Receivable</td>
<td>Current asset</td>
</tr>
<tr>
<td>Common Stock</td>
<td>Stockholders' equity</td>
</tr>
<tr>
<td></td>
<td>(Paid-in capital)</td>
</tr>
<tr>
<td>Notes Payable (due 2015)</td>
<td>Long-term liability</td>
</tr>
<tr>
<td>Paid-in Capital—Excess over Par Value, Common</td>
<td>Stockholders' equity</td>
</tr>
<tr>
<td></td>
<td>(Paid-in capital)</td>
</tr>
<tr>
<td>Preferred Stock</td>
<td>Stockholders' equity</td>
</tr>
<tr>
<td></td>
<td>(Paid-in capital)</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>Stockholders' equity</td>
</tr>
<tr>
<td></td>
<td>(Retained earnings)</td>
</tr>
</tbody>
</table>

2.

SONNY CORPORATION
Partial Balance Sheet
December 31, 2011

Stockholders' Equity

Paid-in capital
Stock:
  Preferred stock, $50 par value                       $ 500,000
  Common stock, $4 par value                           300,000
  Total stock                                          $ 800,000

Additional paid-in capital:
  Paid-in capital—excess over par value, common stock
  Total additional paid-in capital
  Total paid-in capital                                $ 875,000

Retained earnings
  Total stockholders' equity                          $1,085,000
E11-16  Identifying Key Terms Used to Define and Measure Elements in Paid-in Capital

1. $500,000 + $300,000 = $800,000
2. $875,000.
3. $300,000 ÷ $4 = 75,000 shares.
4. 75,000 shares.
5. ($300,000 + $75,000) ÷ 75,000 = $5.

E11-17  Identifying Key Terms Used to Define and Measure Elements of Paid-in Capital

1. a. 60,000 shares. b. 50,000 shares
2. a. 60,000 shares. b. 50,000 shares
3. a. $2,400,000. b. $700,000
4 a. ($2,400,000 + $600,000) ÷ 60,000 = $50.00
   b. $700,000 ÷ 50,000 = $14.
5. $2,400,000 x 0.11 = $264,000.

E11-18  Recording Common Stock Transactions

GENERAL JOURNAL

2011
Jan. 7  1. Cash

<table>
<thead>
<tr>
<th></th>
<th></th>
<th>64,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common Stock</td>
<td></td>
<td>8,000</td>
</tr>
<tr>
<td>Paid-in Capital–Excess over Par Value, Common</td>
<td>56,000</td>
<td></td>
</tr>
</tbody>
</table>

To record the issuance of 8,000 shares of $1 par value common stock at $8 per share.
E11-18 (continued)

7. Cash 64,000
    Common Stock 64,000
To record the issuance of
8,000 shares of no-par value
common stock at $8 per share.

Jan. 7 3. Cash 64,000
    Common Stock 16,000
    Paid-in Capital—Excess over
    Stated Value, Common 48,000
To record the issuance of
8,000 shares of no-par value
common stock (stated value,
$2) at $8 per share.

E11-19 Recording Par Value Common Stock
LG 5

GENERAL JOURNAL

2011
Sep. 25 Cash 300,000
    Common Stock 250,000
    Paid-in Capital—Excess over
    Par Value, Common 50,000
To record the issuance of 50,000
shares of $5 par value common
at $6.00 per share.

Nov. 11 Cash 450,000
    Common Stock 300,000
    Paid-in Capital—Excess over
    Par Value, Common 150,000
To record the issuance of 60,000
shares of $5 par value common
at $7.50 per share.
**Issuing Common Stock for Cash and Noncash Items**

**LG 5**

**GENERAL JOURNAL**

1. **Cash**
   - Common Stock 200,000
   - To record the issuance of 40,000 shares of $5 par value common stock at par value.

2. **Building**
   - Building 190,000
   - Land 8,000
   - Common Stock 180,000
   - Paid-in Capital—Excess over Par Value, Common 18,000
   - To record the issuance of 36,000 shares of $5 par value common stock for factory building and land; value per share $5.50.

3. **Cash**
   - Common Stock 110,000
   - Paid-in Capital—Excess over Par Value, Common 10,000
   - To record the issuance of 20,000 shares of $5 par value common stock at $5.50 per share.

4. **Cash**
   - Common Stock 60,000
   - Paid-in Capital—Excess over Par Value, Common 10,000
   - To record the issuance of 10,000 shares $5 par value common stock at $6 per share.

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred stock</td>
<td>$1,420,000</td>
<td></td>
</tr>
<tr>
<td>Common stock</td>
<td>880,000</td>
<td></td>
</tr>
<tr>
<td>Paid-in capital—excess over par value, common</td>
<td>174,000</td>
<td></td>
</tr>
<tr>
<td>Cash collected from stock transactions</td>
<td>$2,474,000</td>
<td></td>
</tr>
</tbody>
</table>
E11-22 Recording Common Stock Transactions

LG 5

**GENERAL JOURNAL**

2011
Aug. 7 Cash 300,000
  Common Stock 150,000
  Paid-in Capital—Excess over
  Stated Value, Common 150,000
To record the issuance for cash
of 30,000 shares of common at
$10 per share.

25 Cash 380,000
  Common Stock 200,000
  Paid-in Capital—Excess over Stated
  Value, Common 180,000
To record the issuance for cash of
40,000 shares of common at
$9.50 per share.

E11-23 Preparing Paid-in Capital Section of Balance Sheet

LG 6

**JACKSON COMPANY**
Partial Balance Sheet
December 31, 2011

**Stockholders' Equity**

**Paid-in capital**

Stock:
  Preferred stock, $100 par value,
  3,000 shares authorized and issued $ 300,000
  Common stock, $10 par value, 200,000
  shares authorized, 40,000 shares issued 400,000
  Total stock $ 700,000

Additional paid-in capital:
  Paid-in capital—excess over par value,
  preferred $ 50,000
  Paid-in capital—excess over par value,
  common 120,000
  Total additional paid-in capital 170,000
  Total paid-in capital $ 870,000
P11-24  Identifying Key Terms and Computing Elements of Paid-in Capital
LG 2, 3

Requirement 1.

10% cumulative preferred stock: $30 \times 10,000 = $300,000

Common stock: $5 \times 30,000 = $150,000

Total capital stock: $300,000 + $150,000 = $450,000

Paid-in capital—excess over par value, common: $730,000 - ($450,000 + $100,000) = $180,000

Total additional paid-in capital: $100,000 + $180,000 = $280,000

Retained earnings: $770,000 - $730,000 = $40,000

Requirement 2.

a. 1. $300,000. 2. $150,000.

b. 1. ($300,000 + $100,000) \div 10,000 \text{ shares issued} = $40.00
2. ($150,000 + $180,000) \div 30,000 \text{ shares issued} = $11.00

c. $300,000 \times 0.10 = $30,000

P11-25  Identifying Key Terms and Computing Elements of Paid-in Capital
LG 2, 3

Requirement 1.

$2 Preferred stock:

$10 \times 10,000 = $100,000

Common stock:

$900,000 - $100,000 = $800,000.

Paid-in capital—excess over par value preferred:

$600,000 - $200,000 = $400,000.
P11-25  (continued)

Total paid-in capital: $900,000 + $600,000 = $1,500,000

Total stockholders' equity: $1,500,000 + $900,000 = $2,400,000

Requirement 2.

a. 1. $100,000  2. $800,000.

b. 1. ($100,000 + $400,000) ÷ 10,000 shares issued = $50.00
   2. ($800,000 + $200,000) ÷ 80,000 shares issued = $12.50

c. 10,000 shares x $2 = $20,000.
Recording Common Stock Transactions and Calculating Account Balances

Requirement 1.

**GENERAL JOURNAL**

<table>
<thead>
<tr>
<th>Date</th>
<th>Account</th>
<th>Debit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 4</td>
<td>Cash</td>
<td>60,000</td>
</tr>
<tr>
<td></td>
<td>Common Stock</td>
<td>60,000</td>
</tr>
<tr>
<td></td>
<td>To record the issuance of common stock at par value.</td>
<td></td>
</tr>
<tr>
<td>Mar. 18</td>
<td>Cash</td>
<td>240,000</td>
</tr>
<tr>
<td></td>
<td>Common Stock</td>
<td>200,000</td>
</tr>
<tr>
<td></td>
<td>Paid-in Capital—Excess over Par Value, Common</td>
<td>40,000</td>
</tr>
<tr>
<td></td>
<td>To record the issuance of 20,000 shares of common at $12 per share.</td>
<td></td>
</tr>
<tr>
<td>Apr. 1</td>
<td>Land Building</td>
<td>70,000</td>
</tr>
<tr>
<td></td>
<td>Common Stock</td>
<td>350,000</td>
</tr>
<tr>
<td></td>
<td>Paid-in Capital—Excess over Par Value, Common</td>
<td>300,000</td>
</tr>
<tr>
<td></td>
<td>To record the issuance of 30,000 shares of common for land and building.</td>
<td></td>
</tr>
<tr>
<td>Jul. 5</td>
<td>Equipment Cash</td>
<td>90,000</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td>90,000</td>
</tr>
<tr>
<td></td>
<td>To record the purchase of equipment for cash.</td>
<td></td>
</tr>
<tr>
<td>Dec. 16</td>
<td>Cash</td>
<td>150,000</td>
</tr>
<tr>
<td></td>
<td>Common Stock</td>
<td>100,000</td>
</tr>
<tr>
<td></td>
<td>Paid-in Capital—Excess over Par Value, Common</td>
<td>50,000</td>
</tr>
<tr>
<td></td>
<td>To record the issuance of 10,000 shares for cash at $15 per share.</td>
<td></td>
</tr>
</tbody>
</table>
### Requirement 2.

<table>
<thead>
<tr>
<th>Common Stock</th>
<th>Paid-in Capital—Excess over Par Value, Common</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/4 60,000</td>
<td>3/18 40,000</td>
</tr>
<tr>
<td>3/18 200,000</td>
<td>4/1 120,000</td>
</tr>
<tr>
<td>4/1 300,000</td>
<td>12/16 50,000</td>
</tr>
<tr>
<td>12/16 100,000</td>
<td></td>
</tr>
<tr>
<td>Bal. 660,000</td>
<td>Bal. 210,000</td>
</tr>
</tbody>
</table>

### Requirement 1.

**GENERAL JOURNAL**

<table>
<thead>
<tr>
<th>Date</th>
<th>Memo</th>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Jul</td>
<td>Memorandum entry: Received charter today authorizing the issuance of 20,000 shares of $50 par value preferred stock and 200,000 shares of $2 par value common stock.</td>
<td>Cash 101</td>
<td>500,000</td>
<td>Common Stock 331</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Paid-in Capital—Excess over Par Value, Common 341</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>To record the issuance of 50,000 shares of $2 par value common stock at $10 per share.</td>
</tr>
<tr>
<td>8</td>
<td>Patents</td>
<td>Common Stock 331</td>
<td>6,500</td>
<td>Patents 191</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Paid-in Capital—Excess over Par Value, Common 341</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>To record the issuance of 500 shares of $2 par value common stock for a patent valued at $6,500.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Cash</td>
<td>Preferred Stock 321</td>
<td>51,000</td>
<td>Cash 101</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Paid-in Capital—Excess over Par Value, Preferred 325</td>
<td>50,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>To record issuance of 1,000 shares of preferred stock at $51 per share.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**P11-27 Requirement 1 (continued)**

Jul. 31 Equipment
- Common Stock
- Paid-in Capital—Excess over Par Value, Common

To record the issuance of 4,000 shares of common stock for equipment valued at $48,000.

**Requirement 2.**

**GENERAL LEDGER**

<table>
<thead>
<tr>
<th>Date</th>
<th>Explanation</th>
<th>PR</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>Jul. 5</td>
<td>J1</td>
<td>500,000</td>
<td>500,000</td>
</tr>
<tr>
<td>2011</td>
<td>Jul. 8</td>
<td>J1</td>
<td>51,000</td>
<td>551,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Explanation</th>
<th>PR</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>Jul. 31</td>
<td>J1</td>
<td>48,000</td>
<td>48,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Explanation</th>
<th>PR</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>Jul. 8</td>
<td>J1</td>
<td>6,500</td>
<td>6,500</td>
</tr>
</tbody>
</table>
### Preferred Stock

<table>
<thead>
<tr>
<th>Date</th>
<th>Explanation</th>
<th>PR</th>
<th>Debit</th>
<th>Credit</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td></td>
<td>J1</td>
<td>50,000</td>
<td>50,000</td>
<td></td>
</tr>
</tbody>
</table>

### Paid-in Capital—Excess over Par Value, Preferred

<table>
<thead>
<tr>
<th>Date</th>
<th>Explanation</th>
<th>PR</th>
<th>Debit</th>
<th>Credit</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td></td>
<td>J1</td>
<td>1,000</td>
<td>1,000</td>
<td></td>
</tr>
</tbody>
</table>

### Common Stock

<table>
<thead>
<tr>
<th>Date</th>
<th>Explanation</th>
<th>PR</th>
<th>Debit</th>
<th>Credit</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td></td>
<td>J1</td>
<td>100,000</td>
<td>100,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>J1</td>
<td>1,000</td>
<td>101,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>8</td>
<td>J1</td>
<td>8,000</td>
<td>109,000</td>
<td></td>
</tr>
</tbody>
</table>

### Paid-in Capital—Excess over Par Value, Common

<table>
<thead>
<tr>
<th>Date</th>
<th>Explanation</th>
<th>PR</th>
<th>Debit</th>
<th>Credit</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td></td>
<td>J1</td>
<td>400,000</td>
<td>400,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>J1</td>
<td>5,500</td>
<td>405,500</td>
<td></td>
</tr>
<tr>
<td></td>
<td>8</td>
<td>J1</td>
<td>40,000</td>
<td>445,500</td>
<td></td>
</tr>
</tbody>
</table>
Requirement 3.

AVON CORPORATION
Partial Balance Sheet
July 31, 2011

Stockholders' Equity

Paid-in capital

Stock:
Preferred stock, $50 par value, 20,000 shares authorized, 1,000 shares issued and outstanding $ 50,000
Common stock, $2 par value, 200,000 shares authorized, 54,500 shares issued and outstanding 109,000
Total stock $ 159,000

Additional paid-in capital:
Paid-in capital—excess over par value, preferred $ 1,000
Paid-in capital—excess over par value, common 445,500
Total additional paid-in capital 446,500
Total paid-in capital $ 605,500

P11-28 Recording Various Capital Stock Transactions and Preparing the Stockholders' Equity Section of a Balance Sheet

Requirements 1 and 3.

GENERAL LEDGER

Prepared Stock

<table>
<thead>
<tr>
<th>Date</th>
<th>Explanation</th>
<th>PR</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td></td>
<td></td>
<td>Debit</td>
<td>Credit</td>
</tr>
<tr>
<td>Jul.</td>
<td>Balance</td>
<td>J51</td>
<td>250,000</td>
<td></td>
</tr>
<tr>
<td>Aug.</td>
<td>1</td>
<td>J51</td>
<td>1,000,000</td>
<td>1,450,000</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>J51</td>
<td>50,000</td>
<td>1,500,000</td>
</tr>
</tbody>
</table>
### Paid-in Capital—Excess over Par Value, Preferred

<table>
<thead>
<tr>
<th>Date</th>
<th>Explanation</th>
<th>PR</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>Balance</td>
<td></td>
<td></td>
<td>40,000</td>
</tr>
<tr>
<td>Jul.</td>
<td>1</td>
<td>J51</td>
<td>25,000</td>
<td>65,000</td>
</tr>
<tr>
<td>Aug.</td>
<td>1</td>
<td>J51</td>
<td>200,000</td>
<td>265,000</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>J51</td>
<td>10,000</td>
<td>275,000</td>
</tr>
</tbody>
</table>

### Common Stock

<table>
<thead>
<tr>
<th>Date</th>
<th>Explanation</th>
<th>PR</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>Balance</td>
<td></td>
<td></td>
<td>300,000</td>
</tr>
<tr>
<td>Jul.</td>
<td>1</td>
<td>J51</td>
<td>50,000</td>
<td>350,000</td>
</tr>
<tr>
<td></td>
<td>19</td>
<td>J51</td>
<td>10,000</td>
<td>360,000</td>
</tr>
<tr>
<td>Sep.</td>
<td>30</td>
<td>J51</td>
<td>10,000</td>
<td>370,000</td>
</tr>
</tbody>
</table>

### Paid-in Capital—Excess over Par Value, Common

<table>
<thead>
<tr>
<th>Date</th>
<th>Explanation</th>
<th>PR</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>Balance</td>
<td></td>
<td></td>
<td>50,000</td>
</tr>
<tr>
<td>Jul.</td>
<td>1</td>
<td>J51</td>
<td>250,000</td>
<td>300,000</td>
</tr>
<tr>
<td></td>
<td>19</td>
<td>J51</td>
<td>70,000</td>
<td>370,000</td>
</tr>
<tr>
<td>Sep.</td>
<td>30</td>
<td>J51</td>
<td>75,000</td>
<td>445,000</td>
</tr>
</tbody>
</table>
Requirement 2.

GENERAL JOURNAL

2011

Jul. 1 Cash 275,000
Preferred Stock 321 250,000
Paid-in Capital—Excess over Par Value, Preferred 325 25,000
To record the issuance of 5,000 shares of preferred stock at $55 per share.

1 Cash 300,000
Common Stock 331 50,000
Paid-in Capital—Excess over Par Value, Common 341 250,000
To record the issuance of 50,000 shares of common stock at $6 per share.

19 Cash 80,000
Common Stock 331 10,000
Paid-in Capital—Excess over Par Value, Common 341 70,000
To record the issuance of 10,000 shares of common stock at $8 per share.

Aug. 1 Cash 1,200,000
Preferred Stock 321 1,000,000
Paid-in Capital—Excess over Par Value, Preferred 325 200,000
To record the issuance of 20,000 shares of preferred stock at $60 per share.

2 Patents 60,000
Preferred Stock 321 50,000
Paid-in Capital—Excess over Par Value, Preferred 325 10,000
To record the issuance of 1,000 shares of preferred stock for a patent valued at $60,000.
Requirement 2 (continued)

Sep. 30

<table>
<thead>
<tr>
<th>Land</th>
<th>Building</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>25,000</td>
</tr>
<tr>
<td>Common Stock</td>
<td>331</td>
</tr>
<tr>
<td>Paid-in Capital—Excess over Par Value, Common</td>
<td>341</td>
</tr>
</tbody>
</table>

To record the issuance of 10,000 shares of common stock for land and building.

Requirement 4.

JENNIFER COMPANY
Partial Balance Sheet
September 30, 2011

Stockholders' Equity

Paid-in capital

Stock:
- Preferred stock, $50 par value, 100,000 shares authorized, 30,000 shares issued and outstanding: $1,500,000
- Common stock, $1 par value, 700,000 shares authorized, 370,000 shares issued and outstanding: 370,000

Total stock: $1,870,000

Additional paid-in capital:
- Paid-in capital—excess over par value, preferred: $275,000
- Paid-in capital—excess over par value, common: 445,000

Total additional paid-in capital: 720,000

Total paid-in capital: $2,590,000

Retained earnings:
- 400,000

Total stockholders' equity: $2,990,000
Reconstructing Journal Entries for Capital Stock Transactions

Requirement 1.

Equipment
- Preferred Stock
- Paid-in Capital—Excess over Par Value, Preferred
To record issuance of 4,000 shares of preferred stock in exchange for equipment.

Cash
- Preferred Stock
- Paid-in Capital—Excess over Par Value, Preferred
To record issuance of 1,000 shares of preferred stock at $70 per share.

Cash
- Common Stock
- Paid-in Capital—Excess over Par Value, Common
To record issuance of 25,000 shares of common stock at $8.00 per share.

Requirement 2.

a. 1. 4,000 + 1,000 = 5,000 preferred shares
2. 25,000 = 25,000 common shares
b. $200,000 + $50,000 + $125,000 = $375,000.
c. $250,000 + $125,000 + $100,000 + $75,000 = $550,000.

Interpreting Stockholders’ Equity Information for Dell Inc.

Requirement 1.

2009 7,000,000,000 shares
2008 7,000,000,000 shares
Requirement 2.
Yes  \[18,000,000 = 3,338,000,000 - 3,320,000,000\]

Requirement 3.

\[
2009 \quad \$3.35 \text{ per share} \left(\$33,400,000 + \$11,155,600,000\right) = \\
\frac{\$11,189,000,000}{3,338,000,000 \text{ shares}}
\]

Note: The amount per share is relatively low due to stock splits and stock dividends distributed over the years.

Requirement 4.

\[
2009 \quad 2,419,000,000 \text{ shares} \left(3,338,000,000 - 919,000,000\right) \\
2008 \quad 2,535,000,000 \text{ shares} \left(3,320,000,000 - 785,000,000\right)
\]

Requirement 5.

\[
2009 \quad \$22,980,500,000 \quad \left(\$9.50 \times 2,419,000,000 \text{ shares outstanding}\right) \\
2008 \quad \$50,801,400,000 \quad \left(\$20.04 \times 2,535,000,000 \text{ shares outstanding}\right)
\]

Requirement 6.

Issued shares remain the same at 3,338,000,000 shares.
Outstanding shares decrease by 10,000,000 to 2,409,000,000

P11-31 Interpreting Stockholders' Equity Information for Target Corporation
LG 2, 3, 7

Requirement 1.

\[
2009 \quad 6,000,000,000 \text{ shares} \\
2008 \quad 6,000,000,000 \text{ shares}
\]

Requirement 2.

It appears that the number of shares issued in 2009 were reduced
(perhaps retired) by 66,025,251 shares
\(818,737,715 - 752,712,464\)

Requirement 3.

\[
2009 \quad \$3.75 \text{ per share} \left(63,000,000 + 2,762,000,000\right) = \\
\frac{\$2,825,000,000}{752,712,464 \text{ shares}}
\]

Note: The amount per share is relatively low due to stock splits and stock dividends distributed over the years.
Requirement 4.

2009  752,712,464 shares
2008  818,737,715 shares

No mention of any treasury shares.

Requirement 5.

2009 $23,484,628,877  ($31.20 \times 752,712,464 \text{ shares outstanding})
2008 $45,374,444,165  ($55.42 \times 818,737,715 \text{ shares outstanding})

Requirement 6.

Issued shares remain the same at 752,712,464 shares.
Outstanding shares decrease by 1,000,000 to 751,712,464

SOLUTION TO PRACTICE CASE

Corporations:  Paid-in Capital
LG1-3, 5, 6

Requirement 1.

GENERAL JOURNAL

2011
Aug. 1 Memorandum entry: Received charter
authorizing the issuance of 500,000
shares of $1 par value common stock.

6 Cash 390,000

Common Stock 150,000
Paid-in Capital—Excess over
Par Value, Common 240,000

To record issuance of 150,000
shares of $1 par value common
stock at $2.60 per share.
SOLUTION TO BUSINESS DECISION AND COMMUNICATION PROBLEM

The Decision to Incorporate
LG 1, 2

Following is a typical student response to this communications problem; actual responses may vary in content and style but should contain as much of this basic information as possible.

To: Rob Snyder
From: Student

There are several advantages to incorporating. With incorporation, if buyers are interested in your shares of stock, they will provide you the funds you need for expansion. Unlike a loan, you will not incur interest costs. Shares will also make the transfer of ownership rights easy. The corporate form of organization insures that the business continues even if you or other investors die or decide to sell your share of the business. One thing that will make your shares attractive to investors is that their liability is limited. If your business should fail, the maximum amount shareholders lose is the amount of their investment.

Preferred shares and common shares give different rights to their holders. Preferred stockholders receive their dividends before any amounts go to common stockholders, in case of financial difficulties, preferred stockholders receive corporate assets before any distributions are made to common stockholders. On the other hand, only common stockholders vote on corporate issues. Also, the dividends paid to preferred stockholders are limited to the stated dividend rate. If the company is successful, there is no limitation on the amount of dividends for common stockholders.

Par value is a legal concept. It represents the legal capital of a corporation. It is the minimum amount of capital that the state in which the company incorporates requires be left in the corporation for the protection of creditors. Some states do not permit the initial sale of shares at less than par value. No-par shares permit you to avoid the difficulties posed by par value.

If you have any additional questions, please call me.
Valuing Assets Acquired for Stock
LG 5

Individual responses to ethical dilemmas will vary. The technical and ethical issues raised in the following response are central to this dilemma; look for them in students' answers and be prepared to discuss them with students in class.

No, Jane's behavior is not ethical. An asset acquired by issuing stock, like an asset acquired for cash, should be recorded at its fair market value at the date of the exchange. The land should be appraised and recorded at its current fair market value. The future value of the land is not relevant to a decision about the amount at which it should be recorded today. Jane must also be concerned that the fair market value of the land exceeds the par value of 12,000 shares.

SOLUTION TO COMPREHENSIVE ANALYSIS CASE
GOOGLE INC.

Income Statement Responses:

1. Total revenues in 2008 ($21,795,600,000) are higher than the total for 2006 ($10,604,900,000).

2. The percent increase in total revenues from 2006 to 2008 is:

\[
105.5\% = 100 \times \frac{11,190,700,000^*}{10,604,900,000}
\]

\[
= \frac{21,795,600,000 - 10,604,900,000}{10,604,900,000}
\]

Total revenues increased 105.5% from 2006 to 2008.

3. The cost of goods sold percent decreased from 39.8% in 2006 to 39.6% in 2008. As a result, the gross margin percent increased from 60.2% in 2006 to 60.4% in 2008. This is a favorable trend.

4. The percentage of total operating expenses to total revenues increased from 26.7% in 2006 to 30.0% in 2008. This is unfavorable. The operating income percent decreased from 33.5% in 2006 to 30.4% in 2008. This is an unfavorable trend.

5. The percent of net income to total revenues decreased from 29.0% in 2006 to 19.4% in 2008. This is an unfavorable trend.
Solution to Comprehensive Analysis Case (continued)

Balance Sheet Responses:

6. Total assets at December 31, 2008 ($31,767,600,000) are higher than the total at December 31, 2006 ($18,473,400,000).

7. The percent increase in total assets from December 31, 2006 to December 31, 2008 is:

\[
72.0\% = 100 \times \frac{31,767,600,000 - 18,473,400,000}{18,473,400,000}
\]

As with total revenues, total assets have increased over the three-year period.

8. The largest asset investment for the company is cash and cash equivalents and short-term investments. These items make up 49.9% of the company's assets at the end of the most recent year.

9. The percent increase in cash and cash equivalents and short-term investments between 2006 and 2008 is:

\[
40.9\% = 100 \times \frac{15,845,800,000 - 11,243,900,000}{11,243,900,000}
\]

Cash and cash equivalents and short-term investments increased by 40.9% compared to an increase in total revenues of 105.5%. This is favorable. Cash and cash equivalents and short-term investments are increasing at a slower rate than total revenues.

10. On the balance sheet, refer to the common-size percent for total liabilities each year. The percent of liabilities has increased from 7.8% of total assets in 2006 to 11.1% in 2008. This is unfavorable. However, this is still a relatively low debt percentage.

Integrative Income Statement and Balance Sheet

11. This company is operating with the same efficiency in 2008 than in 2007. We conclude this by comparing the total asset turnover for the two years that was 0.76 times in both 2007 and 2008. Each dollar of investment in assets generated the same amount of revenue in 2008 as in 2007. This is neither favorable nor unfavorable.

Ratio Analysis Responses:

12. The current ratio is lower in 2008 than in 2006.


14. For the year ended December 31, 2008, the accounts receivable turnover ratio is worse this year compared to the previous year. In 2008, the accounts receivable turnover ratio is 8.22 times. This is a decrease from 8.90 times in 2007. This is unfavorable.
Solution to Comprehensive Analysis Case (continued)

15. For the year ended December 31, 2008, the accounts receivable turnover ratio 2 (based on year-end receivables) is worse at 7.44 times compared to the 2008 accounts receivable turnover ratio 1 (based on average receivables) at 8.22 times.

16. Google has no inventory.

17. Google has no inventory.

18. The return on total assets (ROA) ratio is worse in 2008 than in 2007. In 2008, the ROA is 14.80%. This is a decrease from 19.19% in 2007. This is unfavorable.

Stockholders' Equity Questions:

19. If Google issued $2,000,000 of common stock on January 1, 2009, it would decrease the debt ratio. Issuing stock would increase total assets, the denominator, with no change in total debt.

20. If Google issued $2,000,000 of common stock on January 1, 2009, it would have no effect on retained earnings. The issuance of stock would increase assets and paid-in capital.

21. If Google issued $2,000,000 of common stock on January 1, 2009, it would increase paid-in capital. The issuance of stock would increase assets and would increase paid-in capital.

22. If Google issued $2,000,000 of common stock on January 1, 2009, it would increase total assets. The issuance of stock would increase assets and would increase paid-in capital.